

Refer to important disclosures at the end of this report

# Guidance, commentary suggest FY20 to be another year of underperformance

- Wipro reported weak Q4FY19 results, with 1% CC revenue growth qoq for the quarter vs. our expectation of 1.5% CC growth. EBIT margin declined 80bps qoq to 19% for its IT services business, in line with our expectations.
- Soft Q1FY20 guidance (-1% to +1% CC growth) and modest outlook in its commentary for three key business verticals (Healthcare, Manufacturing, BFSI – account for 53% of revenues) indicates no change in business momentum as we enter FY20.
- Wipro's right-sizing strategy, i.e., selling non-core businesses, should have a negative impact to the topline of 1.5% yoy but margins should see ~100bps gain in FY20E. With management not confirming the end of the strategy, we can see more on this in FY20.
- While weak results and a modest outlook have led to a marginal cut in our revenue growth expectations, our EPS estimates remain largely unchanged due to the buyback-led EPS accretion. Maintain Sell rating with a TP of Rs230, valuing it at 13x FY21E EPS.

## Ongoing internal transformation should have 150bps drag on FY20 growth

Wipro has shared a mixed FY20E commentary as it continues to remain positive on its outlook given the strong double-digit growth in order book, strong pipeline, and robust growth in its Digital business (32% yoy). However, weak commentary for Healthcare and Manufacturing verticals along with the ongoing right-sizing exercise (exited the Hosted Data-center and Workday implementation businesses in FY19) imply sustained growth underperformance for the company in FY20E. The BFSI business may remain soft in FY20 as it has turned cautious on prospects from US/European banks now and should see a change in business leadership (Shaji Farooq is expected to take some time off due to health reasons). Business divestitures have helped in improving cash flows, driven by reduced working capital requirements and cash inflows on the sale of assets. The exercise should also result in better business mix in the future and thus help in achieving improved growth rates, better profitability, and superior cash generation in the medium- to long term. However, in the near term, the net impact on earnings is expected to be neutral (FY20/21E).

## Slow transition to weigh on valuations; Maintain Sell with a TP of Rs230

Wipro's troubles to revive its growth seems unending as it delivered a modest 1.6% USD revenue growth in a year of strong traction in global IT spends (as per Gartner estimates, CY18 witnessed IT spend growth of 5.5% vs. average growth of ~1.5% over CY12-17). Given its past performance and mixed outlook, we believe that Wipro's performance may have a material bearing if any deterioration in global macros occur and that remains a key risk to our estimates. We maintain our Sell rating on the stock, with a TP of Rs230, valuing it at 13x FY21E EPS; implied ~2x on PEG).

Please see our sector EAP (Page 10): [Emkay Alpha Portfolio – Information Technology](#)

### Financial Snapshot (Consolidated)

| (Rs mn)           | FY17     | FY18     | FY19     | FY20E    | FY21E    |
|-------------------|----------|----------|----------|----------|----------|
| Revenue           | 5,54,179 | 5,46,359 | 5,90,606 | 6,19,739 | 6,69,117 |
| EBITDA            | 1,12,904 | 1,05,418 | 1,16,521 | 1,30,445 | 1,42,492 |
| EBITDA Margin (%) | 20.4     | 19.3     | 19.7     | 21.0     | 21.3     |
| APAT              | 82,723   | 80,046   | 87,213   | 93,549   | 1,02,579 |
| EPS (Rs)          | 12.8     | 12.8     | 14.5     | 16.2     | 18.0     |
| EPS (% chg)       | (5.8)    | 0.3      | 13.0     | 11.7     | 11.2     |
| ROE (%)           | 16.8     | 16.0     | 16.6     | 16.8     | 17.3     |
| P/E (x)           | 22.0     | 21.9     | 19.4     | 17.4     | 15.6     |
| EV/EBITDA (x)     | 14.3     | 15.1     | 12.0     | 10.4     | 8.8      |
| P/BV (x)          | 3.5      | 3.6      | 3.0      | 3.0      | 2.5      |

Source: Company, Emkay Research

|   |                                |
|---|--------------------------------|
| <b>CMP</b>                                | <b>Target Price</b>            |
| <b>Rs 281</b><br>as of (October 24, 2018) | <b>Rs 230 (■)</b><br>12 months |
| <b>Rating</b>                             | <b>Upside</b>                  |
| <b>SELL (■)</b>                           | <b>(18.1) %</b>                |

### Change in Estimates

|                         |         |
|-------------------------|---------|
| EPS Chg FY20E/FY21E (%) | (3)/(1) |
| Target Price change (%) | -       |
| Target Period (Months)  | 12      |
| Previous Reco           | SELL    |

### Emkay vs Consensus

| EPS Estimates           |        |       |
|-------------------------|--------|-------|
|                         | FY20E  | FY21E |
| Emkay                   | 16.2   | 18.0  |
| Consensus               | 16.6   | 17.7  |
| Mean Consensus TP (12M) | Rs 254 |       |

### Stock Details

|                              |               |
|------------------------------|---------------|
| Bloomberg Code               | WPRO IN       |
| Face Value (Rs)              | 2             |
| Shares outstanding (mn)      | 6,034         |
| 52 Week H/L                  | 297 / 190     |
| M Cap (Rs bn/USD bn)         | 1,695 / 24.34 |
| Daily Avg Volume (nos.)      | 95,91,267     |
| Daily Avg Turnover (US\$ mn) | 36.7          |

### Shareholding Pattern Mar '19

|                   |       |
|-------------------|-------|
| Promoters         | 74.3% |
| FII's             | 8.6%  |
| DII's             | 6.5%  |
| Public and Others | 10.6% |

### Price Performance

| (%)                  | 1M | 3M | 6M | 12M |
|----------------------|----|----|----|-----|
| <b>Absolute</b>      | 7  | 11 | 17 | 29  |
| <b>Rel. to Nifty</b> | 3  | 3  | 5  | 15  |

