

# Indian IT Sector



***Billion Dollar Dream...!!!***

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*"A journey of a thousand miles starts with a single step"  
- Lao-tzu, the ancient Chinese philosopher*

## Billion Dollar Dream

The Indian IT Services sector, estimated at USD 90bn, has predominantly focused on the global markets which generate more than 75% of revenues. The industry has spread far and wide with over four thousand players comprising of global MNCs, Indian players, Captives and small scale set ups. As is natural for any sector, the top five have consolidated to garner a significant share of the revenues ( 37%) while the top ten have taken 41% share of the total revenues. This has primarily been driven by the ability to scale and offer multiple service capability. The smaller players have been either de rated by circumstances, and hence gone down the margin curve or ended up taking bets that have gone the wrong direction. This trend over the last few years has led to a significant divergence in the size and structure of the Indian IT services sector – there are players with size of USD 2-10 bn range competing with the global players, and then we have a set of relatively smaller service providers in the revenue size of sub USD 500 mn still around. And some of these now are emerging into credible players in some of the niche segments. And we believe they have the potential to turn into billion dollar entities in the next few years.

## Why a Billion Dollars

The accrual of a billion dollar in revenues has its own significance considering the fact that the outsourcing maturity is relatively high among the large global corporations (clients) Global 2000/Fortune 1000 companies. Hence a corporate crossing the bar tends to be positioned in a different league. The period of CY2003-2006 saw five of the Indian service providers achieving the Billion Dollar Revenue size. We have seen such a trend since then, however we believe this is likely next three to four years as some of the niche players continue to build upon their niche capabilities and gain share of the client wallet

Early achievers (Revenues USD 4bn+)	Latest entrants (Revenues USD 1-3bn)	Wannabe/Aspirant/contenders (Revenues USD100mn–400mn)
<ul style="list-style-type: none"> <li>● TCS (10 bn+)</li> <li>● Infosys (7 bn+)</li> <li>● Cognizant (7 bn+)</li> <li>● Wipro (6 bn+)</li> <li>● HCL Tech (4 bn+)</li> </ul>	<ul style="list-style-type: none"> <li>● Tech Mahindra (2.6 bn)</li> <li>● Mphasis (1.1 bn)</li> <li>● Igate (1.1 bn)</li> </ul>	<ul style="list-style-type: none"> <li>● Mindtree</li> <li>● Hexaware</li> <li>● Persistent</li> <li>● NIIT Tech</li> <li>● eClerx</li> <li>● KPIT Cummins</li> </ul>

**What we like? Why we like?**

Our report intends to identify from the universe of candidate whom we believe have the potential to turn into billion dollar entities, and generate out performance. Hence are views in the product are structural in nature, and would be subject to tactical revisions to address periodic changes in environment

The stock return in IT sector has not been unidirectional across the sector as has been the case in past but has been stock specific owing to polarized growth, earning and valuation triggers. The performing mid tier stocks have returned better than some of the larger stocks on account of better financial performance and comforting valuations. We believe this revenue traction is sustainable driven by niche strength and strong win ratio which would offer operating leverage coupled with Fx tailwind thus supporting multiple (earning) expansion.

**Preferred Picks:** Persistent, KPIT, NIIT Tech

**Underperformers:** Mindtree, Hexaware, eclerx

## Index

❖	Early Achievers: Does size really matter?	7
❖	Latest Entrants: Are they worth enough?	8
❖	Aspirants: Learning Lessons!	9
❖	Wannabe / Aspirants	10
❖	What we like? Why we like?	11
❖	Tomorrow leaders: Why we think so?	12
❖	PE Lifecycle: Mid Tier Stocks	15
❖	Stock Price Performance	15

## Companies

1.	Eclerx	17
2.	Hexaware	21
3.	iGate	23
4.	KPIT	25
5.	Mindtree	29
6.	Mphasis	33
7.	NIIT Tech	37
8.	Persistent	41
9.	Tech Mahindra	45

