21 November 2018
Update | Sector: Technology

Tech Mahindra

BSE SENSEX	S&P CNX
35,200	10,600

Bloomberg	TECHM IN
Equity Shares (m)	985
M.Cap.(INRb)/(USDb)	677.9 / 9.5
52-Week Range (INR)	780 / 463
1, 6, 12 Rel. Per (%)	-2/-4/35
12M Avg Val (INR M)	2289
Free float (%)	64.0

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Sales	307.7	353.9	396.7
EBITDA	47.2	66.3	74.2
Adj. PAT	38.0	43.4	48.6
Adj. EPS (INR)	42.7	48.0	54.0
EPS Gr. (%)	33.6	12.5	12.4
RoE (%)	21.5	22.0	21.7
RoCE (%)	17.8	18.2	18.2
Payout (%)	32.8	20.8	22.2
P/E (x)	16.2	14.4	12.8
EV/EBITDA (x)	12.6	9.0	7.5

CMP: INR692 TP: INR800 (+16%) Buy

Focused bets pivoting business mix to the 'new'

We attended Tech Mahindra's (TECHM) analyst meet in Pune, where the company updated on execution of its 3-4-3 strategy, along with the outlook on the areas that it is betting on. Appended below are our key takeaways from the event:

- **TECHM's focus on 3-4-3 strategy that it articulated last year is beginning to yield results. Its pipeline under the 'Change the Business' model is greater than that under the 'Run the Business' model.**
- **The company reiterated its growth outlook of mid-single-digit in the Communications segment and 8-10% in the Enterprise segment.**
- **TECHM believes that growth for service providers from 5G may be gradual (may be even in 2021) but certain. It is looking at the upcoming 5G rollouts as an opportunity that will span beyond Communications to other verticals such as Manufacturing and Healthcare too.**
- **The period of margin expansion has not come at the cost of investments. While investments in the business will weigh on the margins, TECHM cited it has multiple levers to help combat the same: [1] Business mix (increasing share of Digital), [2] Automation, [3] Margins of portfolio companies and [4] Growth in Communications.**
- **Our price target of INR800 implies a 16% upside. Maintain Buy.**

Execution on its 3-4-3 strategy reflecting in Digital growth and pipeline

In its last analyst meet, TECHM had articulated its 3-4-3 strategy:

- It had identified three megatrends – [1] explosion of connected devices, [2] power of new technologies and [3] exponentiality of content consumption.
- To ride these, it identified its four big bets: [1] integrated digital customer experience, [2] connectedness through IoT, [3] software transformation and [4] network-of-the-future.
- The end goal is to drive three objectives with these bets: [1] run better, [2] change faster and [3] grow greater.
- It took TECHM 2-3 quarters to drill it down across all levels of the organization, and encouragingly, it is now well entrenched in the company. Every discussion now is focused around the movements in the identified parameters.
- One of the outcomes of the same is reflected in the change in TECHM's business pipeline, which is greater under the 'Change the Business' model than the 'Run-the Business' model. Also, growth in Digital at 35% YoY is among the fastest in the industry.

COMMUNICATIONS: 5G – a certain but gradual opportunity

- The paradoxical situation of global communication service providers (CSP) is exemplified by the divergence of activity levels vis-à-vis revenue growth. Data CAGR is expected to be 47% and revenue CAGR merely 2.1% over 2016-21.