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

#### Rahul Jain

 rahul.jain@emkayglobal.com  
 +91 22 6612 1253

#### Devanshu Bansal

 devanshu.bansal@emkayglobal.com  
 +91 22 6612 1385

**Exhibit 1: Actual vs. Estimates**

| (in Rs mn)            | Actual   | Estimate |           | % variation |           | Comment   |
|-----------------------|----------|----------|-----------|-------------|-----------|---|
|                       |          | Emkay    | Consensus | Emkay       | Consensus |   |
| Revenues (in US\$ mn) | 2,076    | 2,083    | 2,175     | -0.4%       | -4.6%     | USD revenues were below estimate                                |
| Sales                 | 1,51,925 | 1,51,881 | 1,50,694  | 0.0%        | 0.8%      | Lower realisations led to in-line revenues in INR terms         |
| EBIT                  | 27,320   | 27,768   | 27,489    | -1.6%       | -0.6%     | Higher than expected loss in Products business led to EBIT miss |
| EBIT, margin          | 18.0%    | 18.3%    | 18.2%     | -30 bps     | -30 bps   | EBIT margins were lower than expected                           |
| PAT                   | 24,835   | 24,711   | 24,892    | 0.5%        | -0.2%     | Higher interest income led to PAT beat                          |

Source: Company, Emkay Research

**Exhibit 2: Quarterly Snapshot**

| Rs mn                        | Q4FY18   | Q1FY19   | Q2FY19   | Q3FY19   | Q4FY19   | YoY (%)      | QoQ (%)      | FY19     | FY18     | YoY (%)      |
|------------------------------|----------|----------|----------|----------|----------|--------------|--------------|----------|----------|--------------|
| IT services Revenues (USDmn) | 2,062    | 2,027    | 2,041    | 2,047    | 2,076    | 0.7          | 1.4          | 8,190    | 8,060    | 1.6          |
| Revenue                      | 1,38,243 | 1,40,548 | 1,46,627 | 1,51,506 | 1,51,925 | 9.9          | 0.3          | 5,90,606 | 5,46,359 | 8.1          |
| Operating Expenditure        | 1,18,858 | 1,19,771 | 1,26,280 | 1,22,838 | 1,24,605 | 4.8          | 1.4          | 4,93,494 | 4,62,065 | 6.8          |
| Cost of revenues             | 97,794   | 1,00,350 | 1,01,770 | 1,02,502 | 1,06,942 | 9.4          | 4.3          | 4,11,564 | 3,85,575 | 6.7          |
| as % of sales                | 70.7     | 71.4     | 69.4     | 67.7     | 70.4     |              |              | 69.7     | 70.6     |              |
| SG&A expenses                | 21,064   | 19,421   | 24,510   | 20,336   | 17,663   | (16.1)       | (13.1)       | 81,930   | 76,490   | 7.1          |
| as % of sales                | 15.2     | 13.8     | 16.7     | 13.4     | 11.6     |              |              | 13.9     | 14.0     |              |
| EBIT                         | 19,385   | 20,777   | 20,347   | 28,668   | 27,320   | 40.9         | (4.7)        | 97,112   | 84,294   | 15.2         |
| Other Income                 | 3,236    | 6,024    | 3,856    | 3,742    | 4,683    | 44.7         | 25.1         | 18,305   | 18,181   | 0.7          |
| PBT                          | 22,621   | 26,801   | 24,203   | 32,410   | 32,003   | 41.5         | (1.3)        | 1,15,417 | 1,02,475 | 12.6         |
| Total Tax                    | 4,615    | 5,865    | 5,347    | 6,966    | 7,064    | 53.1         | 1.4          | 25,242   | 22,390   | 12.7         |
| Adjusted PAT                 | 18,006   | 20,936   | 18,856   | 25,444   | 24,939   | 38.5         | (2.0)        | 90,175   | 80,085   | 12.6         |
| APAT after MI                | 18,028   | 21,206   | 18,889   | 25,103   | 24,835   | 37.8         | (1.1)        | 90,033   | 80,058   | 12.5         |
| Reported PAT                 | 18,028   | 21,206   | 18,889   | 25,103   | 24,835   | 37.8         | (1.1)        | 90,033   | 80,058   | 12.5         |
| Reported EPS                 | 3.0      | 3.5      | 3.1      | 4.2      | 4.1      | 37.6         | (1.1)        | 15       | 13       | 16.7         |
| <b>Margins (%)</b>           |          |          |          |          |          | <b>(bps)</b> | <b>(bps)</b> |          |          | <b>(bps)</b> |
| EBIT                         | 14.0     | 14.8     | 13.9     | 18.9     | 18.0     | 396          | (94)         | 16.4     | 15.4     | 101          |
| EBT                          | 16.4     | 19.1     | 16.5     | 21.4     | 21.1     | 470          | (33)         | 19.5     | 18.8     | 79           |
| PAT                          | 13.0     | 15.1     | 12.9     | 16.6     | 16.3     | 331          | (22)         | 15.2     | 14.7     | 59           |
| Effective Tax rate           | 20.4     | 21.9     | 22.1     | 21.5     | 22.1     | 167          | 58           | 21.9     | 21.8     | 2            |

Source: Company, Emkay Research

## Changes in estimates

Our growth estimates have decreased slightly due to divestment of Workday business in Q4FY19 and expected weakness in key verticals (~53% of sales) in FY20. Our margin estimates improve slightly due to exit in a relatively low margin Workday business. However, our EPS estimates remain largely unchanged due to buyback led EPS accretion.