Exhibit 1:	The Journey of 'Billion Dollar' and thereafter	7
Exhibit 2:	Global ranking (IT Services)	8
Exhibit 3:	Latest Entrants	8
Exhibit 4:	Mid cap attributes pre crisis (pre 2008) and post crisis (current position)	9
Exhibit 5:	Contendors with their strategies and differentiation	10
Exhibit 6:	Performance of Mid Tier Players	11
Exhibit 7:	Polarized Revenue growth (YoY) – FY12/13E	12
Exhibit 8:	Revenue visibility – Guidance/Outlook	13
Exhibit 9:	Margin efficiency over Pre crisis (FY08) and H1FY13	13
Exhibit 10:	Operating Margin - H1FY13	13
Exhibit 11:	Revenue Growth in top 10 accounts vs rest of portfolio	14
Exhibit 12:	PE Lifecycle: Mid Tier Stocks	15
Exhibit 13:	IT Sector - Price performance YTD	15
Exhibit 14:	Cognizant revenues versus peers (USD bn)	50
Exhibit 15:	Incremental quarterly revenues (USD bn)	50
Exhibit 16:	Telecom vertical revenues – Peer set (USD bn)	51
Exhibit 17:	Revenues growth – Pre Crisis and Post crisis	52

## Annexures

Can Niche be scalable? Or playing the catch up game well, the right strategy?	49
Case studies: Cognizant	49
Case studies: Tech Mahindra	51

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## Early Achievers

The Indian IT Services has evolved from pure low cost providers in early 90's to full service providers with the onset of the new millennium. During 2003-06 five large Indian players achieved 'Billion Dollar' mark in revenues and thereafter grew multifold challenging the key global MNCs across services/geographies. The Indian IT services saga has been application development & maintenance / testing (service offering) driven in early 2000 to 2007 and now is well diversified offerings. Most of these leaders were the companies that could ride the Y2K opportunity and thus similarly the cloud or any new evolving technology can change the leader table distribution again.

### Does size really matter?

Yes it does matter as size opens up avenues for success and wider participation. Any company with a meaningful size has wide service offerings, wider client/geo spread and thus better opportunities to scale up. The size also helps in building relationship with larger global corporations who are much more matured outsourcers versus the SMEs.

### Exhibit 1: The Journey of 'Billion Dollar' and thereafter

Company	Rev (USD bn)	Milestone year	Years for Bn mark	CAGR post bn mark
TCS	10	2003	35+	29%
Cognizant	7	2006	12	38%
Infosys	7	2004	24	28%
Wipro	6	2004	30+	25%
HCL Tech	4	2006	30	27%

Source: Company, Dolat Research

### Milestone factor or sheer timing?

We have witnessed a trend of a long wait for achievement of the milestone billion dollar revenue mark and a strong sharp growth thereafter (refer exhibit 1). This could be sheer co-incidence considering the strong demand for Indian IT services evolving at the onset of the millennium for Y2k, dotcom, BPO related demand.

**Exhibit 2: Global ranking - IT Services**

Rank	Company	Revenues	Mkt Cap	OPM	P/E
1	IBM Services	59	123.1	18.5	13.2
2	HP Services	34.9	8.2	Loss	NA
3	Accenture	29.8	55.6	18.5	18
4	Fujitsu	29.3	4.3	2	26
5	CSC	15.7	6.2	13	16.5
6	Capgemini	13.4	5.2	7.3	12
7	BTGS	11.6	11.7	15.3	9
8	TCS	10.2	43.0	27	23
9	Atos	8.9	4.6	5	26
10	DELL	8.6	2.7	5.7	7
11	Infosys	7.1	25.0	29	16
12	Cognizant	7.1	21.0	14.6	22

\* Revenues only for services business, Mkt cap calculated in ratio of services revenue  
Source: Bloomberg, Company Data, Dolat Research

**Are Indian vendors really big? Yes, and No!**

The global IT Services opportunity, estimated at over USD 850 bn, has had muted growth over last few years. However, spending in emerging technologies like Cloud, Data Analytics and mobility continues to show strong trends. The Indian share at less than 10% of the global IT spending has the best potential to grow given its competitiveness on delivery and costs.

**Latest Entrants: Are they worth enough?**

The recent entrants in the billion dollar clubs are Tech Mahindra, iGate, and Mphasis. None of these companies were beneficiary of the Tech boom at the onset of the millennium but has achieved the current size either by replicating the co-developed capability with captive to scale up or through inorganic efforts.

