

OCTOBER 23, 2018
RESULT, CHANGE IN RECO.

Coverage view: **Cautious**

Price (₹): **952**

Target price (₹): **1,100**

BSE-30: **33,847**

Upgrade on attractive valuations. We upgrade HCLT to ADD from REDUCE on attractive valuations with the stock trading at 12X FY2020E earnings. Our structural concerns on the business model persist—continued deflationary pressure in IMS, underinvestment in digital and questionable capital allocation. However, these concerns are captured in the steep stock price underperformance. Reasonable deal wins and likely step-up in organic revenue growth in the near term are comforting. We value HCLT at 14X September 2020E earnings. Target price and EPS remain unchanged.

Company data and valuation summary

HCL Technologies

Stock data

52-week range (Rs) (high,low) 1,125-825

Market Cap. (Rs bn) 1,325.1

Shareholding pattern (%)

Promoters 60.2

FIs 26.2

MFs 5.6

Price performance (%)

Absolute (13.2) (4.0) 4.0

Rel. to BSE-30 (5.5) 4.1 (0.1)

Forecasts/Valuations

2019E 2020E 2021E

EPS (Rs) 73.6 77.7 81.2

EPS growth (%) 18.1 5.6 4.5

P/E (X) 12.9 12.2 11.7

Sales (Rs bn) 601.7 668.7 713.8

Net profits (Rs bn) 101.4 105.8 110.6

EBITDA (Rs bn) 141.7 149.9 155.4

EV/EBITDA (X) 8.4 7.6 6.9

ROE (%) 25.1 22.1 20.5

Div. Yield (%) 0.9 3.2 3.5

Upgrade to ADD on attractive valuations; stock trades at 12X FY2020E earnings

We have been negative on HCLT's business model for a fairly long time. These concerns emanate from single-service line dependence (IMS) for growth, underinvested applications portfolio and of late capital allocation. The concerns have not abated. In fact, slowing organic growth and high acquisition appetite make the current EBIT margin guidance band of 19.5-20.5% unsustainable (our FY2020-21E EBIT margin forecast stands at 18.5-19%). However, our concerns are adequately captured in the stock price underperformance; in fact, the stock has barely moved in the past 12 months despite sector-wide benefits from rupee depreciation and acceleration in growth. The stock now trades at attractive 12X FY2020E earnings. This combined with good deal wins and likely pickup in growth rates in IMS in the near term creates an opportunity to generate reasonable returns. Our EPS estimates and target price of ₹1,100 remain unchanged. Upgrade to ADD valuing the stock at 14X September 2020E earnings.

Results in line; IMS growth higher than earlier quarter

HCLT reported constant-currency revenue growth of 3%, in line with our estimate. Revenues include ~US\$21 mn contribution from Actian Corporation and some contribution from IP acquired in the previous quarter. Organic constant-currency revenue growth rate stood below 2%. Revenue growth in IMS picked up and grew 2.5% sequentially and 4.4% yoy. Application services was weak and grew at modest 0.4% qoq and 1.8% yoy. EBIT margin of 19.9% increased 20 bps qoq on the back of rupee depreciation (+90 bps) and productivity improvements (+80 bps), offset to some extent by wage revision (-70 bps), higher SG&A (-50 bps) and other operational factors (-30 bps). Net profit of ₹25.4 bn grew 5.7% qoq and 16.1% yoy and was ahead of our estimate due to higher-than-expected other income and lower-than-expected tax rate.

Revenue growth guidance scaled up to mid-point 9.5-11.5% range

Management is confident of a strong 2H as some of the large IMS deals (such as Nokia) flow through revenues. Guidance implies 3% revenue CQGR over the next two quarters. Management indicated that organic revenue growth contribution in FY2019 will be higher in the overall growth composition compared to the assumption at the beginning of the year. The company has retained EBIT margin guidance band of 19.5-20.5% and expects better EBIT margin in 2HFY19.

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IMS growth picks; however, deflationary pressures persist

IMS revenues grew 2.5% sequentially and 4.4% yoy. Growth rates have recovered from a low of 2.0% yoy in 1QFY19 to 4.4% in the current quarter and can improve further. We note that IMS growth slowed down over the past 18 months due to a mix of things—impact from shift of workloads to public cloud, renewals of its own deals, a more aggressive competition and increasing trend of bundling of deals.

Management indicated that impact on revenues from renewals of old IMS deals will continue in FY2020E albeit at marginally lower than FY2019. The company expects most of the deals to be reconfigured to cloud and next-gen services by FY2021E.

Application services—the struggle continues

Application services grew at insipid 0.4% qoq and 1.8% yoy. The company attributed weak numbers to continued pressure in traditional areas such as SAP and a couple of client-specific issues.

Weak application is not a new concern. In fact, this service offering has not grown in double digits in the past 6 years (Exhibit 7) and has seen growth rates slide down progressively. Reason? The company has been underinvested in the offerings for many years and has done little to address this issue. It is interesting to note that out of the 21 inorganic initiatives, the company has barely acquired anything in application services. It is not as if this segment is short of acquisition candidates. HCLT's competitors have snapped up many small digital companies in the cloud apps, digital studios and customer experience management space. It is surprising to see that an acquisitive company like HCLT is missing from that list of acquirers.