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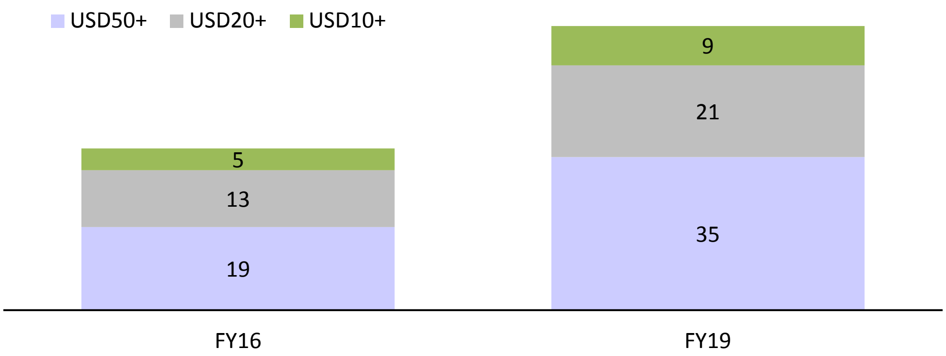
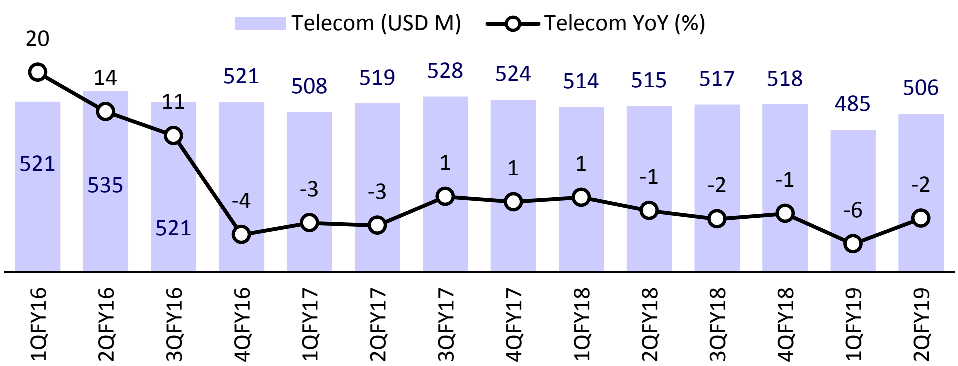
- That said, the opportunity for vendors such as TECHM will be driven by multiple trends, not least of them being the shift of USD30b worth of capital expenditure from hardware to software across the Communications and Media industry. Also, there is an active trend of convergence of players across spectrum such as CSPs, OTTs, media/broadcast companies – quad-play and vertical integration. These also create opportunities for TECHM to grow within their accounts.
- While the upgrade from 3G to 4G was incremental, 5G is an overhaul of systems, processes and technologies (and consequently of cultures and mindset). However, the implementation cycle may be gradual, constrained by factors that are economic, technological and even political.
- That said, the opportunity remains massive – estimated at USD582b in Telecom – and also span to other industries where 5G will drive IoT – USD110b in Media & Entertainment, USD100b in Automobiles, USD150b in Healthcare and USD 230b in Manufacturing.
- Despite Telecom cycles dictating growth, TECHM has managed to grow its client buckets impressively over the last three years, with USD10m accounts up from 19 to 31, USD20m accounts up from 13 to 21, and USD50m+ accounts up from 5 to 9.

Exhibit 1: Significant increase in large accounts



Source: Company, MOSL

Exhibit 2: Communication vertical has to wait for next cycle to show previous level of growth

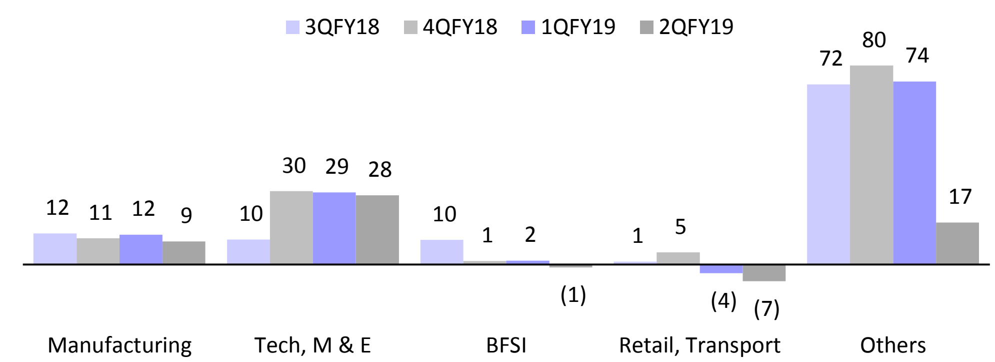


Source: Company, MOSL

ENTERPRISE: Levering its challenger position

- Manufacturing has demonstrated sanguine growth in the recent past, where 35 out of TECHM's 50 clients are F-500 companies. At TECHM's base, this lends ample potential for continued growth. TECHM's four big bets in this vertical were: [1] Smart Products (IoT enabled devices), [2] Smart Manufacturing (Industry 4.0 – factory of the future), [3] Customer Centricity and [4] Connected Aftermarket. Revenues from these big bets have grown from 5% to 14%.
- Automotive is a big play in Manufacturing vertical, approaching USD50m in scale. Also, autonomous economy – pegged at USD2.5t currently – is expected to grow to USD4t over the next 10 years. The delta is expected to be driven by Services.
- Within BFS, TECHM has built capabilities through acquisitions such as Target and Sofgen. Its four big bets to operate as a smaller player here are (1) Digital customer experience, [2] Platforms such as Risk Management as a service (Target), [3] Driving IP and innovation, leveraging the Fintech ecosystem and [4] Core transformation.
- Healthcare & Lifesciences has also grown as a practice from USD124m in FY15 to ~USD400m this fiscal. The segment is driven by its top 10-15 customers, which contribute ~90% of revenues. The company has ~3,000+ associates, of which ~600 are domain experts from the industry.