**Exhibit 3: Changes in estimates**

| (All fig in Rs mn except EPS) | FY19A    |          |        | FY20E    |          |        | FY21E    |          |        |
|-------------------------------|----------|----------|--------|----------|----------|--------|----------|----------|--------|
|                               | Old      | New      | % Chg. | Old      | New      | % Chg. | Old      | New      | % Chg. |
| IT Services Revenues(USDmn)   | 8,186    | 8,190    | 0.0    | 8,638    | 8,596    | -0.5   | 9,224    | 9,195    | -0.3   |
| YoY growth, %                 | 1.6%     | 1.6%     |        | 5.5%     | 5.0%     |        | 6.8%     | 7.0%     |        |
| Revenues                      | 5,90,259 | 5,90,606 | 0.1    | 6,39,211 | 6,19,739 | -3.0   | 6,79,839 | 6,69,117 | -1.6   |
| EBIT                          | 97,525   | 97,049   | -0.5   | 1,14,465 | 1,11,852 | -2.3   | 1,22,306 | 1,22,419 | 0.1    |
| EBIT mgns, %                  | 16.5     | 16.4     |        | 17.9     | 18.0     |        | 18.0     | 18.3     |        |
| Net profits                   | 87,165   | 87,213   | 0.1    | 1,01,777 | 93,549   | -8.1   | 1,09,068 | 1,02,579 | -5.9   |
| EPS                           | 14.5     | 14.5     | 0.1    | 16.7     | 16.2     | -2.9   | 18.1     | 18.0     | -0.6   |

Source: Company, Emkay Research

**Exhibit 4: Key Assumptions**

| Metric              | FY19  | FY20E | FY21E |
|---------------------|-------|-------|-------|
| USD Revenues growth | 1.6%  | 5.0%  | 7.0%  |
| USD/INR             | 70.2  | 70.0  | 71.0  |
| INR growth          | 8.1%  | 4.9%  | 8.0%  |
| EBIT Margins        | 16.4  | 18.0  | 18.3  |
| EPS growth (%)      | 12.8% | 11.7% | 11.2% |

Source: Company, Emkay Research

**Exhibit 5: Revenue growth and Cost Analysis over the years**

|                                   | FY16        | FY17        | FY18        | FY19        |
|-----------------------------------|-------------|-------------|-------------|-------------|
| IT Services Sales (USDmn)         | 7,346       | 7,705       | 8,060       | 8,190       |
| Overall INR Sales (Rsmn)          | 5,16,307    | 5,54,179    | 5,46,359    | 5,90,606    |
| <b>YoY growth</b>                 | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> |
| CC growth                         | 7.6         | 7.0         | 2.9         | 5.4         |
| USD growth                        | 3.7         | 4.9         | 4.6         | 1.6         |
| INR growth                        | 9.1         | 7.3         | -1.4        | 8.1         |
| <b>Cost Analysis (% of sales)</b> | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> |
| Employee Costs                    | 53.1        | 51.6        | 51.3        | 53.6        |
| Subcontractor Costs               | 13.1        | 14.9        | 15.5        | 16.0        |
| S,G&A Expense                     | 12.2        | 13.1        | 14.0        | 13.9        |
| D&A Expense                       | 2.9         | 4.2         | 3.9         | 3.3         |
| EBIT Margins                      | 18.7        | 16.2        | 15.4        | 13.1        |

Source: Company, Emkay Research

**Exhibit 6: Analysis of key operational metrics**

| <b>Verticals (% of sales)</b> | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> |
|-------------------------------|-------------|-------------|-------------|-------------|
| Financial Services            |             | 25.7        | 28.0        | 30.9        |
| Retail/CPG & Travel           |             | 15.8        | 15.8        | 16.0        |
| Manufacturing                 |             | 8.9         | 8.7         | 8.2         |
| Lifesciences & Healthcare     |             | 15.7        | 14.1        | 13.1        |
| CMT                           |             | 20.9        | 20.4        | 19.2        |
| Public Services               |             | 13.1        | 12.9        | 12.7        |

**YoY USD Growth (%)**

|                           |  |  |      |      |
|---------------------------|--|--|------|------|
| Financial Services        |  |  | 14.2 | 12.1 |
| Retail/CPG & Travel       |  |  | 4.9  | 2.9  |
| Manufacturing             |  |  | 2.3  | -4.2 |
| Lifesciences & Healthcare |  |  | -6.1 | -5.4 |
| CMT                       |  |  | 2.1  | -4.4 |
| Public Services           |  |  | 3.8  | -0.1 |

| <b>Service Line (% of sales)</b> | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> |
|----------------------------------|-------------|-------------|-------------|-------------|
| Digital                          |             |             | 24.6        | 32.1        |
| Non-Digital                      |             |             | 75.4        | 67.9        |

**YoY USD Growth (%)**

|             |  |  |  |      |
|-------------|--|--|--|------|
| Digital     |  |  |  | 32.5 |
| Non-Digital |  |  |  | -8.5 |

| <b>Geography (% of sales)</b> | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> |
|-------------------------------|-------------|-------------|-------------|-------------|
| Americas                      | 52.7        | 54.7        | 53.4        | 56.4        |
| Europe                        | 25.3        | 24.4        | 25.6        | 25.2        |
| RoW                           | 22.0        | 20.9        | 21.0        | 18.4        |

**YoY USD Growth (%)**

|          |  |      |     |       |
|----------|--|------|-----|-------|
| Americas |  | 8.9  | 2.1 | 7.2   |
| Europe   |  | 1.1  | 9.8 | 0.2   |
| RoW      |  | -0.4 | 5.1 | -11.0 |

| <b>Client Concentration (% of sales)</b> | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> |
|--|-------------|-------------|-------------|-------------|
| Top10                                    | 19.3        | 17.1        | 18.3        | 19.5        |
| Non Top-10 clients                       | 80.7        | 82.9        | 81.7        | 80.5        |

**YoY Growth (%)**

|                    |  |      |      |     |
|--------------------|--|------|------|-----|
| Top10              |  | -7.3 | 12.0 | 8.3 |
| Non Top-10 clients |  | 7.8  | 3.1  | 0.1 |