Acquisitions of IP likely to continue...

HCLT's revenues from Mode 3 offerings have hit the US\$1 bn run-rate. The company is investing heavily in own platforms and products. The company has started investing in products and platforms sales program. The company will also aggressively pursue licensing of IPs from product vendors where the core product needs transformation to be relevant in future, is in the focus areas and is available at the right price.

... and so does our concern on acquisition strategy of the company

At the risk of repetition, our discomfort with HCLT's acquisition strategy continues. We favor acquisitions to augment digital capabilities or the ones that can provide meaningful revenue synergies. HCLT has demonstrated risk-taking appetite through 10 IP deals and 12 acquisitions in the past three years. A few ERD acquisitions are encouraging, though the broader emphasis on IP deals and certain non-strategic acquisitions are disappointing. We are especially disappointed with three recent acquisitions, viz. C3i, Actian and H&D. These acquisitions will provide revenue kicker but does not help bring in anything differentiated or new.

We do hope that aggressive acquisitions do not lead to slowdown of organic growth endeavors and will be an important element to focus on. And so does the implications for profitability of the strategy.

Key highlights from earnings call

- ▶ **Margin walk-through.** HCLT's EBIT margin increased 20 bps sequentially to 19.9% due to (1) 70 bps headwind from wage increments, (2) 50 bps headwind from SG&A costs and (3) 30 bps negative impact from seasonality and other headwinds offset by (4) 90 bps tailwind from rupee depreciation net of cross-currency movements and (5) 80 bps tailwind from productivity benefits.
- ▶ **Guidance.** HCLT retained constant-currency revenue growth guidance of 9.5%-11.5%. The company expects to deliver in the midpoint of the guided range, i.e. 10.5%. EBIT margin guidance was also unchanged at 19.5%-20.5%. The company plans to reinvest gains from rupee depreciation.
- ▶ **Mode 2 & Mode 3 margins.** HCLT reported 400 bps sequential decline in Mode 2 EBIT margin to 10.8%. Volatility in Mode 2 margins will continue in the short term due to investments. The company expects margin expansion as Mode 2 revenues scale up. HCLT expects Mode 3 margins to stay in the 24-25% range on an annualized basis.
- ▶ **Application services outlook.** Management reported that while traditional services such as SAP faced pressure, the company has been able to defend share during renewals by helping clients migrate to digital.
- ▶ **IMS.** HCLT expects vendor consolidation trend to continue in IMS. Management is of the view that the company is well-positioned to benefit from the trend, especially among US clients. HCLT is able to offset revenue loss from pricing pressure during renewals by offering additional services.
- ▶ **Europe outlook.** Europe geography revenues declined 0.9% sequentially in c/c terms. Management reported that the weak growth was due to softness in a couple of financial services clients in the geography (HCLT reported weak financial services revenue growth of 0.1% in c/c terms). Though HCLT expects the weakness in the client accounts to continue in the near term, it is optimistic on better revenue growth in Europe in the next couple of quarters based on order flows.
- ▶ **Client metrics.** US\$100 mn client bucket was flat at 9 while number of US\$50 mn clients decreased by 1 to 31 sequentially. Number of US\$20 mn clients was up by 3 sequentially to 90.
- ▶ **Tax rate.** HCLT reported a tax rate of 21.1%, which was lower than our estimate of 23.0%. The company has guided for a tax rate of 22-23% for the rest of the fiscal.
- ▶ **Capital allocation.** HCLT completed share buyback of ₹40 bn announced in the previous quarter on October 11, 2018. The company has declared an interim dividend of ₹2/share for the quarter.

Exhibit 1: HCL Technologies' Sep 2018 quarter financial performance under US GAAP (Rs mn)