Exhibit 3: Multi-faceted growth in Enterprise



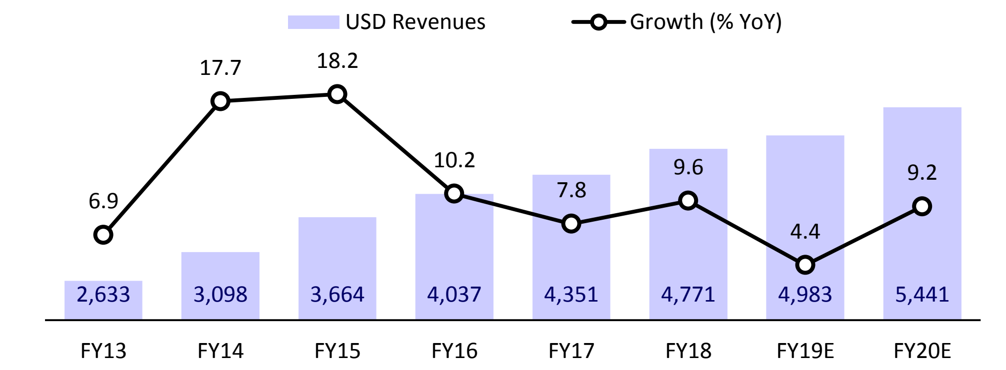
Source: Company, MOSL

Maintains outlook for next fiscal

- TECHM maintained its growth outlook of mid-single-digits in Communications and 8-10% in Enterprise.
- Growth in Communications does not factor in any tailwinds from the 5G opportunity. The company's investment plans are based on the above rates of growth, while the objective remains to grow at a faster pace.
- While the company is not constraining itself with any floor or ceiling on any potential acquisitions, it is much more cautious following the experience with LCC.
- Sub-contractors will continue to be deployed at a healthy rate by the company, especially given the supply situation in the US. Attrition levels in the high teens have been normal, and the company's operating model can handle current levels without any distractions.

- It also shared its optimistic stance on the chances of repeating the USD550m TCV (highest ever) deal win performance of the last quarter.

Exhibit 4: Growth expected to turn around

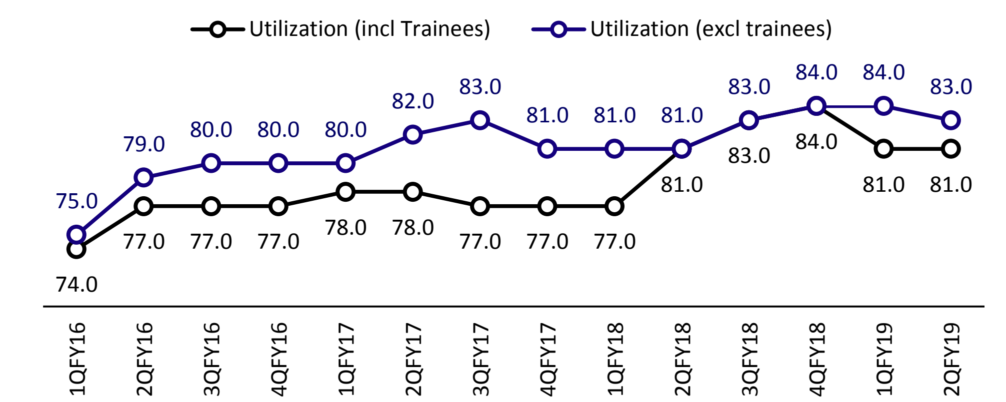


Source: Company, MOSL

Margin improvement not coming at the cost of investments

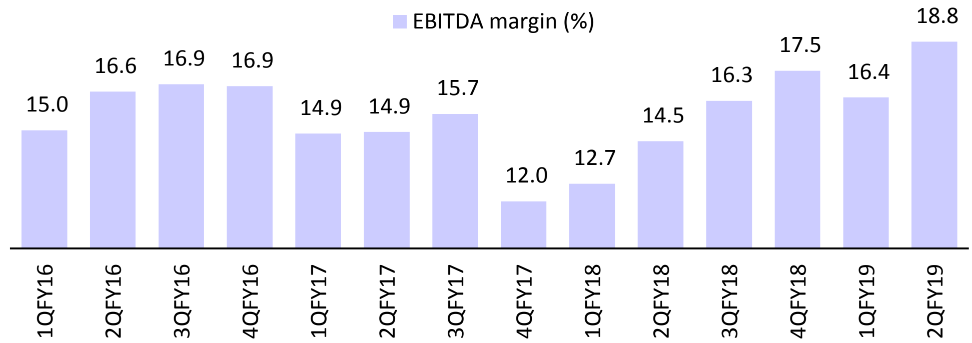
- The sharp turnaround in the EBITDA margin from 12% in 4QFY17 to 18.8% in 2QFY19 was not at the expense of investments in business. The company, on the contrary, has been actively investing toward building capabilities for its 3-4-3 strategy.
- While investments in business will weigh on the margins, TECHM cited multiple levers to help combat the same: [1] Business mix (increase in the share of Digital revenues), [2] Margins of portfolio companies, [3] Automation of internal and client processes, and [4] improvement in Communications growth, among others.
- TECHM is targeting to get its business mix to 50% from CTB over the next 15-18 months. Such objectives will also imply upward movement in pricing.

