ANANDRATHI

India I Equities

Technology
Company Update
Change in Estimates ☑ Target ☑ Reco ☐

11 May 2020

Cyient

Faced with execution, macro-economic challenges; Hold

Rating: **Hold**
Target Price: ₹210
Share Price: ₹200

Cyient's Q4 reflects execution (of 5.6% q/q services revenue decline, billing lost ~3 ppt) and macro (lockdown) headwinds. DLM grew 12% q/q despite production stopping in March and supply-side issues, but is still margin dilutive. Cyient's outlook on top verticals (aero/ transportation/E&U) is weak, anticipating a 15-20% q/q immediate decline in Q1 across services/DLM; then slow recovery. Margin benefits (FY22 ARe 7.9%) may not accrue, given the revenue trajectory and despite cost measures. We cut FY21e/22e EBITDA a steep (30%/ 23%), and lower our target to ₹210 (from ₹350), 8x FY22e EPS.

Engineering services turning out to be weaker than IT services. Cyient results reflect weakness in engineering services (HCL: -2.4% vs IT 0.6%). Cyient was facing Pre-Covid headwinds that were further accentuated. Exposures to aviation (38%), transportation (10%), and E&U (12%) are not helping in the present context despite positive commentary on the communications vertical (23%). Overall, the company expects a slow recovery in FY21 from a 15-20%fall in revenue in Q1FY21. Positives for the quarter are order-book intake ($255m, +41% q/q), giving absolute visibility to our FY21e and strong cash generation.

Margins weak; cash generation shoots up. InQ4 the8.4% EBIT margin (down 119bps q/q, 440bps y/y) was after ₹427m was spent in FY20 on bettering margins. We expect FY22 margins of ~8% despite cost containment as the company recovers from the demand shock while maintaining cash-generation rates. CFO for FY20 was ₹5,824m, suggesting completion of FY20 unwinding/ERP implementation at current profitability. Higher capex (FY20: ₹2,149m, partly on laptops to work from home) resulted in weak FCF generation.

Valuations still not attractive. With demand recovery expected to be slow ahead and weak FCF on continued capex, valuations are not attractive yet, given the risks. The company needs to expand its margins or bring capex in line with profitability for valuations to catch up. **Risks: C**apital misallocation

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹m)	39,176	46,175	44,275	39,038	41,615
Net profit (₹m)	4,054	4,786	3,424	2,232	2,819
EPS (₹)	36.0	42.5	31.1	20.3	25.6
PE (x)	5.5	4.7	6.4	9.8	7.8
EV / EBITDA (x)	2.4	2.4	2.7	3.7	3.0
PBV (x)	0.9	0.9	0.9	0.8	0.8
RoE (%)	18.2	19.5	13.4	8.6	10.4
RoCE (%)	12.9	14.3	9.3	5.6	7.1
Dividend yield (%)	6.5	7.5	7.5	5.1	6.4
Net debt / equity (x)	-0.4	-0.3	-0.2	-0.2	-0.2

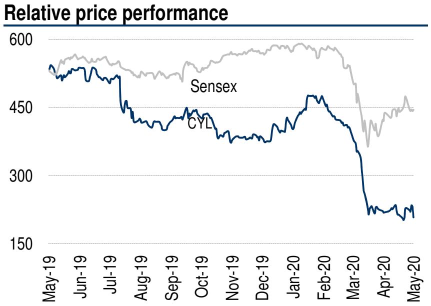
Source: Company, Anand Rathi Research

Key data	CYL IN / CYIE.BO
52-week high / low	₹584 / 193
Sensex / Nifty	31643 / 9252
3-m average volume	$2.1m
Market cap	₹22bn / $292.6m
Shares outstanding	110m

Shareholding pattern (%)	Mar'20	Dec'19	Sep'19
Promoters	22.8	22.8	22.8
- of which, Pledged	-	-	-
Free float	77.2	77.2	77.2
- Foreign institutions	43.5	45.7	45.5
- Domestic institutions	20.7	19.6	20.3
- Public	12.9	11.9	11.4

Estimates revision (%)	FY21e	FY22e
Sales ($)	(16.4)	(16.1)
EBITDA	(29.9)	(23.0)
PAT	(42.3)	(33.8)