	2QFY19	2QFY19E	2QFY18	1QFY19	% chg.			1HFY19	1HFY18	% chg.	FY2019E	FY2018	% chg.
					KIE	yoy	qoq						
Revenues (US\$ mn)	2,099	2,100	1,928	2,055	(0.1)	8.8	2.1	4,153	3,812	8.9	8,557	7,838	9.2
Revenues	148,610	148,072	124,340	138,780	0.4	19.5	7.1	287,390	245,830	16.9	601,744	505,700	19.0
Cost of Revenues	(95,890)	(95,978)	(82,073)	(91,056)	(0.1)	16.8	5.3	(186,946)	(162,649)	14.9	(390,245)	(332,367)	17.4
Gross profit	52,720	52,094	42,267	47,724	1.2	24.7	10.5	100,444	83,181	20.8	211,499	173,333	22.0
SG&A expenses	(17,730)	(17,518)	(14,675)	(15,463)	1.2	20.8	14.7	(33,193)	(28,788)	15.3	(69,812)	(58,937)	18.5
EBIDTA	34,990	34,576	27,592	32,262	1.2	26.8	8.5	67,252	54,393	23.6	141,687	114,396	23.9
Depreciation	(5,330)	(5,199)	(3,084)	(4,965)	2.5	72.8	7.4	(10,295)	(5,448)	89.0	(21,139)	(14,532)	45.5
EBIT	29,660	29,377	24,508	27,297	1.0	21.0	8.7	56,957	48,945	16.4	120,548	99,865	20.7
Other Income	2,520	1,422	2,973	2,961				5,481	5,664		9,425	11,104	
PBT	32,180	30,799	27,481	30,258	4.5	17.1	6.4	62,438	54,609	14.3	129,973	110,968	17.1
Provision for Tax	(6,780)	(7,084)	(5,609)	(6,227)	(4.3)	20.9	8.9	(13,007)	(11,037)	17.8	(28,100)	(23,162)	21.3
PAT before share of earnings in affiliates	25,400	23,715	21,872	24,031	7.1	16.1	5.7	49,431	43,571		101,872	87,807	
Share of income (loss) of equity investees	—	—	—	—				—	—		—	—	
Minority Interest	—	—	—	—				—	(14)		—	—	
Net Income (before extraordinary)	25,400	23,715	21,872	24,031	7.1	16.1	5.7	49,431	43,558	13.5	101,360	87,807	15.4
EPS (Rs/share)	18	17.0	15.7	17.3	6.9	15.9	5.5	35.5	30.8	15.0	73.6	62.8	17.2
No of shares outstanding	1,356	—	1,393	1,393				1,356	1,393		1,378	1,398	
Segmental revenues (US\$ mn)													
Software	1,230		1,116	1,203		10.2	2.3	2,433	2,206	10.3	5,004	3,391	47.5
Infrastructure	755		742	745		1.7	1.3	1,499	1,469	2.0	3,102	2,199	41.1
BPO	114		70	107		62.7	6.2	221	137	61.5	452	210	114.9
Margins (%)													
Gross Profit margin	35.5	35.2	34.0	34.4				35.0	33.8		35.1	34.3	
SG&A as % of revenues	11.9	11.8	11.8	11.1				11.5	11.7		11.6	11.7	
EBITDA Margin	23.5	23.4	22.2	23.2				23.4	22.1		23.5	22.6	
EBIT Margin	20.0	19.8	19.7	19.7				19.8	19.9		20.0	19.7	
NPM	17.1	16.0	17.6	17.3				17.2	17.7		16.8	17.4	

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key changes to estimates, March fiscal year-ends, 2019E-21E (Rs mn)

US\$ mn	New			Old			Change (%)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
Revenues	8,557	9,288	9,914	8,540	9,249	9,886	0.2	0.4	0.3
Revenue growth yoy (%)	9.2	8.5	6.7	9.0	8.3	6.9			
EBITDA	2,015	2,082	2,159	1,992	2,099	2,169	1.2	(0.8)	(0.5)
EBIT	1,714	1,767	1,834	1,693	1,787	1,847	1.3	(1.1)	(0.7)
Net Income	1,441	1,469	1,537	1,400	1,467	1,541	3.0	0.1	(0.3)
EBITDA margin (%)	23.5	22.4	21.8	23.3	22.7	21.9			
EBIT	20.0	19.0	18.5	19.8	19.3	18.7			
Re/ US\$ rate	70.3	72.0	72.0	70.1	72.0	72.0			
EPS Rs/ share	73.6	77.7	81.2	71.4	77.8	81.6	3.1	(0.1)	(0.5)

Source: Kotak Institutional Equities estimates

Exhibit 3: Revenue growth across geographies, verticals and service lines (Sep 2018 quarter)

	Revenues	Growth (%)		Contribution to	C/C growth (%)	
	(US\$ mn)	qoq	yoy	revenues (%)	qoq	yoy
Total revenues	2,099	2.1	8.8	100	3.0	10.5
Geographical split of revenues						
US	1,381	4.2	14.8	65.8	4.4	15.1
Europe	562	(2.6)	0.2	26.8	(0.9)	3.5
Asia Pacific	155	0.8	(5.2)	7.4	4.9	0.7
Vertical split of revenues						
Financial services	483	(1.3)	0.1	23.0	0.1	2.3
Manufacturing	378	0.5	(6.3)	18.0	1.7	(3.9)
Technology&Services	382	2.1	36.6	18.2	2.2	36.3
Retail & CPG	210	12.2	17.0	10.0	13.0	19.2
Telecom, media, publishing, entertainment	151	0.7	(0.8)	7.2	1.1	(0.8)
Life sciences	271	2.9	20.0	12.9	3.2	19.8
Energy-utilities-public sector	225	4.1	9.9	10.7	5.3	13.3
Service line split of revenues						
Application services	695	(0.6)	0.4	33.1	0.4	1.8
Engineering and R&D services	535	6.3	26.2	25.5	6.3	26.3
Infrastructure services	755	1.6	1.8	36.0	2.5	4.4
BPO services	113	6.1	63.3	5.4	7.3	64.8

Notes:

(1) Manufacturing (including hitech) vertical has been segregated as manufacturing and technology & services verticals from 1QFY19