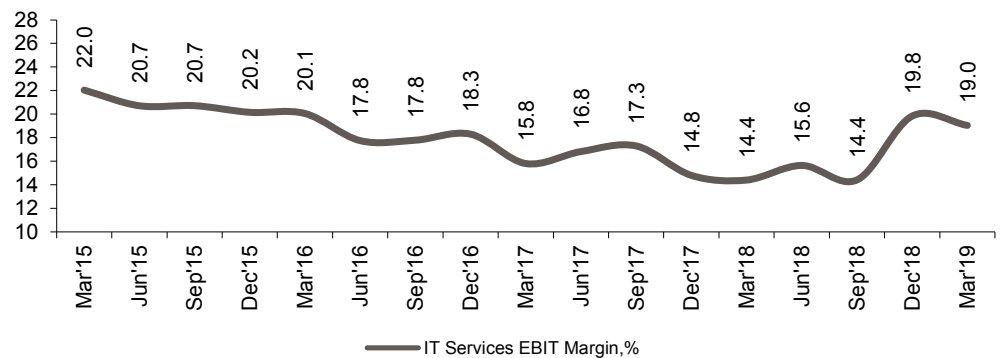
| <b>Number of clients</b> | <b>FY16</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> |
|--------------------------|-------------|-------------|-------------|-------------|
| USD1mn+ clients          | 550         | 602         | 631         | 571         |
| USD10mn+ clients         | 160         | 163         | 171         | 172         |
| USD50mn+ clients         | 33          | 34          | 39          | 41          |
| USD100mn+ clients        | 9           | 9           | 8           | 10          |

Source: Company, Emkay Research

## Concall Highlights

- Revenue growth:** Wipro's 1.0% CC qoq growth was below our expectation of 1.5% for Q4FY19. Adjusted for the sale of the hosted data center business, Wipro has posted 5.4% CC growth for full-year FY19 vs. ~9.0%/11.4% CC growth for Infosys/TCS in FY19.
- EBIT margins:** IT services EBIT margins stood at 19.0%, down ~80bps qoq in Q4FY19 and in line with our expectations. For full-year FY19, Wipro's EBIT margins have improved ~180bps yoy to 17.9%, largely due to the exit of the low-margin data center business and the reclassification of the India government business. Overall, business EBIT margins declined 90bps qoq to 18% in Q4FY19.

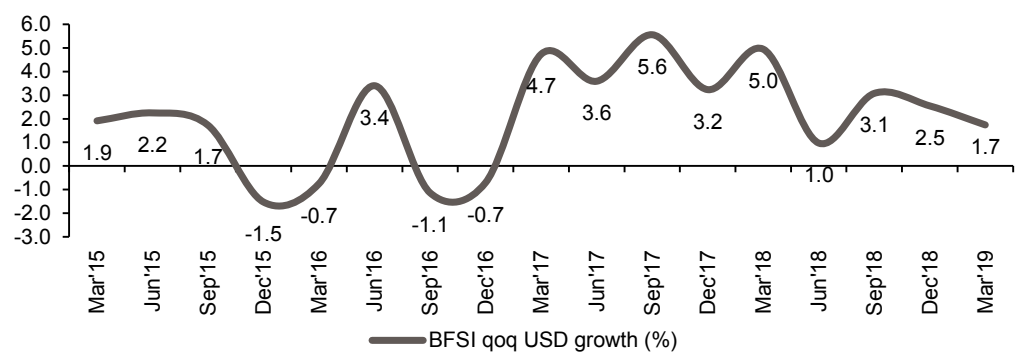
**Exhibit 7: EBIT margins dropped due to absence of net one-off positive impact in Q3FY19 and INR appreciation (-40bps qoq impact)**



Source: Company, Emkay Research

- Outlook:** Wipro has provided a disappointing CC growth guidance of -1.0% to +1.0% qoq for Q1FY20. Seasonal weakness, completion of certain large programs, and delayed ramp-up in new projects were indicated to be the reasons behind the weak Q1FY20 guidance. However, Wipro indicated that FY20 will be a better year than FY19 in terms of growth due to a strong pipeline and good order bookings.
- Buyback:** Wipro has announced the buyback of ~323mn equity shares at a price of Rs325 (~15% premium over CMP; Rs105bn overall buyback size; 5.35% of outstanding shares and ~18% of total cash reserves).
- BFSI:** Wipro indicated that its BFSI vertical has grown at a strong pace at ~14/12% in FY18/FY19 in USD terms. However, growth in this vertical is expected to moderate in FY20, with a couple of large clients in Europe facing macro challenges. Wipro expects Retail and ENU verticals to do well in FY20, with Manufacturing and Healthcare expected to remain soft.

**Exhibit 8: BFSI has witnessed strong qoq growth over the past 9 quarters**

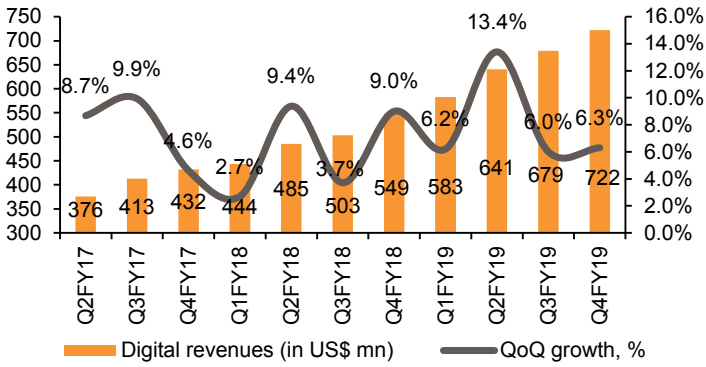


Source: Company, Emkay Research

- Healthcare:** While Wipro indicated that core of the health business is robust, the decline in the HPS business is impacting both growth and margins (annualized run-rate has fallen by ~US\$130mn). However, Wipro stated that it is now trying to cross-sell services and leverage its reengineered HPS platform to grow this segment. The company expects uncertainty to continue for some more period in this vertical.