Relative price performance



Source: Bloomberg

Mohit Jain
Research Analyst
+9122 6626 6531
mohitjain@rathi.com

Princy Bhansali
Research Associate
princybhansali@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Revenues ($ m)	**607.3**	**660.2**	**625.2**	**532.0**	**567.1**
Growth (%)	***13***	***9***	***-5***	***-15***	***7***
Net revenues (₹ m)	39,176	46,175	44,275	39,038	41,615
Employee & direct costs	25,387	30,125	28,964	26,449	27,806
Gross profit	13,789	16,050	15,311	12,589	13,809
Gross margins %	*35.2*	*34.8*	*34.6*	*32.2*	*33.2*
SG&A	8,296	9,606	9,352	8,176	8,465
EBITDA	**5,493**	**6,444**	**5,959**	**4,413**	**5,344**
EBITDA margins (%)	***14.0***	***14.0***	***13.5***	***11.3***	***12.8***
- Depreciation	1,051	1,113	1,878	1,873	2,041
Other income	1,152	1,228	1,143	795	738
Interest expenses	231	362	517	362	290
PBT	5,363	6,197	4,707	2,973	3,751
Effective tax rate (%)	*25.7*	*23.0*	*27.0*	*24.9*	*24.8*
+ Associates / (Minorities)	71	16	-13	-	-
Net income	4,054	4,786	3,424	2,232	2,819
WANS	**113**	**112**	**110**	**110**	**110**
FDEPS (₹ / sh)	**36.0**	**42.5**	**31.1**	**20.3**	**25.6**

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	563	552	550	550	550
Net worth	23,439	25,641	25,577	26,470	27,598
Debt	2,410	3,253	3,738	3,738	2,738
Minority interest	3	-19	-	-	-
DTL / (Assets)	35	111	-18	-18	-18
Capital employed	**25,887**	**28,987**	**29,297**	**30,190**	**30,318**
Net tangible assets	3,220	3,530	6,909	6,797	6,260
Net intangible assets	1,206	993	767	867	967
Goodwill	3,549	5,257	5,374	5,374	5,374
CWIP (tang. &intang.)	515	1,040	1,459	1,102	1,102
Investments (strategic)	298	267	414	414	414
Investments (financial)	1,130	278	-	-	-
Current assets (ex cash)	14,280	17,528	16,960	17,217	18,015
Cash	9,807	9,705	9,518	9,419	8,692
Current liabilities	8,118	9,612	12,104	11,000	10,506
Working capital	6,162	7,916	4,856	6,217	7,509
Capital deployed	**25,887**	**28,987**	**29,297**	**30,190**	**30,318**
Contingent liabilities	559	520	-	-	-

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	5,363	6,197	4,707	2,973	3,751
+ Non-cash items	912	631	2,248	1,440	1,592
Oper. prof. before WC	6,275	6,828	6,955	4,413	5,344
- Incr. / (decr.) in WC	1,659	1,710	-328	1,361	1,292
Others incl. taxes	-1,653	-1,417	-1,459	-741	-932
Operating cash-flow	2,963	3,701	5,824	2,312	3,120
- Capex (tang. + intang.)	1,469	1,440	2,149	1,504	1,604
Free cash-flow	1,494	2,261	3,675	807	1,516
Acquisitions	332	1,399	204	-	-
- Div.(incl. buyback & taxes)	1,894	1,261	3,564	1,339	1,691
+ Equity raised	9	-1,609	17	-	-
+ Debt raised	718	852	323	-	-1,000
- Fin investments	222	-1,331	-148	-	-
- Misc. (CFI + CFF)	-1,253	277	-354	-433	-448
Net cash-flow	1,026	-102	749	-99	-727

Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

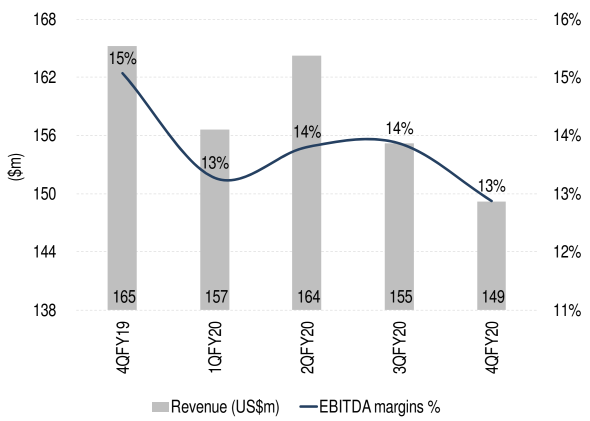
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	**5.5**	**4.7**	**6.4**	**9.8**	**7.8**
EV / EBITDA (x)	**2.4**	**2.4**	**2.7**	**3.7**	**3.0**
EV / Sales (x)	0.3	0.3	0.4	0.4	0.4
P/B (x)	0.9	0.9	0.9	0.8	0.8
RoE (%)	**18.2**	**19.5**	**13.4**	**8.6**	**10.4**
RoCE (%) - after tax	12.9	14.3	9.3	5.6	7.1
RoIC (%) - after tax	21.5	22.4	13.3	7.7	9.7
DPS (₹ /sh)	13.0	15.0	15.0	10.1	12.8
Dividend yield (%)	6.5	7.5	7.5	5.1	6.4
Dividend payout (%) - incl. DDT	43.3	77.2	57.8	60.0	60.0
Net debt / equity (x)	-0.4	-0.3	-0.2	-0.2	-0.2
Receivables (days)	90	91	95	105	103
Inventory (days)					
Payables (days)	41	34	36	33	30
CFO:PAT %	73.1	77.3	170.1	103.6	110.7

Source: Company, AnandRathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Cyient's performance



Source: Company

Result Highlights

Q4 FY20Results at a Glance

Fig 7 – Segment-wise results

	Q4FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	% Q/Q	% Y/Y
Revenue ($ m)	**165**	**157**	**164**	**155**	**149**	**-3.9**	**-9.7**
Growth Y/Y %	***0***	***-3***	***-3***	***-6***	***-10***		
Revenues (₹ m)	11,629	10,890	11,589	11,060	10,736	-2.9	-7.7
Eff. exchange rate	70.4	69.5	70.6	71.3	72.0	1.0	2.2
Employees (EoP)	15,084	15,043	14,869	14,472	13,859		
Revenue productivity ($ '000/employee)	10.95	10.41	11.04	10.72	10.77	0.4	-1.7
Gross utilisation (IT services)	77.8	77.8	78.3	78.8	78.8	0 bps	100 bps
Attrition	19.9	17.4	18.0	19.7	18.9	-80 bps	-100 bps
CoR (excluding D&A)	9,877	9,445	9,990	9,527	9,354	-1.8	-5.3
As % of revenues	*85*	*87*	*86*	*86*	*87*	*99 bps*	*219 bps*
SG&A	2,354	2,304	2,390	2,444	2,214	-9.4	-5.9
As % of revenues	*20*	*21*	*21*	*22*	*21*	*-148 bps*	*38 bps*
EBITDA	1,752	1,445	1,599	1,533	1,382	-9.8	-21.1
EBITDA margins %	*15*	*13*	*14*	*14*	*13*	*-99 bps*	*-219 bps*
EBIT	**1,491**	**1,003**	**1,111**	**1,063**	**904**	**-15.0**	**-39.4**
EBIT margins %	***13***	***9***	***10***	***10***	***8***	***-119 bps***	***-440 bps***
Other income	677	282	264	498	98	-80.3	-85.5
Forex gain/loss	120	132	118	335	33	-90.1	-72.5
PBT	2,081	1,151	1,255	1,432	868	-39.4	-58.3
PBT margins %	*18*	*11*	*11*	*13*	*8*	*-486 bps*	*-981 bps*
Taxes	(318)	(254)	(281)	(333)	(402)	20.7	26.4
ETR %	*-15*	*-22*	*-22*	*-23*	*-46*	*-2306 bps*	*-3103 bps*
PAT	**1,768**	**903**	**986**	**1,083**	**451**	**-58.4**	**-74.5**
PAT margins %	***15***	***8***	***9***	***10***	***4***	***-559 bps***	***-1100 bps***