**Exhibit 3: Latest Entrants**

Company	Rev (USD bn)	Milestone year	Years for Bn mark	CAGR post bn	Remark
Tech Mahindra	2.5	2010	24	58%	Scaled up on BT JV to USD 1bn revenues and later acquired equal sized Satyam
Mphasis	1.1	2010	11	5%	Scaled up on merger with EDS India operation; stuck on HP weak outsourcing
iGate	1	2012	16	NA	Acquired much larger company Patni to achieve the milestone

Source: Company, Dolat Research



## Learning Lessons!

The defining factor for an Indian IT vendor has been its ability to identify areas to build upon best in the class delivery capability, even though in niches, and scale. This has helped win market share versus global service providers, and stay immune to weak IT spending.

It is here that we take a look on two time horizon – 1) Pre 2008 (year defining for the global economy) and 2) Post 2008 till date. There is a marked shift in the way successful midcap companies have moved on critical parameters – client concentration, service offering, vertical presence et al.

It is here that we observe that those companies which stuck to their strength (KPIT, Persistent – sticking on to their niches) and took calculated risks (Acquisition, Margin Call) stood out today.

### Exhibit 4: Mid cap attributes pre crisis (pre 2008) and post crisis (current position)

Mid Cap Attributes	Pre Crisis	Now	Large Caps
Client Concentration (Top 5)	Over 50%	Average at 35%	16%
Hedging strategy	Over or under hedge	2-4 quarter rolling	2-4 quarter fwd rolling
Service Offerings	Few	Full bouquet offering	Full bouquet offering
Verticals	One or two	Several with 1 to 2 niches	Several
Contract Participation	Captive spun off, several small deals, third party o/s	Large captive o/s, mid to large size deals, niche leadership	Mid to large size deals
Hiring Strategy	High reliance on freshers	Freshers alongwith Industry specialists	Freshers alongwith Industry specialists
Onsite/offshore Mix	Very high offshore	Relatively balanced	Balanced equally

Source: Company, Dolat Research

## Wannabe / Aspirants

We short listed players in the revenue size between USD 100mn – USD 500mn with varied strategy to scale up to the next level. There are two main strategy viz., either replicate the successful multiple geo/service line/vertical strategy adopted by the Tier I player or to scale up first on fewer niche capabilities and then expand wings to other portfolios. Both of these strategies (Refer case studies – TechM and Cognizant) had examples of hits and misses. Here, we would also look at what has changed in terms of their plans for mid tier companies to wither against past challenges.

### Exhibit 5: Contenders with their strategies and differentiation

	Revenues (USD mn)	Positioning	Trigger	Visibility
<b>Recent Achievers</b>				
Tech Mahindra	1147*	Niche to full service	Satyam integration	High
Mphasis	1011	BFSI, Analytics	HP revival	Low
iGate	1018	Sales strategy	Outcome based model	Low
<b>Contenders/Aspirants</b>				
Persistent	221	OPD, partner profile	Next Gen. Tech, Sell-with	High
KPIT	370	Auto, Enterprisse	Auto Turning Intelligence, Revolo	High
NIIT Tech	352	Travel, Insurance	IP Led, large deals	High
Hexaware	368	Peoplesoft, Airlines	New deal win	Moderate
Mindtree	421	PES, Testing	New deal win	Low
eclerx	109	end-to-end process	Dodd Frank implement	Moderate

\* Tech M : Revenue Excluding Satyam

Source: Company, Dolat Research

## What we like? Why we like?

### Exhibit 6: Performance of Mid Tier Players

Companies	Sales Growth FY12 (%)	Rev CAGR FY12-15E	OPM (%) H1FY13	OPM Gains FY08(%)	PAT Mg FY12(%)	PAT CAGR FY12-15E	PE(x) TMF	Target PE(x)	Upside (%)
Persistent	29	20	21.1	6.2	14.2	21	9.0	9.5	21
KPIT	49	28	14.0	6.1	9.7	27	8.1	10.0	38
NIIT Tech	28	20	13.7	-0.9	12.5	12	6.7	8.0	35
Mindtree	27	15	18.1	1.2	12.7	18	8.6	8.5	10
eclerx	38	24	34.2	-0.4	30.1	16	10.7	10.0	8
Hexaware	28	21	20.6	11.1	12.5	17	7.8	NA	NA