Exhibit 5: Utilization inched up significantly



Source: Company, MOSL

Exhibit 6: Margins have been improving lately



Source: Company, MOSL

Other highlights

Sales: TECHM is focused on the sales transformation program through the implementation of BOTIFX – an internally developed application to streamline the sales process for renewal business, which constitutes 95% of revenues.

Delivery: TechM is implementing AI and automation through internally developed IPs such as 'MePS' (Micro Service Enabled Portfolio Services) to create a seamless delivery of applications.

Workforce: As more and more deals are digital focused, it is imperative to train and transform workforce in order to remain competitive in the market. TECHM has trained more than 100,000 people in automation and AI, and now has more than 67,000 digitally certified engineers. It also has 5,000+ engineers trained in new-age technologies like block chain, IOT, AR/CR and cybersecurity.

Alliance: TechM follows alliance in three ways: [1] partnership with industry leaders like Juniper, Cisco, Dell, RedHat etc. to drive, run and change the business, [2] Internally developing IPs like Tradeix, Spanugo and Cloudleaf to provide end-to-end solutions, and [3] Partnering with next-gen companies like Aginity, Altiostar and Cloudify to create a differentiation.

Valuation view

A foreword on the long-term industry view: Growth for Indian IT should gradually pick up from 6-7% currently, as Digital services proliferate, which today are still small to move the needle on the overall performance. India will remain the hotbed for talent supply en masse, making a case for the increasing shift of Digital business from onsite. That said, with Automation the top priority of every board, without exceptions, delineation of revenue growth with headcount growth appears obvious – and the only lever to stem the decline in profitability witnessed in recent years.

TECHM in that industry backdrop

- **Prowess in Telecom:** TECHM has strong capabilities in Communications (nearly half of current revenue) and works with most of the major global service providers. It has historically benefitted from upswings in capital expenditure triggered by adoption of new technology. With 5G implementation being spoken of by most providers, 2019 appears like the year that will see higher spends in the industry – benefitting TECHM directly.
- **Sustained outperformance in Enterprise:** TECHM has been able to see sustained outperformance in Enterprise, because of [1] success in large deal wins, [2] less baggage of traditional services, [3] small scale in most verticals and [4] sizeable Engineering revenue. Above-industry growth has been an indicator of competitive prowess, a sustenance of which will bode well for overall growth.

On the basis of the above (mid-single-digit growth in Telecom and 8-10% in Enterprise), we expect TECHM to grow revenues in line with the industry as of today. However, any uptick in spend in Telecom would be reflected in better performance for the company. Assuming a pick-up in spend in Telecom toward FY20/21E, our roll forward earnings CAGR over the next three years at 11% for TECHM is in line with industry, but with the potential of being higher.

Exhibit 7: TECHM – Business Construct

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
USD revenue growth (%)	6.9	17.7	18.2	10.2	7.8	9.6	4.4	8.4	9.6
Employee growth (%)	12.1	7.6	15.5	2.1	11.6	(4.2)	10.5	8.1	8.5
Revenue per employee (USDk per annum)	33,490	35,910	38,018	38,689	39,002	41,394	41,972	41,669	42,163
EBITDA margin (%)	21.4	22.2	18.5	16.4	14.4	15.3	18.7	18.7	18.1
EPS growth (%)	23.6	40.2	(4.5)	19.0	(12.6)	37.0	13.6	12.1	7.3

Source: Company, MOSL

Valuation and view

- Restructuring of LCC and sluggish offtake in the large deals signings in Communications have dragged TECHM's revenue growth performance, and more so the margins.
- While Telecom recovery may be gradual, there are some structural strengths in TECHM's business to drive much improved growth over the medium-to-long term:
  1. Success in large deal wins and above-industry growth in the Enterprise segment are encouraging indicators of improving competitive prowess.
  2. Network management services have potentially expanded the addressable market for TECHM, with directly addressable spend standing at ~USD40b.

LCC restructuring is nearly through (revenue has been pruned down to annualized run-rate of ~USD200-220m from USD430m at the time of acquisition).

3. TECHM also has a sizeable scale in Engineering services, and the opportunity in the same can be leveraged, especially after the acquisition of Mahindra Engineering Services (MES).