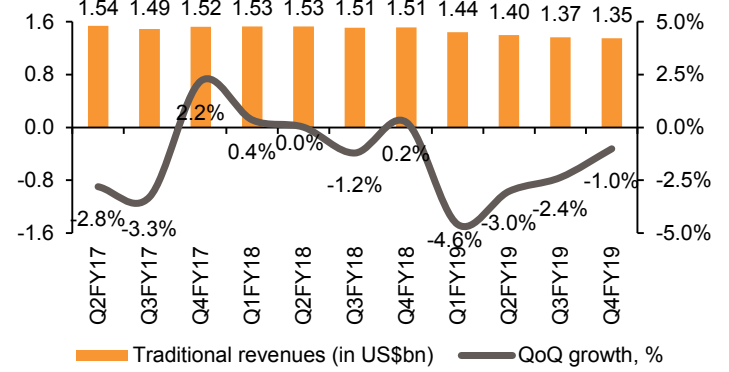
- 6-Themed strategy:** Wipro saved 11.3% efforts in Q4FY19 vs. 6.7% efforts in Q3FY19 across its Fixed-Price projects with the help of automation. Wipro has seen improved traction among its Top-10 clients that have continued to growth, with 9%/10% growth in FY18/FY19. Wipro's Digital revenues now contribute ~35% of its total revenues and have grown at a healthy rate of ~32% yoy in FY19. It has lower reliance on H1Bs, with 64% of its overall US workforce now being local hires.

**Exhibit 9: While Digital growth has been healthy.....**



Source: Emkay Research, Company

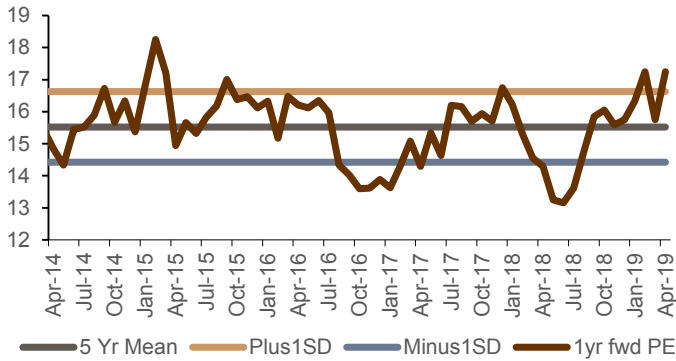
**Exhibit 10: Growth in rest of the business has been disappointing**



Source: Emkay Research, Company

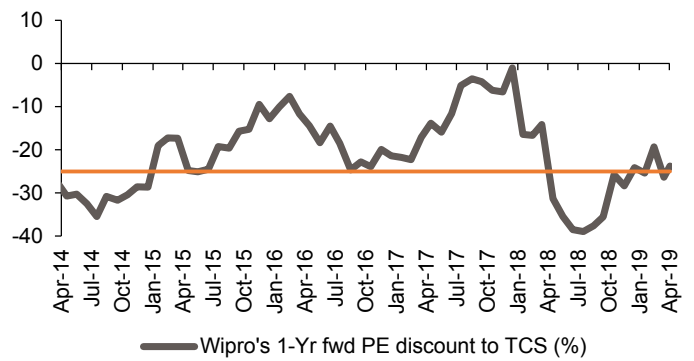
## P/E Performance

**Exhibit 11: Wipro' 5-Yr Historical 1-Yr fwd PE chart**



Source: Company, Emkay Research

**Exhibit 12: Wipro's 1-Yr fwd PE discount to TCS (%)**



Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

| Y/E Mar (Rs mn)                  | FY17            | FY18            | FY19            | FY20E           | FY21E           |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Revenue</b>                   | <b>5,54,179</b> | <b>5,46,359</b> | <b>5,90,606</b> | <b>6,19,739</b> | <b>6,69,117</b> |
| <b>Expenditure</b>               | <b>4,64,382</b> | <b>4,62,065</b> | <b>4,93,557</b> | <b>5,07,886</b> | <b>5,46,699</b> |
| <b>EBITDA</b>                    | <b>1,12,904</b> | <b>1,05,418</b> | <b>1,16,521</b> | <b>1,30,445</b> | <b>1,42,492</b> |
| Depreciation                     | 23,107          | 21,124          | 19,472          | 18,592          | 20,074          |
| <b>EBIT</b>                      | <b>89,797</b>   | <b>84,294</b>   | <b>97,049</b>   | <b>1,11,852</b> | <b>1,22,419</b> |
| Other Income                     | 18,388          | 18,169          | 15,548          | 8,390           | 9,093           |
| Interest expenses                | 0               | 0               | 0               | 0               | 0               |
| <b>PBT</b>                       | <b>1,08,185</b> | <b>1,02,463</b> | <b>1,12,597</b> | <b>1,20,243</b> | <b>1,31,512</b> |
| Tax                              | 25,214          | 22,390          | 25,242          | 26,694          | 28,933          |
| Extraordinary Items              | 0               | 0               | 0               | 0               | 0               |
| Minority Int./Income from Assoc. | 248             | 27              | 142             | 0               | 0               |
| <b>Reported Net Income</b>       | <b>82,723</b>   | <b>80,046</b>   | <b>87,213</b>   | <b>93,549</b>   | <b>1,02,579</b> |
| <b>Adjusted PAT</b>              | <b>82,723</b>   | <b>80,046</b>   | <b>87,213</b>   | <b>93,549</b>   | <b>1,02,579</b> |