Source: Company, Anand Rathi Research

Fig 8 – Quarterly results

Year-end: Mar(₹ m)	Q4FY20	% Q/Q	% Y/Y	FY20	FY21	% Y/Y
Sales ($ m)	149	*(3.9)*	*(9.7)*	625	532	*(14.9)*
Sales	10,736	*(2.9)*	*(7.7)*	44,275	39,038	*(11.8)*
EBITDA	1,382	*(9.8)*	*(21.1)*	5,959	4,413	*(25.9)*
EBITDA margins (%)	*12.9*	*-99 bps*	*-219 bps*	*13.5*	*11.3*	*-215 bps*
EBIT	904	*(15.0)*	*(39.4)*	4,081	2,540	*(37.8)*
EBIT margins (%)	*8.4*	*-119 bps*	*-440 bps*	*9.2*	*6.5*	*-271 bps*
PBT	868	*(39.4)*	*(58.3)*	4,706	2,973	*(36.8)*
Tax	(402)	*20.7*	*26.4*	(1,270)	(741)	*(41.7)*
Tax rate (%)	*(46.3)*	*-2306 bps*	*-3103 bps*	*(27.0)*	*(24.9)*	*207 bps*
Net income	451	*(58.4)*	*(74.5)*	3,423	2,232	*(34.8)*

Source: Company, Anand Rathi Research

Conference-call highlights

- The services division declined 5.6% q/q, chiefly on the decline in the E&U vertical on field-work challenges and the semiconductor vertical which was faced with supply-side issues from China.
- The one-time discount provided to one of its key transport clients in Q3 has not yet resulted in the expected uptick in volumes.
- Customers have shown intent to cut discretionary expenditure and there will be weakness in A&D, semi-conductors and energy. Green shoots will be seen in telecoms (on investment in improving the network, 5G technology increasing adoption of IoT, smart city solutions)and mining (on the Chinareboot).
- There will be no salary hikes for FY21 and hiring will be frozen.
- All sales and marketing expenses will be put on hold and subcontractor rates renegotiated.
- The hedge book at end-Q4 was $141m. On the volatility in major currencies, the company has taken an additional cover of 10% of its net inflows for rolling 12 months.
- Investment toward NBA will be reduced significantly in FY21.
- A long-term deal signed with Hitachi Rail for engineering services, but ramp-ups delayed due to the shutdown.

Business outlook

For FY21

- Q1FY21 to see major revenue decline, of 15-20% q/q.
- Utilisation will be pulled up gradually in FY21, after the fall in Q1.
- Q/Q growth to resume from Q2FY21.
- EBIT margins will dip in Q1FY21 but will be back to Q4FY20 levels in Q2FY21.

Q3 FY20 concall highlights

- The services business was flattish, including cross-currency benefits, as the aerospace vertical is still weak and expected to grow from Q4. After the deceleration in communications in the past several quarters, it regained strength in Q3 and will continue to grow. But, overall for FY20, both these verticals will decline on the back of fewer key clients.
- In the transportation vertical, which was expected to grow in Q3, the company entered into a long-term risk-sharing agreement with one of its key clients and provided a one-time discount in Q3. The cumulative impact was taken in Q3, resulting in a sequential decline. On our estimates, the cumulative discount provided turns out to be ~10% (or approx. 3% p.a.).
- One large order intake of $25m was postponed to Q4FY20. If signed, it would have resulted in better order intake in Q3.
- Till date, the costs incurred are $6m-7m of the total $10m planned. In the quarter this provided a benefit of 30bps to the EBIT margin.
- The EBIT margin bore the brunt of the rise in direct costs (120bps), fewer billing days and negative SG& Aleverage (80bps), offset by cost

optimisation (30bps),a favourable DLM margin (60bps) and changes to the revenue mix (110bps).

- The hedge book at end-Q3 was $134m. Other income would be high in FY20.
- Investment toward NBA will continue next year, but will be lower than in FY20.
- In terms of its largest customer, which went through budget issues in FY20, management expects growth to return in FY21.
- FY21 margins would expand 200bps-250bps,driven by the cost optimisation (gross benefit 400bps-450bps), but partially offset by wage increases and other cost increases next year.
- The company is targeting an FCF-EBITDA conversion of ~52% for the year.
- Recovery in growth in services as well at the consolidated level. Aerospace to be subdued but communications will see growth.
- Q/Q margin expansion, but full benefits from Q1FY21.