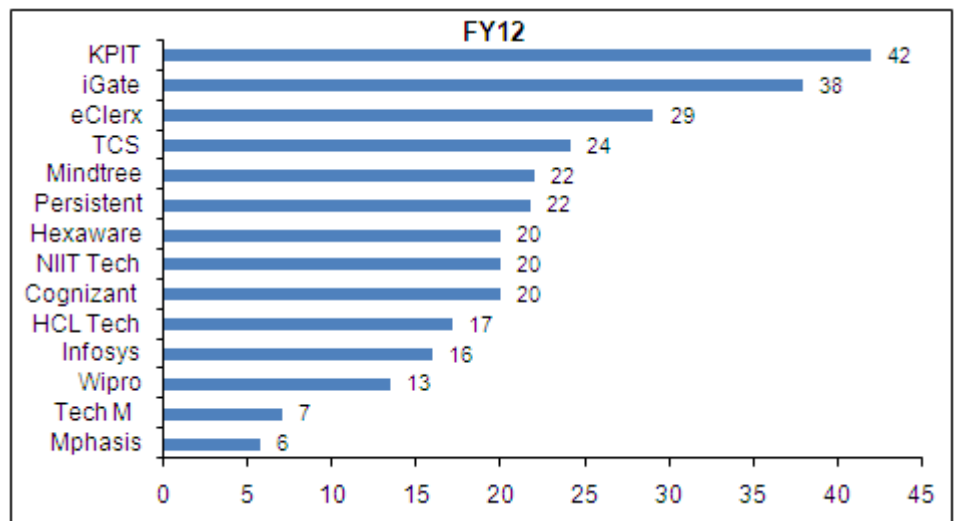
**KPIT:** KPIT, with its niche positioning in the automotive segment and wide offerings in the enterprise segment (Oracle, SAP, JD Edwards), is well set to take on benefit in incremental demand for both auto engineering and discretionary spends. We believe its focus approach and its proven acquire-n-grow practice gives enough visibility and confidence on its sustained financial outperformance. We maintain our BUY rating with a TP of ₹ 155 (valued at 10x FY15E EPS).

**Persistent:** Over the last 12-18 month, Persistent has showed up its team and setup delivery capability. This we believe positions it well to benefit from its 'Sell-with' strategy with all major global technology leaders considering its joint development and joint go-to-market preposition. We also expect large opportunity from its recently acquired company Rcloud, in terms of offering 'backup-as-a-service' to several SMB on its client/partner data centers. We remain positive on account of ahead of industry growth, incremental focus on non linear – IP led revenues, sustained profitability outlook and attractive valuation. We maintain our Buy rating with a TP of ₹ 595 valued at 9.5x FY15E EPS of 62.4).

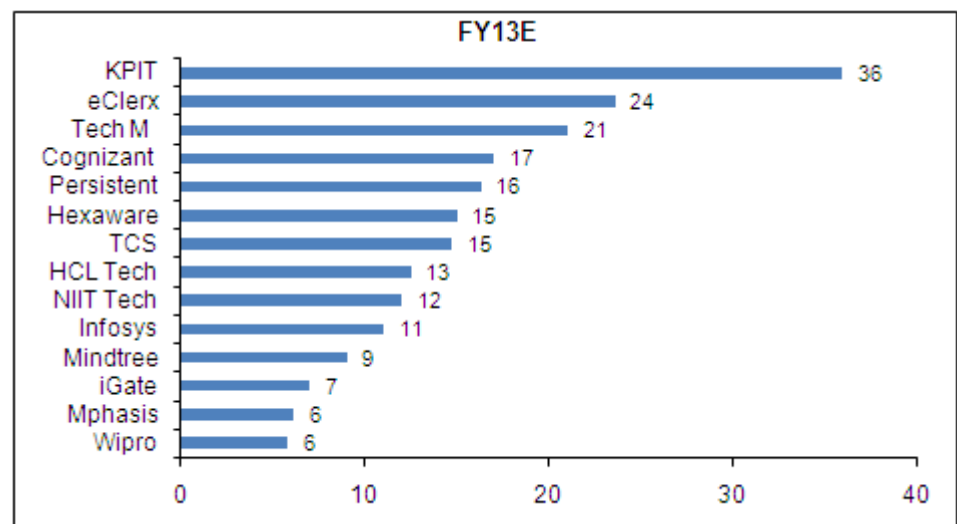
**NIIT Tech:** NIIT strength in Travel (among industry leaders in the transportation industry) and Insurance practice has shown its effect over last few quarter as apparent from its large deal wins. It has been serving several leading names in the industry through its solution led strategy. It has long held relationship and has seeing incremental traction with several large deal won over last 6 quarters amounting USD 630mn. We reiterate our positive view with a Buy rating and TP of ₹ 365 valued at 8x of its FY15E EPS of ₹ 46.