**Balance Sheet**

| Y/E Mar (Rs mn)                            | FY17            | FY18            | FY19            | FY20E           | FY21E           |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Equity share capital                       | 4,861           | 9,048           | 12,068          | 11,422          | 11,422          |
| Reserves & surplus                         | 5,15,443        | 4,73,888        | 5,56,048        | 5,35,110        | 6,24,841        |
| <b>Net worth</b>                           | <b>5,20,304</b> | <b>4,82,936</b> | <b>5,68,116</b> | <b>5,46,532</b> | <b>6,36,263</b> |
| <b>Minority Interest</b>                   | <b>2,391</b>    | <b>2,410</b>    | <b>2,637</b>    | <b>2,637</b>    | <b>2,637</b>    |
| <b>Loan Funds</b>                          | <b>1,42,412</b> | <b>1,38,259</b> | <b>99,467</b>   | <b>99,467</b>   | <b>99,467</b>   |
| Net deferred tax liability                 | (8,492)         | (22,198)        | (22,790)        | (22,790)        | (22,790)        |
| <b>Total Liabilities</b>                   | <b>6,56,615</b> | <b>6,01,407</b> | <b>6,47,430</b> | <b>6,25,846</b> | <b>7,15,577</b> |
| <b>Net block</b>                           | <b>2,02,561</b> | <b>1,84,460</b> | <b>1,78,570</b> | <b>1,75,978</b> | <b>1,71,904</b> |
| <b>Investment</b>                          | <b>2,99,133</b> | <b>2,57,968</b> | <b>2,28,867</b> | <b>2,28,867</b> | <b>2,28,867</b> |
| <b>Current Assets</b>                      | <b>2,65,773</b> | <b>2,73,276</b> | <b>3,76,754</b> | <b>3,68,869</b> | <b>4,76,269</b> |
| Cash & bank balance                        | 50,718          | 40,926          | 1,58,529        | 1,35,406        | 2,24,204        |
| Other Current Assets                       | 67,201          | 81,058          | 86,532          | 93,385          | 1,00,826        |
| <b>Current liabilities &amp; Provision</b> | <b>1,19,803</b> | <b>1,29,977</b> | <b>1,59,534</b> | <b>1,70,640</b> | <b>1,84,236</b> |
| <b>Net current assets</b>                  | <b>1,45,970</b> | <b>1,43,299</b> | <b>2,17,220</b> | <b>1,98,228</b> | <b>2,92,032</b> |
| Misc. exp                                  | 0               | 0               | 0               | 0               | 0               |
| <b>Total Assets</b>                        | <b>6,56,615</b> | <b>6,01,407</b> | <b>6,47,430</b> | <b>6,25,846</b> | <b>7,15,577</b> |

**Cash Flow**

| Y/E Mar (Rs mn)                       | FY17              | FY18              | FY19            | FY20E             | FY21E           |
|---------------------------------------|-------------------|-------------------|-----------------|-------------------|-----------------|
| <b>PBT (Ex-Other income) (NI+Dep)</b> | <b>1,10,356</b>   | <b>1,02,474</b>   | <b>1,15,417</b> | <b>1,11,852</b>   | <b>1,22,419</b> |
| Other Non-Cash items                  | 0                 | 0                 | 0               | 0                 | 0               |
| Chg in working cap                    | 4,541             | (936)             | 27,165          | (4,132)           | 16,343          |
| <b>Operating Cashflow</b>             | <b>92,773</b>     | <b>84,233</b>     | <b>1,16,318</b> | <b>99,619</b>     | <b>1,29,902</b> |
| Capital expenditure                   | (15,274)          | (20,699)          | 5,262           | (16,000)          | (16,000)        |
| <b>Free Cash Flow</b>                 | <b>77,499</b>     | <b>63,534</b>     | <b>1,21,580</b> | <b>83,619</b>     | <b>1,13,902</b> |
| Investments                           | (1,17,518)        | 41,321            | 24,340          | 0                 | 0               |
| Other Investing Cash Flow             | 0                 | 0                 | 0               | 0                 | 0               |
| <b>Investing Cashflow</b>             | <b>(1,16,283)</b> | <b>35,578</b>     | <b>50,126</b>   | <b>(7,610)</b>    | <b>(6,907)</b>  |
| Equity Capital Raised                 | (25,000)          | (1,10,288)        | 4               | (1,04,999)        | 0               |
| Loans Taken / (Repaid)                | 13,119            | (10,983)          | (39,143)        | 0                 | 0               |
| Dividend paid (incl tax)              | (8,734)           | (5,420)           | (5,434)         | (10,133)          | (34,197)        |
| Other Financing Cash Flow             | (1,412)           | 375               | 528             | 0                 | 0               |
| <b>Financing Cashflow</b>             | <b>(24,164)</b>   | <b>(1,29,603)</b> | <b>(48,842)</b> | <b>(1,15,132)</b> | <b>(34,197)</b> |
| <b>Net chg in cash</b>                | <b>(47,674)</b>   | <b>(9,792)</b>    | <b>1,17,603</b> | <b>(23,123)</b>   | <b>88,798</b>   |
| Opening cash position                 | 98,392            | 50,718            | 40,926          | 1,58,529          | 1,35,406        |
| <b>Closing cash position</b>          | <b>50,718</b>     | <b>40,926</b>     | <b>1,58,529</b> | <b>1,35,406</b>   | <b>2,24,204</b> |

Source: Company, Emkay Research

**Key Ratios**

| <b>Profitability (%)</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> | <b>FY20E</b> | <b>FY21E</b> |
|--------------------------|-------------|-------------|-------------|--------------|--------------|
| EBITDA Margin            | 20.4        | 19.3        | 19.7        | 21.0         | 21.3         |
| EBIT Margin              | 16.2        | 15.4        | 16.4        | 18.0         | 18.3         |
| Effective Tax Rate       | 23.3        | 21.9        | 22.4        | 22.2         | 22.0         |
| Net Margin               | 15.0        | 14.7        | 14.8        | 15.1         | 15.3         |
| ROCE                     | 17.5        | 16.3        | 18.0        | 18.9         | 19.6         |
| ROE                      | 16.8        | 16.0        | 16.6        | 16.8         | 17.3         |
| RoIC                     | 28.4        | 28.8        | 37.0        | 47.0         | 51.2         |

| <b>Per Share Data (Rs)</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> | <b>FY20E</b> | <b>FY21E</b> |
|----------------------------|-------------|-------------|-------------|--------------|--------------|
| EPS                        | 12.8        | 12.8        | 14.5        | 16.2         | 18.0         |
| CEPS                       | 16.4        | 16.2        | 17.7        | 19.4         | 21.5         |
| BVPS                       | 80.4        | 77.4        | 94.4        | 94.5         | 111.6        |
| DPS                        | 2.0         | 1.3         | 1.0         | 1.5          | 5.0          |