Q2 FY20 concall highlights

- Revenues faced headwinds due to an 80bp cross-currency impact.On a constant-currency basis, revenue growth was 5.7% q/q.
- The ongoing cost-optimisation efforts related to the employee headcount reduction, and costs on offices in Australia and Melbourne would be incurred inQ3 and Q4, but savings will come later, to be fully evident from Q1FY21.
- The EBIT margin bore the brunt of wage hikes (107bps) and one-time re-structuring costs (85bps), offset by cost optimisation (29bps),greater volumes and operational efficiencies (128bps).
- The hedge book on 30thSep'19 was $135m.
- 1.5% of revenue is projected to be invested toward NBA, which would be higher than what was spent in FY19.
- DLM is currently running at 70% capacity.
- Q3to see some growth in services division, and Q4 would see full recovery.
- For FY20, DLM would grow but at a much lower rate than in FY19 (more than 29%). In this business, the company has forgone revenues which were not strategic or came at lower margins.
- In terms of verticals, the company believes that the worst for aerospace and communications is behind, and that they will start growing only gradually in the rest of the year. Communications is slow as 5G deployments are slow due to the huge associated costs. The semi-conductor industry would see tepid growth in FY20.
- Other income of FY20 to be slightly higher than in FY19.
- FY20 ETR would be 22-23%.

Q1 FY20 concall highlights

- Revenues were hard hit by issues in two of its top-10 accounts in the aerospace and communications industries.
- The ongoing cost-optimisation efforts led to savings of $3m, with the full benefit to be visible from Q1 FY21.
- On transition to IFRS-16, the EBITDA margin benefited 1.7%; this led to addition of ₹3,206m ROU asset and corresponding ₹3,400m liabilities on the balance sheet.
- The hedge book on 30thJun'19 was $134m.
- 1.5% of revenue was invested toward NBA, and the company will invest a similar amount in FY20.
- Attrition has come down significantly, besides the 60 reduction in headcount. Toward cost-optimisation, the company aims to further reduce the number of employees.
- Due to the ongoing SAP HANA implementation, the company was unable to generate invoices in the quarter, leading to higher DSO days.

Business outlook

- Q2 revenues to be the average of the last four quarters.
- Management is optimistic of double-digit growth at the EBIT level, driven by cost efficiencies and volume growth in FY20.
- Wage hikes would likely have an 80bp impact on Q2 margins.

Q4 FY19 concall highlights

- Cyient finished the year with ~15% margins(services ~16.4%, DLM ~4.1%).The FY19 ~14% margin was flat as NBA spends, projected to have a 100bp impact on the EBITDA margin, came at only 51bps, largely offset by a 119bp gain from the rupee depreciation, absorbing the pressure on services.
- In Q4, communications declined 3% sequentially due to deferred deals and delayed decision-making regarding large programmes.
- There was a revenue deferment of $5.5m in DLM.
- Q4 profits were hard hit by exceptional expenses: employee costs (₹77m), the Insights dissolution costs(₹35m), the DLM write-back (₹135m) and an earn-out write-off (₹69m).
- Till end-FY19, Cyient purchased 2.6m shares worth ~₹1,670m (~84% of the declared buyback size) and the balance 26% in Cyient DLM during Q4 for ₹425m.
- The hedge book was $132m (at ₹72.8 to the dollar on a rolling 12-month basis).
- Management expects high single-digit growth in services, and 15% in DLM.
- The EBIT margin will be flattish to slightly higher in FY20, but EBIT will see double-digit growth.
- Other income would be high, driven by forex gains and export incentives (expected volume increase in services and, therefore, inR&D incentives).
- The good traction seen in the NBA program would result in ~1.5–3%

EPS growth from FY21.

- ETR likely to be ~22.5–23.5%.

Q3 FY19concall highlights

- A&D faced some seasonal challenges in Q3 but the 12-month outlook is positive and the growth momentum is likely to continue.
- The semi-conductor division will continue to be faced with challenges as one client is undergoing re-alignment.
- Under the communications vertical, client-specific issues are on-going, but Q4 will see sequential growth.
- In DLM, the company is rationalising its low-margin accounts; hence the targeted margin on further business is 10%.
- The services margin is 16.3%;theDLM margin, 4%.
- Outstanding hedges at end-Q3 FY19 were $129m, at ₹71.4 to the dollar.
- The buyback has been delayed but will be announced in this quarter.
- The company has trimmed its FY19outlook of double-digit growth in services, to 8.5–9.5%, and maintained its 20% growth outlook in DLM (~35% incl. B&F), translating to 11% growth for FY19.