## Tomorrow leaders: Why we think so?

**Exhibit 7: Polarized Revenue growth (YoY) – FY12/13E**



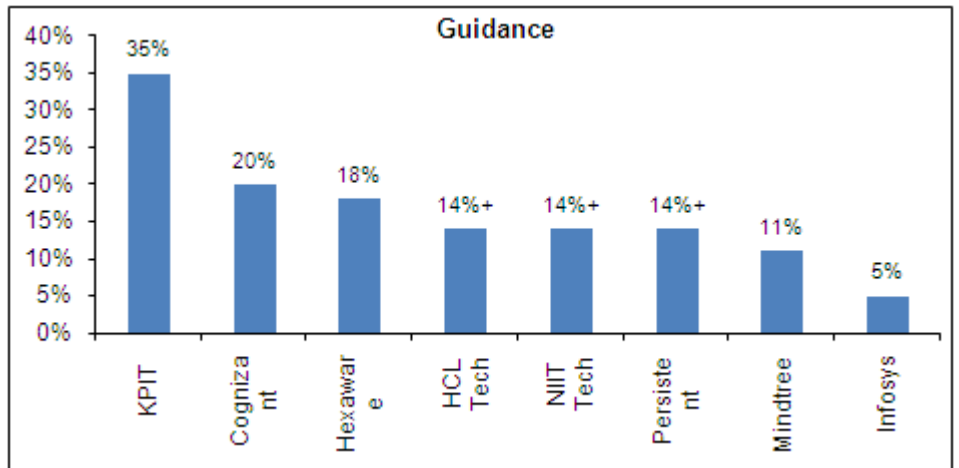
Source: Company Data, Bloomberg, Dolat Research



Source: Company Data, Bloomberg, Dolat Research

Growth in the IT sector has turned divergent off late as compared for unidirectional growth in the past driven by common favorable demographics. These differentials has widened in the recent years due to increased competition and lower demand growth. We expect this differential growth to continue driven by niche capabilities and distinguished sales/business strategies possessed by these companies.

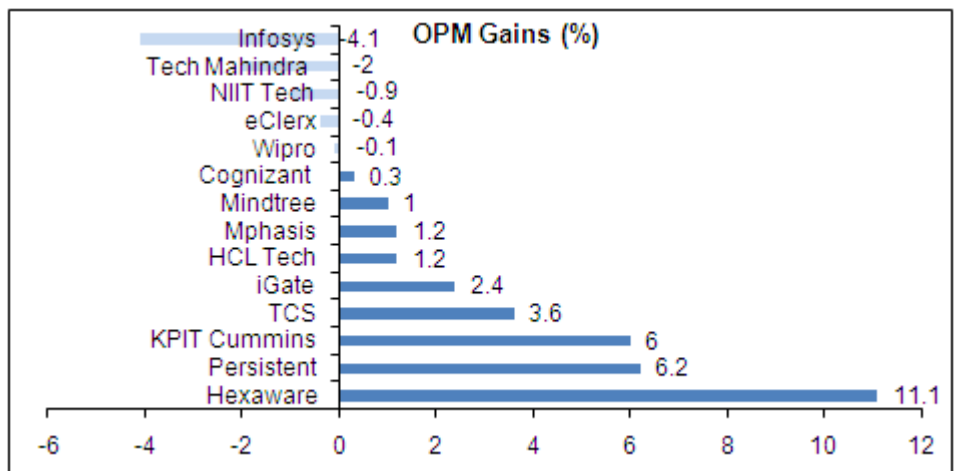
**Exhibit 8: Revenue visibility – Guidance/Outlook**