| <b>Valuations (x)</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> | <b>FY20E</b> | <b>FY21E</b> |
|-----------------------|-------------|-------------|-------------|--------------|--------------|
| PER                   | 22.0        | 21.9        | 19.4        | 17.4         | 15.6         |
| P/CEPS                | 16.1        | 16.3        | 14.9        | 13.6         | 12.3         |
| P/BV                  | 3.5         | 3.6         | 3.0         | 3.0          | 2.5          |
| EV / Sales            | 2.9         | 2.9         | 2.4         | 2.2          | 1.9          |
| EV / EBITDA           | 14.3        | 15.1        | 12.0        | 10.4         | 8.8          |
| Dividend Yield (%)    | 0.7         | 0.5         | 0.4         | 0.5          | 1.8          |

| <b>Gearing Ratio (x)</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> | <b>FY20E</b> | <b>FY21E</b> |
|--------------------------|-------------|-------------|-------------|--------------|--------------|
| Net Debt/ Equity         | (0.4)       | (0.3)       | (0.5)       | (0.5)        | (0.6)        |
| Net Debt/EBIDTA          | (1.8)       | (1.5)       | (2.5)       | (2.0)        | (2.5)        |
| Working Cap Cycle (days) | 62.7        | 68.4        | 36.3        | 37.0         | 37.0         |

| <b>Growth (%)</b> | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> | <b>FY20E</b> | <b>FY21E</b> |
|-------------------|-------------|-------------|-------------|--------------|--------------|
| Revenue           | 7.3         | (1.4)       | 8.1         | 4.9          | 8.0          |
| EBITDA            | 16.7        | (6.6)       | 10.5        | 11.9         | 9.2          |
| EBIT              | (7.2)       | (6.1)       | 15.1        | 15.3         | 9.4          |
| PAT               | (7.2)       | (3.2)       | 9.0         | 7.3          | 9.7          |

| <b>Quarterly (Rs mn)</b> | <b>Q4FY18</b> | <b>Q1FY19</b> | <b>Q2FY19</b> | <b>Q3FY19</b> | <b>Q4FY19</b> |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue                  | 1,38,243      | 1,40,548      | 1,46,627      | 1,51,506      | 1,51,925      |
| EBITDA                   | 19,385        | 20,777        | 20,347        | 28,668        | 27,320        |
| <b>EBITDA Margin (%)</b> | <b>14.0</b>   | <b>14.8</b>   | <b>13.9</b>   | <b>18.9</b>   | <b>18.0</b>   |
| PAT                      | 18,041        | 21,256        | 18,889        | 25,103        | 24,835        |
| <b>EPS (Rs)</b>          | <b>3.0</b>    | <b>3.5</b>    | <b>3.1</b>    | <b>4.2</b>    | <b>4.1</b>    |

Source: Company, Emkay Research

| <b>Shareholding Pattern (%)</b> | <b>Mar-18</b> | <b>Jun-18</b> | <b>Sep-18</b> | <b>Dec-18</b> | <b>Mar-19</b> |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters                       | 74.3          | 74.3          | 74.3          | 74.3          | 74.3          |
| FIs                             | 9.3           | 8.7           | 8.5           | 8.5           | 8.6           |
| DIs                             | 5.8           | 6.3           | 7.3           | 6.8           | 6.5           |
| Public and Others               | 10.6          | 10.7          | 9.9           | 10.5          | 10.6          |

Source: Capitaline



## RECOMMENDATION HISTORY TABLE

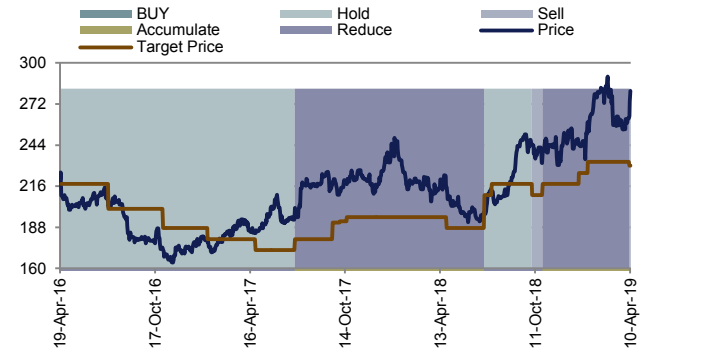
| Date      | Closing Price | TP  | Period (months) | Rating | Analyst      |
|-----------|---------------|-----|-----------------|--------|--------------|
| 08-Apr-19 | 264           | 230 | 12m             | Sell   | Rahul Jain   |
| 19-Jan-19 | 260           | 233 | 12m             | Reduce | Rahul Jain   |
| 09-Jan-19 | 247           | 225 | 12m             | Reduce | Rahul Jain   |
| 02-Jan-19 | 244           | 225 | 12m             | Reduce | Rahul Jain   |
| 25-Oct-18 | 239           | 218 | 12m             | Reduce | Rahul Jain   |
| 05-Oct-18 | 244           | 210 | 12m             | Sell   | Rahul Jain   |
| 20-Jul-18 | 212           | 218 | 12m             | Hold   | Rahul Jain   |
| 10-Jul-18 | 203           | 210 | 12m             | Hold   | Rahul Jain   |
| 06-Jul-18 | 197           | 210 | 12m             | Hold   | Rahul Jain   |
| 25-Apr-18 | 215           | 188 | 12m             | Reduce | Rahul Jain   |
| 05-Apr-18 | 215           | 195 | 12m             | Reduce | Rahul Jain   |
| 19-Jan-18 | 247           | 195 | 12m             | Reduce | Rahul Jain   |
| 17-Oct-17 | 217           | 195 | 12m             | Reduce | Rahul Jain   |
| 04-Oct-17 | 212           | 192 | 12m             | Reduce | Rahul Jain   |
| 20-Sep-17 | 219           | 191 | 12m             | Reduce | Rahul Jain   |
| 21-Jul-17 | 215           | 180 | 12m             | Reduce | Rahul Jain   |
| 10-Jul-17 | 201           | 180 | 12m             | Reduce | Rahul Jain   |
| 26-Apr-17 | 184           | 173 | 12m             | Hold   | Manik Taneja |
| 25-Jan-17 | 178           | 180 | 12m             | Hold   | Manik Taneja |
| 01-Nov-16 | 173           | 188 | 12m             | Hold   | Manik Taneja |
| 21-Oct-16 | 187           | 201 | 12m             | Hold   | Manik Taneja |
| 20-Jul-16 | 202           | 201 | 12m             | Hold   | Manik Taneja |
| 21-Jun-16 | 210           | 218 | 12m             | Hold   | Manik Taneja |
| 21-Apr-16 | 210           | 218 | 12m             | Hold   | Manik Taneja |