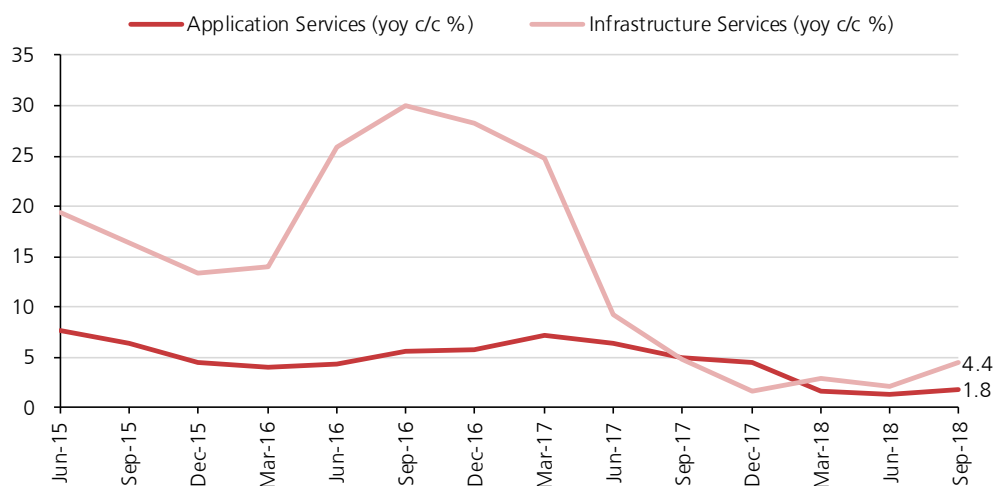
Source: Company, Kotak Institutional Equities

Exhibit 4: Mode 1-2-3 metrics in Sep 2018 quarter

	Revenue	Revenue mix	EBIT margin	Growth
	(US\$ mn)	(%)	(%)	(qoq c/c %)
Mode 1	1,512	72.0	21.2	1.4
Mode 2	336	16.0	10.8	5.3
Mode 3	251	11.9	24.4	10.4
Total	2,099	100.0	19.9	3.0

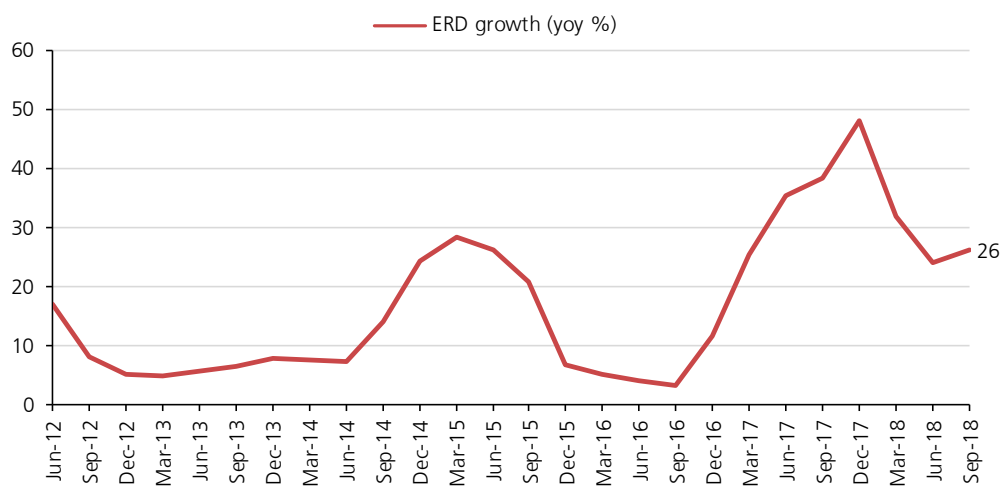
Source: Company

Exhibit 5: Application services decelerates further while IMS growth picks up



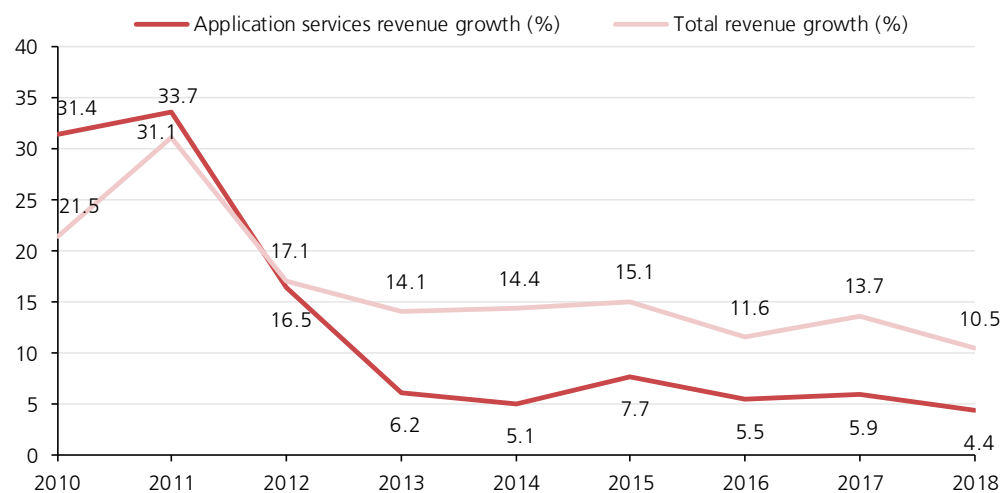
Source: Company, Kotak Institutional Equities