The FY19 EBITDA margin would be flat to slightly higher than in FY18.

Q2 FY19concall highlights

- Double-digit growth in all business units, except U&G and A&D.
- The 13.7% EBITDA margin (up 150bps q/q) was supported by currency gains, greater utilisation & off shoring and SG&A absorption, though counter-balanced by wage hikes.
- Other income was higher q/q due to benefits from incentives that would continue through H2 FY19 and FY20.
- The company has maintained its FY19 outlook of double-digit growth in services and 20% in DLM (~35% incl. B&F)
- It now expects a 50bp EBITDA-margin expansion, compared to the earlier flat guidance y/y.

Q1 FY19concall highlights

- The company is optimistic and expects the business momentum to persist through FY19, supported by both organic and inorganic investments, a better operating margin and cash-flow generation.
- During the quarter it acquired the Belgium-based AnSem, a leading fabrication-less, custom analog and mixed-signal ASIC design company. In two months in Q1 FY19, this acquisition added ~$1.7m. Per management, AnSem is a $10m business and enjoys 20%+ operating margins.
- The company is expecting double-digit growth in services in FY19. The older DLM business is expected to grow ~20% and, overall, incl. the recently-acquired B&F, growth in DLM could touch 35%.

Factsheet

Fig 9 – Revenue, area-wise (%)

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
US	54	55	55	57	56
Europe	25	28	27	25	26
APAC	21	16	18	18	19

Source: Company Note: Q1 FY19 data include DLM

Fig 10 – Revenue by industry, %

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Aerospace & Defence	37	39	40	35	38
Transportation	11	11	11	10	10
Off-highway equipment	-	-	-	-	-
Semi-conductors	5	5	4	4	4
Medical and Consumer electronics	3	4	4	5	4
Communications	20	19	19	22	23
Energy and Natural resources	12	13	13	15	12
Commercial and Geo-spatial	11	9	9	9	10
Others	1	-	-	-	-

Source: Company Note: Q1 FY19 data include DLM

Fig 11 – Onsite-offshore revenue mix, %

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Offshore	43	44	45	45	46
On-site	57	57	55	55	54

Source: Company Note: Q1 FY19 data include DLM

Fig 12 – Client concentration, %

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Top-5	32	32	31	33	31
Top-10	43	44	42	45	44

Source: Company Note: Q1 FY19 data include DLM

Fig 13 – Client-bucket growth rates, %

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Top-5	(5)	(7)	(8)	(7)	(11)
Top 6-10	(4)	(7)	(10)	1	(2)
Beyond the top-10	39	1	2	(7)	(11)

Source: CompanyNote: Q1FY19 data include DLM

Fig 14 – Number of employees

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Consolidated technical	14,309	14,285	14,180	13,783	13,174
Support functions	775	758	689	689	685
Total	15,084	15,043	14,869	14,472	13,859

Source: Company Note: Q1FY19 data include DLM

Fig 15 – Employee parameters (%)

	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Attrition	20	17	18	20	19
Utilisation	78	78	78	79	79

Source: CompanyNote: Q1FY19 data include DLM

Valuations

The stock currently trades at 7.8x FY22e EPS of ₹25.6.Services revenues are expected to decline significantly in FY21 as aerospace, Cyient's key strength vertical, sees volumes declining, dragging on overall growth. Weakness in aerospace would continue for most of FY21 and possibly till H1 FY22.

Ahead, management is expecting growth in communications to be driven by fibre rollouts and 5G-related spending and in the semi-conductor vertical, driven by need for more chips. We expect revenue to register a 5% compound annual decline over FY20-22.