- Profitability has taken a hit for TECHM over the last three years, with a cumulative contraction in the EBITDA margin of 780bp over FY14-17. This has shown improvement intermittently as the company squeezed some of its operational levers and underwent cost optimization. However, further improvement in margins would be a function of a serious pick-up in revenue from the Communications vertical and from a better performance in portfolio companies.
- We expect TECHM to grow its revenues/EPS at a CAGR of 6.4/12.4% over FY18-20. At 14.3/12.7x FY19/20E, TECHM's valuations are attractive, considering the recovery demonstrated in margins, which may now be followed by strong traction in Telecom. Our TP of INR800 discounts forward earnings by 14x. **Maintain Buy.**

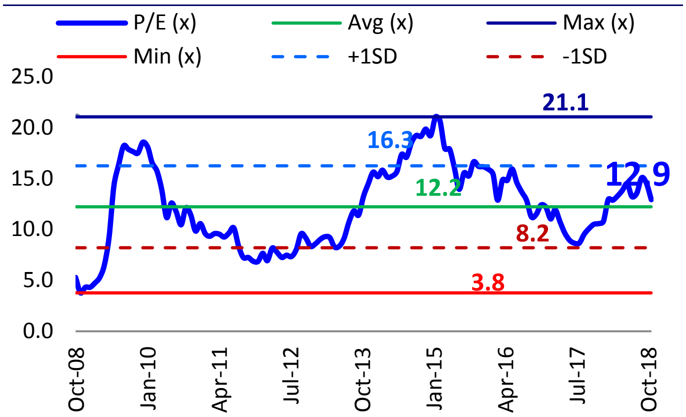
Key Triggers

- Large deal announcements in Enterprise segment
- Continued momentum in Telecom
- Sustained margin improvement on account of measures taken

Key Risks

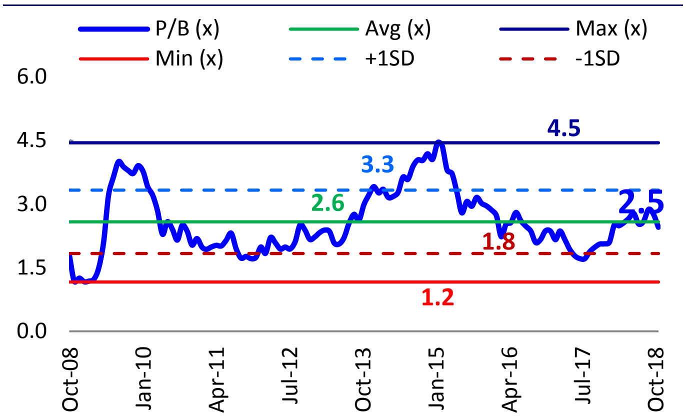
- Adverse visa-related regulations as TECHM's proportion of local resources at onsite is lower than peers
- Currency fluctuations given higher sensitivity to earnings v/s peers
- Reversal of margin trajectory amid delays in 5G roll-out