Exhibit 6: Engineering and R&D services growth has come off multi-quarter highs



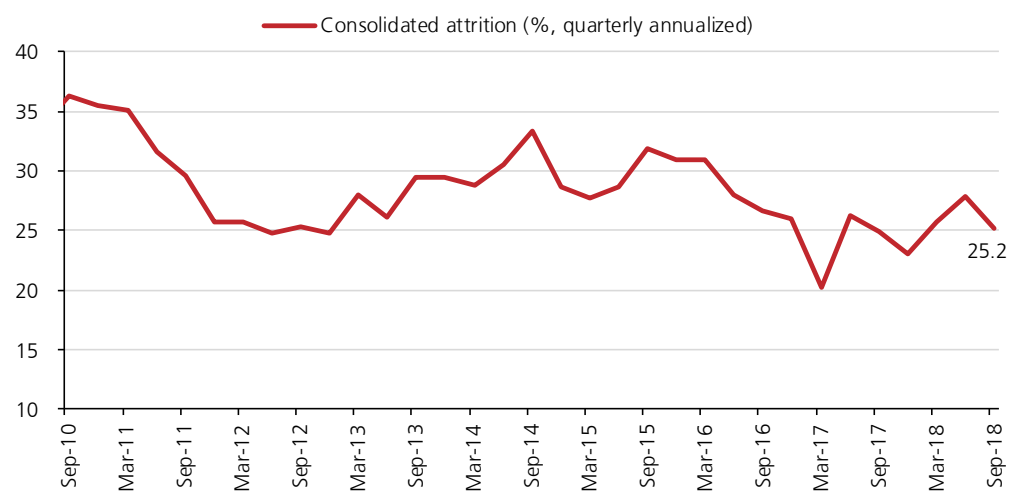
Source: Company, Kotak Institutional Equities

Exhibit 7: Weak growth in application services' revenues for past 6 years



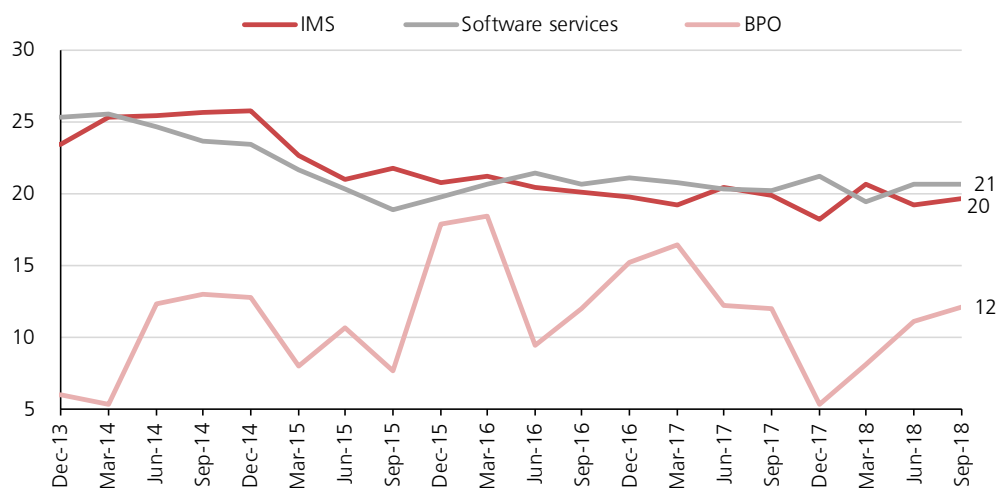
Source: Company, Kotak Institutional Equities

Exhibit 8: HCLT's attrition rate trend



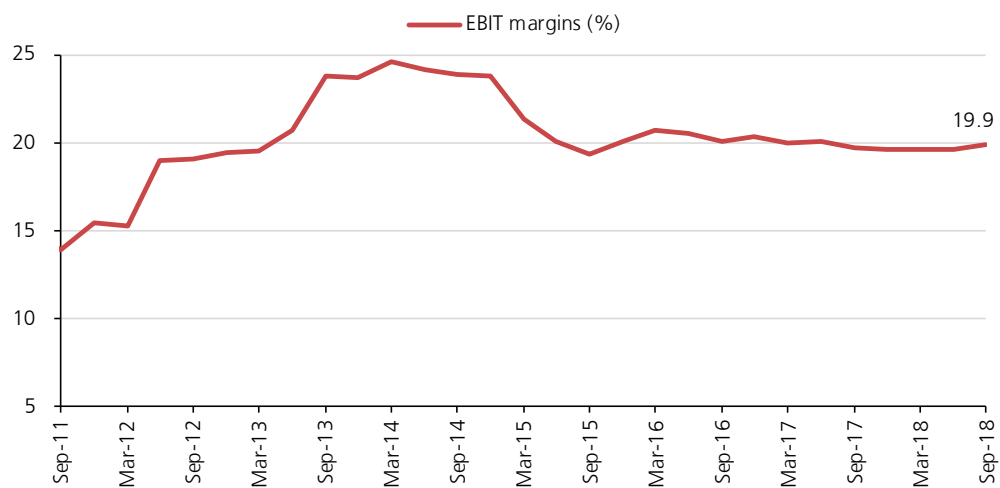
Source: Company, Kotak Institutional Equities