Source: Company, Emkay Research

## Note:

We have updated our Rating Distribution with effect from **March 20, 2019** – [Kindly refer the Disclaimer page](#), however for our erstwhile recommendations till **March 19, 2019**, the rating distribution of the expected total return stands as (**Buy** – Over 25%, **Accumulate** – Over 10% , **Hold** – Upto 10%, **Reduce** – Below 10%, **Sell** – Underperforms the broad market indices or its related universe).

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Information Technology



### Analyst: Rahul Jain

#### Contact Details

[rahul.jain@emkayglobal.com](mailto:rahul.jain@emkayglobal.com)

+91 22 6612 1253

#### 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                  | EAP Weight (Normalised) | EAP Weight   | BSE200 Weight | OW/UW (%) | OW/UW (bps) |
|-------------------------------|-------------------------|--------------|---------------|-----------|-------------|
| <b>Information Technology</b> | <b>100.00</b>           | <b>11.36</b> | <b>11.36</b>  | <b>0%</b> | <b>0</b>    |
| eClerx Services               | 0.00                    | 0.00         | 0.00          | NA        | 0           |
| Firstsource Solutions         | 3.00                    | 0.34         | 0.00          | NA        | 34          |
| HCL Tech                      | 20.00                   | 2.27         | 0.97          | 135%      | 130         |
| Hexaware Technologies         | 0.00                    | 0.00         | 0.00          | NA        | 0           |
| Infosys                       | 15.00                   | 1.70         | 4.78          | -64%      | -308        |
| Intellect Design              | 3.00                    | 0.34         | 0.00          | NA        | 34          |
| L&T Infotech                  | 6.00                    | 0.68         | 0.09          | 669%      | 59          |
| Majesco                       | 0.00                    | 0.00         | 0.00          | NA        | 0           |
| Mindtree                      | 0.00                    | 0.00         | 0.17          | -100%     | -17         |
| Mphasis                       | 6.00                    | 0.68         | 0.15          | 370%      | 54          |
| MPS                           | 2.00                    | 0.23         | 0.00          | NA        | 23          |
| NIIT                          | 0.00                    | 0.00         | 0.00          | NA        | 0           |
| NIIT Tech                     | 0.00                    | 0.00         | 0.00          | NA        | 0           |
| Nucleus Software              | 3.00                    | 0.34         | 0.00          | NA        | 34          |
| Oracle Financial Services     | 5.00                    | 0.57         | 0.13          | 347%      | 44          |
| Persistent Systems            | 2.00                    | 0.23         | 0.00          | NA        | 23          |
| Ramco Systems                 | 3.00                    | 0.34         | 0.00          | NA        | 34          |
| TCS                           | 32.00                   | 3.64         | 3.57          | 2%        | 6           |
| Tech Mahindra                 | 0.00                    | 0.00         | 0.84          | -100%     | -84         |
| Wipro                         | 0.00                    | 0.00         | 0.66          | -100%     | -66         |
| Cash                          | 0.00                    | 0.00         | 0.00          | NA        | 0           |

Source: Emkay Research

■ High Conviction-Strong Over Weight ■ High Conviction-Strong Under Weight

### Sector portfolio NAV

#### Returns by EAP on rolling basis

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

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

## Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY     | Over 15%                                      |
| HOLD    | Between -5% to 15%                            |
| SELL    | Below -5%                                     |

Completed Date: 17 Apr 2019 04:11:09 (SGT)

Dissemination Date: 17 Apr 2019 04:12:09 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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**Emkay Global Financial Services Ltd.**

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)

**SINGAPORE****DBS Bank Ltd**

Contact: Janice Chua  
12 Marina Boulevard, Marina Bay Financial Centre Tower 3  
Singapore 018982  
Tel. 65-6878 8888  
Fax: 65 65353 418  
e-mail: [equityresearch@dbs.com](mailto:equityresearch@dbs.com)  
Company Regn. No. 196800306E

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**THAILAND****DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul  
989 Siam Piwat Tower Building,  
9<sup>th</sup>, 14<sup>th</sup>-15<sup>th</sup> Floor  
Rama 1 Road, Pathumwan,  
Nagkok Thailand 10330  
Tel. 66 2 857 7831  
Fax: 66 2 658 1269  
e-mail: [research@th.dbs.com](mailto:research@th.dbs.com)  
Company Regn. No 0105539127012  
Securities and Exchange Commission, Thailand

---

**INDONESIA****PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif  
DBS Bank Tower  
Ciputra World 1, 32/F  
Jl. Prof. Dr. Satrio Kav. 3-5  
Jakarta 12940, Indonesia  
Tel. 62 21 3003 4900  
Fax: 62 21 3003 4943  
e-mail: [research@id.dbsvickers.com](mailto:research@id.dbsvickers.com)

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Rahul Jain, BCOM, CFA (ICFAI)

[rahul.jain@emkayglobal.com](mailto:rahul.jain@emkayglobal.com)

+91 22 6612 1253