Exhibit 8: TECHM 1-year forward P/E



Source: Company, MOSL

Exhibit 9: TECHM 1-year forward P/B



Source: Company, MOSL

Exhibit 10: Operating metrics

Operating metrics	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Revenue by geography (%)										
Americas	49.0	48.3	46.7	45.1	46.8	45.3	46.9	47.4	48.2	47.0
Europe	28.28	29.7	29.4	29.6	29.8	30.0	29.8	29.6	30.0	29.6
Rest of World	22.78	22	23.9	25.3	23.4	24.7	23.3	23.0	21.9	23.4
Vertical Split (%)										
Telecom	49.24	48.4	47.3	46.3	45.2	43.7	42.8	41.6	39.6	41.5
Manufacturing	18.14	19.2	18.4	19.2	19.3	19	19.1	19.3	20.1	20.1
Tech | Media | Entertainment	7.5	7.2	6.4	6.2	6.0	5.9	6.5	7.3	7.2	7.3
BFSI	11.3	11.5	13.1	14.1	14.4	14.1	13.3	13.0	13.6	13.5
Retail | Transport | Logistics	6.5	6.8	7.6	6.5	6.8	7.2	7.1	6.2	6.1	6.5
Others	7.3	6.8	7.1	7.7	8.3	9.9	11.3	12.6	13.4	11.2
Onsite-offshore mix (%)										
Onsite	63.4	63.5	63.9	64.3	63.7	64.1	65.8	67.0	66.6	64.5
Offshore	36.6	36.5	36.1	35.7	36.3	35.9	34.2	33.0	33.4	35.5
Client metrics										
No. of active clients	818	825	837	843	864	885	903	913	926	930
% of repeat business	96.3	95.6	93.4	93.5	97.2	95	92.9	88.4	98.5	97.4
No. of Million $ clients										
USD1m+	317	341	356	354	377	390	389	392	396	407
USD5m+	120	120	128	134	139	147	154	156	154	157
USD10m+	64	66	65	71	74	81	83	85	86	86
USD20m+	42	40	38	36	41	40	40	44	47	45
USD50m+	14	14	14	14	14	14	16	16	16	17
Client concentration (%)										
Top client										
Top 5 Clients	28.8	28.5	27.8	26.6	25.9	24.8	23.2	23.2	21.9	23.3
Top 6-10	11.2	11.4	10.6	11	10.4	10.3	10	9.5	10.6	9.4
Top 11-20	12.6	11.8	12.1	11.4	12.2	11.1	11.8	13	13.7	12.9
Headcount (end of period)										
Software professionals	73,590	78,404	80,858	82,403	78,996	75,587	73,460	72,437	72,462	72,534
BPO	27,326	27,669	29,372	28,414	30,332	35,287	35,496	34,190	34,700	39,407
Sales and Support	6,300	5,670	6,865	6,876	6,662	6,351	6,285	6,180	6,390	6,450
Total	107,216	111,743	117,095	117,693	115,990	117,225	115,241	112,807	1,13,552	118,391
IT Attrition (LTM) (%)	21	19	18	17	17	16	17	18	19	20
IT Utilization (%)	78	78	77	77	77	81	83	84	81	81
IT Utilization (excluding trainees) (%)	80	82	83	81	81	81	83	84	84	83
Receivable Days (DSO)-Including Unbilled	106	107	102	95	104	106	105	102	108	112
Borrowings (USD m)	200	206.3	211	210.7	320.7	210.7	341.5	367.7	363.2	353.3
Cash and Cash Equivalent (USD m)	851.2	600.7	728.9	830.2	931.8	913.2	950.1	1192.9	1228.7	1089.8
Capital Expenditure (USD m)	23.5	50.4	28.1	42.8	22.5	70.6	25.6	32.4	27.7	21.3

Source: Company, MOSL

Exhibit 11: Operating metrics

Operating metrics	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Rupee USD Rate										
Period closing rate	67.52	66.61	67.92	64.85	64.57	65.28	63.87	65.17	68.47	72.49
Period average Rate	67.04	66.86	67.7	66.47	64.44	64.45	64.35	64.64	67.51	70.68
Proportion of Revenues From Major Currencies										
USD	50.0	48.9	48.6	45.9	48.6	46.9	47.4	49.4	49.3	48.0
GBP	10.4	11	12	12.3	12.1	12	11.4	12.1	11.6	11.2
EURO	11.2	12.7	11.5	11.4	11.0	11.2	11.9	11.7	11.4	11.4
AUD	4.7	4.6	4.4	4.6	4.8	4.9	4.9	4.6	4.8	4.9
Others	23.7	22.7	23.5	25.8	23.4	24.9	24.5	22.2	22.9	24.5
Consolidated Hedge Position										
GBP In Mn	185.5	192.6	226.7	201	247	260	241	229	213	190
Strike rate (INR)	107.1	104.8	100.2	99.8	97.0	95.4	94.2	94.4	95.1	97
USD In Mn	1246.6	1087.9	1123.2	1030.2	878	646	577	598	894	1069
Strike rate (INR)	71.5	72.4	72.5	72.9	72.6	72.2	72.2	71	70.7	71.9
Verticals (QoQ)										
Telecom	-2.4	2.2	1.7	-0.8	-1.8	0.2	0.4	0.0	-6.4	4.3
Manufacturing	7.0	10.0	-0.3	5.8	1.1	2.0	3.1	4.0	2.5	-0.5
Tech | Media | Entertainment	0.9	-0.2	-7.5	-1.8	-2.6	1.9	13.0	15.6	-3.0	0.9
BFSI	7.5	5.8	18.6	9.1	2.8	1.5	-3.3	0.6	2.9	-1.2
Retail | Transport | Logistics	5.8	8.8	16.3	-13.3	5.3	9.7	1.1	-10.1	-3.2	6.0
Others	-4.4	-3.2	8.7	9.9	8.4	23.6	17.0	14.8	4.6	-16.8
Total	0.9	3.9	4.1	1.5	0.6	3.4	2.8	2.8	-1.6	-0.4
Revenue by geography (QoQ)										
Americas	5.6	2.5	0.6	-2.1	4.4	0.3	6.2	4.0	0.0	-3.0
Europe	0.1	9.2	3.0	2.0	1.3	4.3	1.9	2.2	-0.3	-1.8
Rest of World	-7.0	0.4	13.1	7.3	-6.9	9.4	-3.3	1.6	-6.3	6.3
Total	0.9	3.9	4.1	1.4	0.6	3.6	2.5	2.9	-1.5	-0.6
Client concentration (QoQ)										
Top 5	4.1	2.9	1.5	-3.0	-2.0	-0.8	-4.1	2.9	-7.1	5.9
Top 6-10	1.8	5.8	-3.2	5.2	-4.9	2.6	-0.5	-2.2	9.8	-11.7
Top 11-20	-1.5	-2.6	6.7	-4.5	7.7	-5.7	9.0	13.4	3.7	-6.3
Net additions										
Software professionals	1,465	4,814	2,454	1,545	-3,407	-3,409	-2,127	-1,023	25	72
BPO	72	343	1,703	-958	1,918	4,955	209	-1,306	510	4,707
Sales and Support	247	-630	1,195	11	-214	-311	-66	-105	210	60
Total	1,784	4,527	5,352	598	-1,703	1,235	-1,984	-2,434	745	4,839