Exhibit 9: Trends in segmental EBIT margins (%)



Source: Company, Kotak Institutional Equities

Exhibit 10: Trend in EBIT margin



Source: Company, Kotak Institutional Equities

Exhibit 11: Acquisitions and investments announced by HCL Tech in the past 40 months

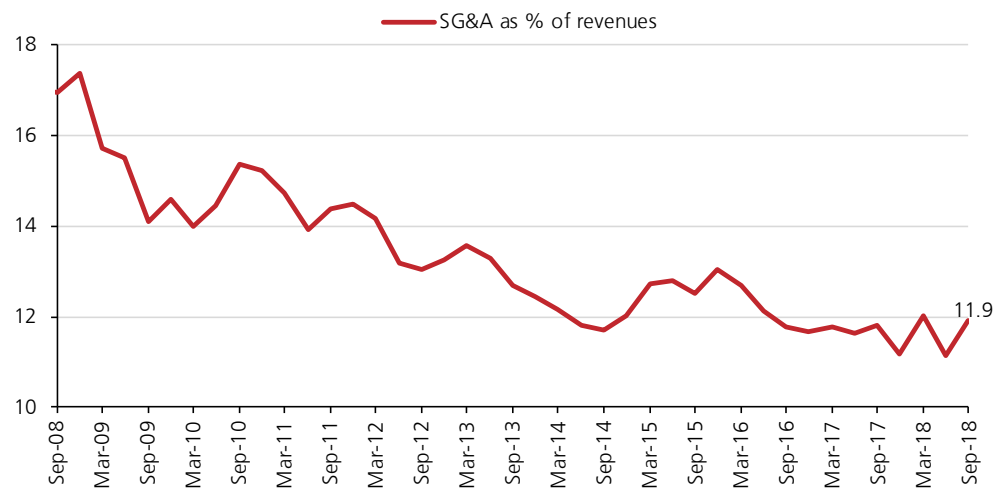
	Date	Target	Country	Business Description	Consideration (mn)	Sales (mn)
HCL Technologies						
1	Jun-18	H&D International Group	Germany	Integrated IT and engineering service provider in German automotive industry	\$35.0	\$86.3
2	Jun-18	IP deal	NA	IP partnership with undisclosed tech firm	\$177.0	NA
3	Apr-18	Action Corporation	US	Hybrid data management, analytics and integration company. HCLT will own 80% of the company with 19.5% with a private equity player	\$330.0	\$107.1
4	Apr-18	C3i Solutions (Telere Marketing, Inc.)	US	Multi-channel customer engagement services for the life sciences and CPG verticals	\$65.0	\$199.0
5	Jan-18	3 IP partnerships	US	3 IP partnerships- One with IBM, one with DXC and one with undisclosed global tech firm	\$300.0	\$105.0
6	Oct-17	Strategic IP partnership with IBM (6)	US	Extended IP partnership to include Notes, Domino, Smart Cloud Notes, Verse and Sametime products	\$60.0	\$30.0
7	Sep-17	Datawave	UK	Data management platform	NA	NA
8	Jul-17	Strategic IP partnership with IBM (5)	US	Extended IP partnership to cover marketing automation area	\$140.0	\$30-35
9	Apr-17	Urban Fulfillment Services LLC	US	Mortgage BPO provider with 350 resources in US	\$30.0	\$48.0
10	Apr-17	Strategic IP partnership with IBM (4)	US	Extended partnership to cover Information management and Database management systems	\$80.0	~\$25
11	Jan-17	Strategic IP partnership with IBM (3)	US	Extended partnership to cover Application security, B2B data transformation, testing automation and Mainframe management tools	\$155.0	\$50.0
12	Oct-16	Strategic IP partnership with IBM (2)	US	Extended IP partnership to cover API/web service enablement of mainframes	\$55.0	\$15.0
13	Oct-16	Butler America Aerospace	US	Provider of engineering and design services to US aerospace and defense customers	\$85.0	\$85.4
14	Jun-16	Strategic IP partnership (1)	US	To invest in and grow workload automation and DevOps software of a global tech major	\$350.0	\$100.0
15	Apr-16	Geometric (share swap deal)	India	PLM and engineering services	\$195.0	\$135.0
16	Feb-16	Volvo IT AB	Sweden	External IT services arm of Volvo	\$134.9	\$190.0
17	Jan-16	Point to Point (P2P)	UK	Workplace engineering services	\$10.0	\$11.5
18	Nov-15	Arrangement with CSC	US	To operate and expand the existing Core Banking business of CSC	\$53.4	NA
19	Oct-15	Powerteam LLC	US	Professional services for Microsoft Dynamics CRM	\$41.4	\$37.00
20	Oct-15	C2SIS	India	Engineering services firm	\$1.9	NA
21	Aug-15	Trygstad Technical Services Inc	US	Turnkey solutions for a large ISV	\$9.9	NA
Total					\$2,308.4	\$1,165+

Notes:

- (1) Geometric acquisition is a share-swap deal
 (2) HCLT has paid about US\$330 mn for Strategic IP partnership and balance US\$225 mn would be paid over CY2017.
 (3) For other acquisitions, the consideration is agreed amount and it includes earnouts.