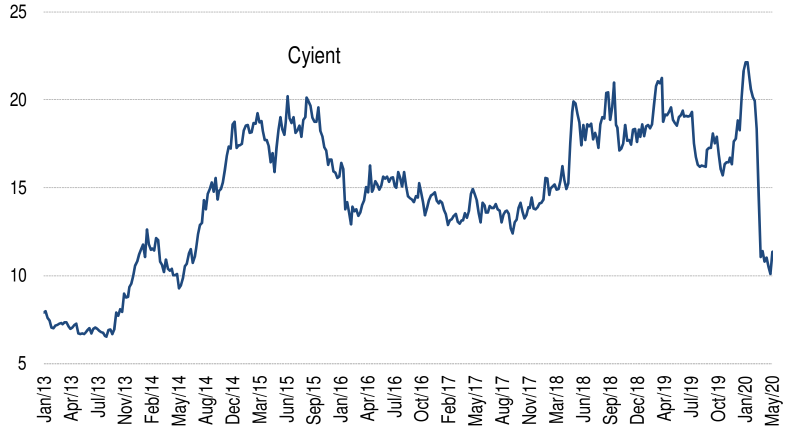
The EBIT margin is likely to decline in FY21 (our estimate: 6.5%) and margin expansion is unlikely as long as revenue growth does not recover. Due to the ongoing business challenges and risks related to capital allocation as most of the past acquisitions have not worked for Cyient, we have a hold recommendation. Any further capital allocation to M&A could add to value destruction.

Fig 16 – Change in estimates

	FY21			FY22		
	New	Old	*Chg %*	New	Old	*Chg %*
Revenues ($ m)	532	636	*(16.4)*	567	676	*(16.1)*
Revenues (₹ m)	39,038	45,996	*(15.1)*	41,615	48,876	*(14.9)*
EBITDA (₹ m)	4,413	6,295	*(29.9)*	5,344	6,938	*(23.0)*
EBITDA margins %	*11.3*	*13.7*	*-238 bps*	*12.8*	*14.2*	*-135 bps*
EBIT (₹ m)	2,540	4,311	*(41.1)*	3,303	4,801	*(31.2)*
EBIT margins %	*6.5*	*9.4*	*-287 bps*	*7.9*	*9.8*	*-189 bps*
PAT (₹ m)	2,232	3,866	*(42.3)*	2,819	4,256	*(33.8)*

Source: Anand Rathi Research

Fig 17– PE band



Source: Bloomberg, Anand Rathi Research

Risk

- Capital misallocation.

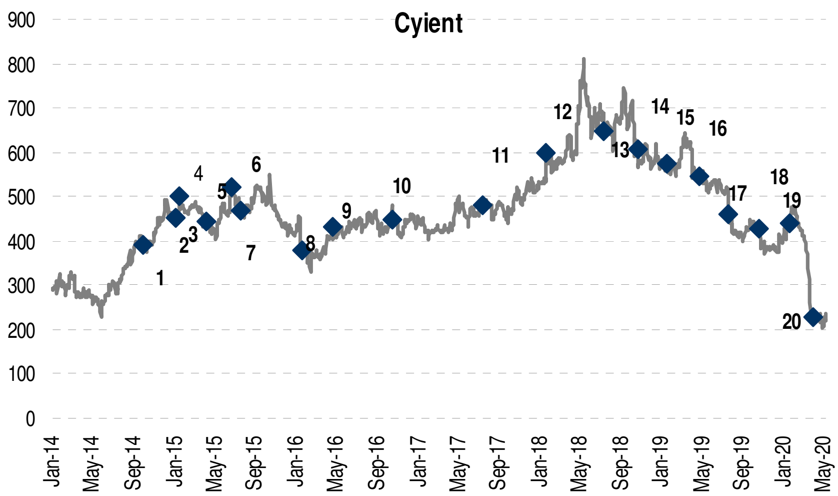
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 11 May 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	30-Sep-14	Buy	520	450
2	05-Jan-15	Buy	575	512
3	07-Jan-15	Buy	600	575
4	16-Jan-15	Buy	660	575
5	09-Apr-15	Buy	650	506
6	24-Jun-15	Hold	650	606
7	17-Jul-15	Hold	600	534
8	19-Jan-16	Hold	520	432
9	22-Apr-16	Buy	570	482
10	14-Oct-16	Buy	625	539
11	13-Jul-17	Buy	610	523
12	19-Jan-18	Buy	750	590
13	13-Jul-18	Hold	810	742
14	19-Oct-18	Buy	820	669
15	18-Jan-19	Buy	770	630
16	26-Apr-19	Buy	700	586
17	19-Jul-19	Hold	560	544
18	18-Oct-19	Hold	505	447
19	17-Jan-20	Hold	500	452
20	31-Mar-20	Buy	350	452

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

This research report is a product of ARSSBL, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by ARSSBL only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.

2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.

3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.

4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.

5. As of the publication of this report, ARSSBL does not make a market in the subject securities.

6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.