Source: Company, MOSL

Financials and valuations

Income Statement								(INR Million)
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Sales	**143,320**	**188,313**	**224,779**	**264,941**	**291,408**	**307,730**	**353,900**	**396,665**
Change (%)	161.1	31.4	19.4	17.9	10.0	5.6	15.0	12.1
Employee Cost	90,007	117,001	150,342	183,226	205,661	215,299	232,742	260,278
Other Expenses	22,682	29,476	32,901	38,289	43,904	45,270	54,900	62,142
Total Expenses	112,689	146,477	183,243	221,515	249,565	260,569	287,642	322,420
EBITDA	**30,631**	**41,836**	**41,536**	**43,426**	**41,843**	**47,161**	**66,258**	**74,245**
% of Net Sales	21.4	22.2	18.5	16.4	14.4	15.3	18.7	18.7
Depreciation	3,896	5,221	6,079	7,620	9,781	10,849	11,852	12,695
Interest	922	673	689	961	1,286	1,624	1,226	892
Other Income	2,121	1,129	1,006	5,322	6,836	14,091	4,230	3,982
PBT	**26,334**	**37,071**	**35,774**	**40,167**	**37,612**	**48,779**	**57,410**	**64,640**
Tax	6,479	9,790	9,472	8,600	9,785	10,925	14,180	16,160
Rate (%)	24.6	26.4	26.5	21.4	26.0	22.4	24.7	25.0
PAT	**19,855**	**27,281**	**26,302**	**31,567**	**27,827**	**37,854**	**43,230**	**48,480**
Minority Interest & EO items	301	336	310	412	357	-136	-130	-120
PAT before EO	**19,554**	**26,945**	**25,992**	**31,155**	**27,470**	**37,990**	**43,361**	**48,600**
Change (%)	79.1	37.8	-3.5	19.9	-11.8	38.3	14.1	12.1
Effect of restructuring fees	-1,340	-1,117	0	0	0	0	0	0
PAT after RF before EO	**18,214**	**25,828**	**25,992**	**31,155**	**27,470**	**37,990**	**43,361**	**48,600**
Change (%)	95.9	41.8	0.6	19.9	-11.8	38.3	14.1	12.1

Balance Sheet								(INR Million)
Y/E March	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Share Capital	2,316	2,335	4,804	4,839	4,388	4,417	4,422	4,422
Reserves	66,214	89,469	117,682	138,824	159,984	184,011	201,310	236,946
Net Worth	**68,530**	**91,804**	**122,486**	**143,663**	**164,372**	**188,428**	**205,732**	**241,368**
Minority Interest	1,349	1,453	1,604	2,034	4,641	5,091	5,249	5,249
Loans	14,702	8,420	11,287	15,564	23,761	28,931	28,477	28,385
Deferred Revenue	0	0	0	0	0	0	0	0
Amount pending invest.	12,304	12,304	12,304	12,304	12,304	12,304	12,304	12,304
Capital Employed	**96,885**	**113,981**	**147,681**	**173,565**	**205,078**	**234,754**	**251,762**	**287,306**
Assets	**22,318**	**28,606**	**40,329**	**43,446**	**63,590**	**74,318**	**75,058**	**76,363**
CWIP	2,595	0	5,677	6,294	3,729	2,399	2,608	2,608
Investments	12,429	12,194	12,987	13,244	3,319	14,364	12,490	15,990
Long term loans and adv	7,433	9,137	12,755	16,766	9	52	55	55
Deferred Tax Assets	3,477	3,830	3,901	5,575	2,674	5,766	8,025	8,025
Other non-current assets	219	157	306	294	24,079	26,403	30,746	30,746
Curr. Assets	**89,634**	**105,472**	**122,526**	**149,451**	**163,265**	**181,070**	**207,025**	**254,972**
Debtors	33,688	43,486	52,059	57,705	53,377	64,979	76,509	84,084
Cash & Bank Balance	34,629	33,202	24,049	40,138	32,186	30,443	32,474	69,468
Loans & Advances	12,925	14,544	18,728	17,084	26,122	21,123	27,207	27,207
Current Investments	1,745	2,525	8,041	11,690	21,647	34,449	35,871	35,871
Other Current Assets	6,647	11,715	19,649	22,834	29,933	30,076	34,964	38,342
Current Liab. & Prov	**41,220**	**45,415**	**50,800**	**61,505**	**55,587**	**69,618**	**84,245**	**101,453**
Net Current Assets	**48,414**	**60,057**	**71,726**	**87,946**	**107,678**	**111,452**	**122,780**	**153,519**
Application of Funds	**96,885**	**113,981**	**147,680**	**173,565**	**205,078**	**234,754**	**251,762**	**287,306**