Source: Company, Kotak Institutional Equities

Exhibit 12: HCLT's SG&A expenses as % of revenues have declined considerably over the years



Source: Company, Kotak Institutional Equities

Exhibit 13: HCLT: Quarterly metrics

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Revenues (US\$ mn)	1,566	1,587	1,691	1,722	1,745	1,817	1,884	1,928	1,988	2,038	2,055	2,099
Revenues (Rs mn)	103,410	106,980	113,360	115,190	118,140	120,530	121,490	124,340	128,080	131,790	138,780	148,610
Exchange rate	66.0	67.4	67.1	66.9	67.7	66.3	64.5	64.5	64.4	64.7	67.5	70.8
Geographical mix												
US	61.0	62.5	59.9	61.9	61.9	62.6	62.8	62.4	63.5	61.6	64.5	65.8
Europe	29.9	28.4	31.4	29.3	29.6	27.7	27.4	29.1	28.7	30.0	28.1	26.8
Asia Pacific	9.1	9.1	8.7	8.8	8.5	9.7	9.8	8.5	7.9	8.5	7.5	7.4
Revenues by service offering												
Application services	40.4	39.9	38.3	37.8	37.5	36.8	36.3	35.9	35.3	34.7	34.0	33.1
Engineering and R&D services	18.6	18.7	17.7	17.8	18.6	20.5	21.5	22.0	24.2	24.1	24.5	25.5
Infrastructure services	35.5	36.2	39.8	40.3	39.8	38.8	38.6	38.5	36.7	37.3	36.2	36.0
BPO services	5.5	5.2	4.1	4.1	4.0	3.9	3.6	3.6	3.7	3.9	5.2	5.4
Revenue by contract type												
Time and Material	43.0	43.2	39.1	38.7	36.8	38.4	40.2	60.4	60.8	61.6	38.0	38.2
Fixed price	57.0	56.8	60.9	61.3	63.2	61.6	59.8	39.6	39.2	38.4	62.0	61.8
Revenue by vertical (new classification)												
Financial services	25.9	25.0	23.6	24.1	24.3	24.2	24.9	25.0	24.6	25.0	23.8	23.0
Manufacturing	31.5	31.4	33.2	32.2	33.9	34.6	34.9	35.4	36.5	36.0	36.5	36.2
Retail & CPG	9.5	9.2	10.0	10.4	9.4	9.2	9.5	9.3	9.6	9.6	9.1	10.0
Telecom, media, publishing, entertainment	9.7	9.9	9.1	9.4	8.9	8.4	7.9	7.9	7.4	7.4	7.3	7.2
Life sciences	12.2	12.8	11.9	12.6	12.0	11.5	11.8	11.7	11.7	11.5	12.8	12.9
Energy-utilities-public sector	10.6	11.1	11.7	10.9	11.2	11.7	11.1	10.6	10.2	10.6	10.5	10.7
Others	0.6	0.5	0.5	0.4	0.4	0.3	—	—	—	—	—	—
Number of million dollar clients (LTM)												
50 Million dollar +	19	19	20	20	24	25	25	25	25	28	32	31
10 Million dollar +	140	144	146	146	148	153	154	157	156	160	162	165
5 Million dollar +	227	233	237	235	241	246	249	259	261	264	267	269
1 Million dollar +	494	482	482	494	496	506	508	536	552	561	571	575
Client contribution to revenue												
Top 5 clients	13.6	13.6	13.9	13.8	14.2	14.7	14.4	15.1	15.8	16.3	17.0	17.3
Top 10 clients	21.7	21.8	21.8	21.6	21.7	22.1	22.4	22.9	23.5	23.8	24.6	24.8
Top 20 clients	32.4	32.2	31.7	31.8	31.9	32.9	33.0	33.2	33.5	33.7	34.2	34.2
Utilization (consol)												
Blended utilization	84.7	85.6	85.8	85.3	84.6	85.7	86.0	86.0	85.8	85.9	85.5	86.7
Manpower details												
Consolidated manpower	103,696	104,896	107,968	109,795	111,092	115,973	117,781	119,040	119,291	120,081	124,121	127,875
Total gross addition	6,234	9,280	10,515	9,083	8,467	10,605	9,462	8,645	7,113	8,476	12,558	11,683
Total net addition	(1,875)	1,200	3,072	1,827	1,297	4,881	1,808	1,259	251	790	4,040	3,754
Attrition - IT services (%)	16.7	17.3	17.8	18.6	17.9	16.9	16.2	15.7	15.2	15.5	16.3	17.1
Attrition - consol quarterly annualized (%)	31.0	31.0	28.0	26.7	26.0	20.2	26.2	25.0	23.0	25.7	27.9	25.2

Source: Company, Kotak Institutional Equities

Exhibit 14: Condensed consolidated US GAAP financials for HCL Technologies, June/March fiscal year-ends, 2014-21E (Rs mn)

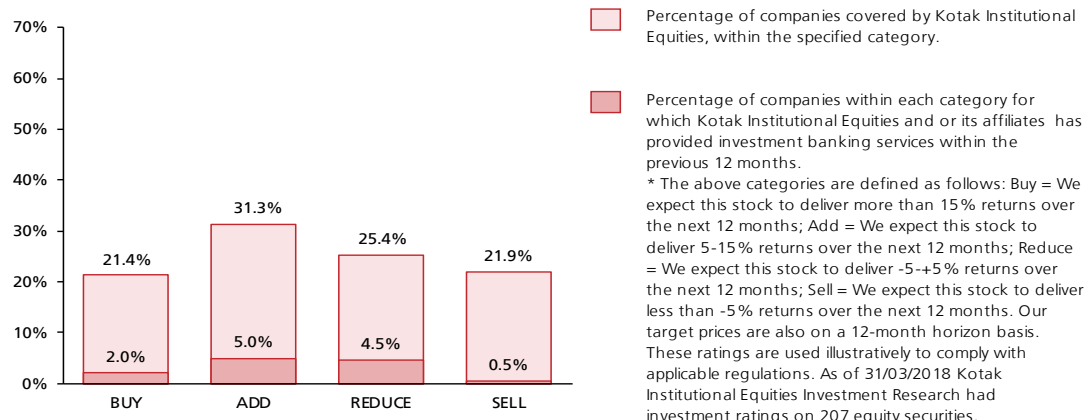
	2014	2015	2016	2017	2018	2019E	2020E	2021E
Profit model								
Revenues	329,180	370,620	311,360	467,220	505,700	601,744	668,704	713,826
EBITDA	86,667	86,947	66,900	103,087	114,392	141,687	149,881	155,446
Depreciation (incl amortization of intangibles)	(7,329)	(4,505)	(4,451)	(8,349)	(14,529)	(21,139)	(22,637)	(23,377)
Other income	(168)	9,114	7,978	9,339	11,101	8,912	11,008	14,472
Pretax profits	79,169	91,556	70,428	104,077	110,964	129,461	138,252	146,542
Tax	(15,482)	(19,074)	(14,786)	(19,516)	(23,167)	(28,100)	(32,489)	(35,903)
Profit after tax	63,688	72,483	55,641	84,562	87,797	101,360	105,763	110,639
Diluted earnings per share (Rs)	45.1	51.3	39.4	59.2	62.6	73.6	77.7	81.2
Balance sheet								
Total equity	204,918	242,116	278,180	344,011	364,401	444,417	511,639	569,797
Deferred taxation liability	1,132	784	1,061	—	341	372	381	381
Total borrowings	7,662	4,584	9,734	5,593	4,326	—	—	—
Minority interest	5	6	2,115	1,786	—	—	—	—
Other non-current liabilities	14,206	11,783	11,576	9,513	12,197	12,195	13,481	14,334
Current liabilities	83,215	90,058	95,106	115,095	98,118	126,780	134,438	140,781
Total liabilities and equity	311,138	349,329	397,773	475,998	479,383	583,764	659,939	725,294
Cash	95,826	107,805	113,184	119,105	73,437	129,728	185,567	245,611
Other current assets	100,337	115,661	131,361	142,333	146,226	183,098	203,472	217,202
Goodwill and intangible assets	52,544	50,905	64,206	117,965	142,598	168,702	163,580	154,987
Tangible fixed assets	32,108	37,363	43,239	48,325	51,323	59,389	61,084	58,659
Investments	6,382	7,604	6,985	13,481	28,660	459	470	470
Other non-current assets	23,941	29,992	38,796	34,788	37,138	42,388	45,765	48,365
Total assets	311,138	349,329	397,773	475,998	479,383	583,764	659,939	725,294
Free cash flow								
Operating cash flow, excl. working capital	71,049	67,092	53,975	84,125	89,566	113,586	117,392	119,544
Working capital changes	(3,446)	(10,661)	(14,689)	240	(13,842)	(6,897)	(12,740)	(9,133)
Capital expenditure	(4,861)	(12,111)	(7,311)	(12,077)	(10,140)	(15,100)	(13,758)	(12,359)
Acquisitions	—	—	(11,787)	(30,762)	(44,567)	(22,783)	—	—
Other income	(168)	9,114	7,978	9,339	11,082	8,912	11,008	14,472
Free cash flow	62,574	53,435	28,165	50,865	32,098	77,718	101,902	112,524
Key assumption and ratios (%)								
US\$ revenue growth (b)	14.4	11.1	6.4	11.9	12.4	9.2	8.5	6.7
EBITDA margin	26.3	23.5	21.5	22.1	22.6	23.5	22.4	21.8
EBIT margin	24.1	22.2	20.1	20.3	19.7	20.0	19.0	18.5

Source: Company, Kotak Institutional Equities estimates

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Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities

As of June 30, 2018

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