E: MOSL Estimates

Financials and valuations

Ratios

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	**22.5**	**31.6**	**30.2**	**35.9**	**31.4**	**43.0**	**48.9**	**54.8**
Diluted EPS	**22.0**	**28.7**	**29.6**	**35.1**	**32.0**	**42.7**	**48.0**	**54.0**
Cash EPS	27.8	38.2	36.1	43.6	41.9	54.8	61.3	68.3
Book Value	81.4	112.3	142.2	165.6	187.9	213.4	231.8	271.9
DPS	5.0	5.0	6.0	12.0	9.0	14.0	10.0	12.0
Payout %	22.7	17.4	20.3	34.2	28.2	32.8	20.8	22.2
Valuation (x)								
P/E	31.4	24.0	23.3	19.7	21.6	16.2	14.4	12.8
Cash P/E	24.8	18.1	19.1	15.8	16.5	12.6	11.3	10.1
EV/EBITDA	17.4	12.6	13.7	12.9	14.2	12.6	9.0	7.5
EV/Sales	3.7	2.8	2.5	2.1	2.0	1.9	1.7	1.4
Price/Book Value	8.2	6.2	4.9	4.2	3.7	3.2	3.0	2.5
Dividend Yield (%)	0.7	0.7	0.9	1.7	1.3	2.0	1.4	1.7
Profitability Ratios (%)								
RoE	32.6	36.4	24.5	23.4	18.4	21.5	22.0	21.7
RoCE	28.7	26.3	20.5	20.1	15.2	17.8	18.2	18.2
ROIC	65.1	46.5	30.0	25.7	17.0	15.9	20.9	22.9
Turnover Ratios								
Debtors (Days)	60	75	78	76	70	70	73	74
Fixed Asset Turnover (x)	5.8	7.0	6.0	5.5	5.0	4.3	4.6	5.1
Leverage Ratio								
Debt/Equity Ratio(x)	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1

Cash Flow Statement **(INR Million)**

Y/E March	2013	2014	2015	2016	2017	2018	2019E	2020E
CF from Operations	14,259	33,935	32,040	34,439	32,617	36,372	51,692	57,791
Change in Working Capital	-7,608	-12,302	-8,874	5,456	-17,243	8,540	-6,067	6,255
Other adjustments	37,353							
Net Operating CF	**6,651**	**21,634**	**23,167**	**39,895**	**15,374**	**44,912**	**45,625**	**64,047**
Net Purchase of FA	-3,099	-7,854	-21,365	-17,357	-9,694	-9,735	-9,375	-12,000
Free Cash Flow	**3,552**	**13,780**	**1,802**	**22,538**	**5,680**	**35,177**	**36,250**	**52,047**
Net Purchase of Invest.	-1,940	-8,539	-9,050	10,611	5,293	-16,794	-24,614	-1,702
Net Cash from Invest.	**-5,039**	**-16,393**	**-30,415**	**-6,746**	**-4,401**	**-26,529**	**-33,989**	**-13,702**
Inc./(Dec) in Equity	1,032	19	2,469	35	-451	29	5	0
Proceeds from LTB/STB	-7,036	-1,305	2,396	-3,469	-9,196	-5,587	850	-800
Dividend Payments	-750	-5,381	-6,771	-13,626	-9,278	-14,568	-10,459	-12,551
Cash Flow from Fin.	**-6,754**	**-6,668**	**-1,905**	**-17,060**	**-18,925**	**-20,126**	**-9,604**	**-13,351**
Net Cash Flow	**32,211**	**-1,427**	**-9,154**	**16,089**	**-7,952**	**-1,743**	**2,031**	**36,994**
Opening Cash Balance	**2,418**	**34,629**	**33,202**	**24,048**	**40,138**	**32,185**	**30,443**	**32,474**
Add: Net Cash	32,211	-1,427	-9,154	16,089	-7,952	-1,743	2,031	36,994
Closing Cash Balance	**34,629**	**33,202**	**24,048**	**40,138**	**32,185**	**30,443**	**32,474**	**69,467**

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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