Source: Company Data, Dolat Research

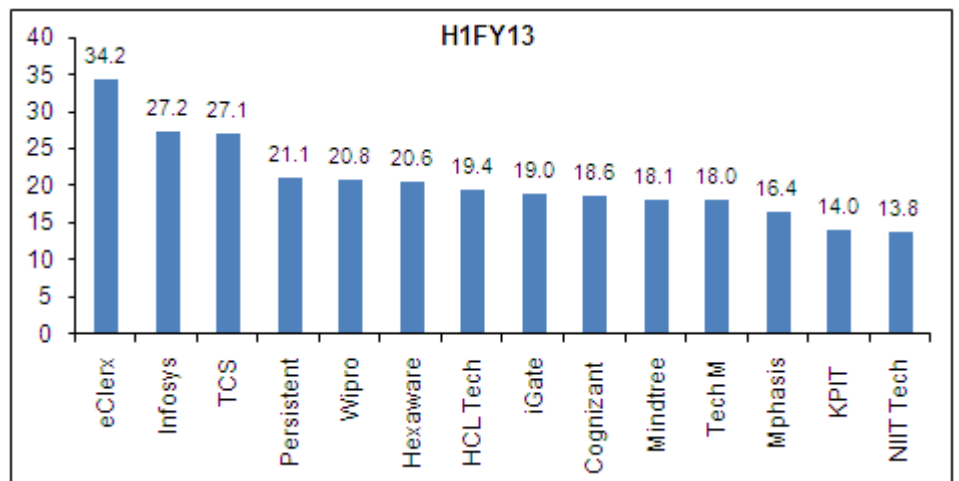
The qualitative guidance by management in terms of better than Nasscom growth are taken at 14%, upper limit of the association’s growth projection for FY13.

**Exhibit 9: Margin efficiency over Pre crisis (FY08) and H1FY13**



Source: Company Data, Dolat Research

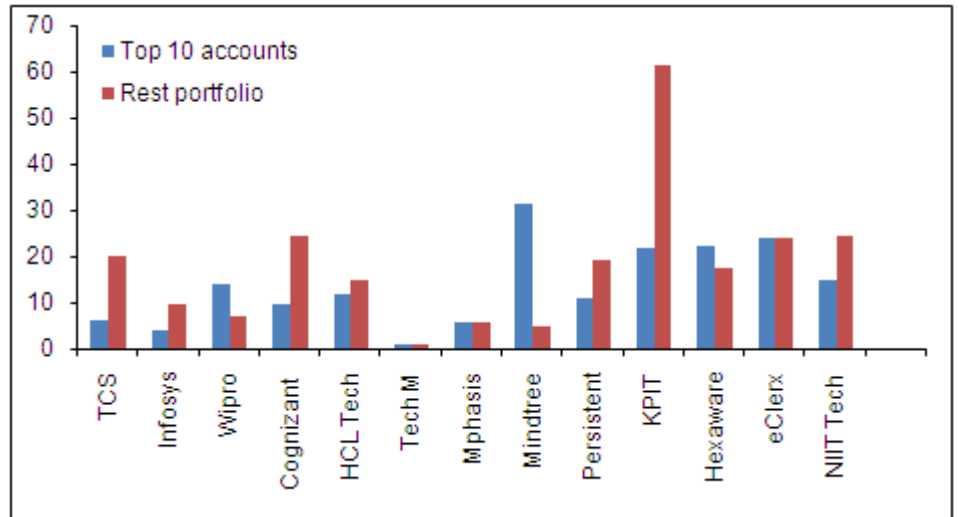
**Exhibit 10: Operating Margin - H1FY13**



Source: Company Data, Dolat Research

Most of the companies in the mid tier space have gained on OPM over their profitability pre-crisis. The margin gains have been driven by improved efficiency (SG&A), utilizations, and fx tailwind. We believe the companies have turned more resilient to margin fluctuations and are utilizing various levers to maintain OPM in narrow band.

**Exhibit 11: Revenue Growth in top 10 accounts vs rest of portfolio**



Source: Company data, Dolat Research

Revenue growth in the Top 10 account has been lower than rest of the portfolio on LTM basis for most of the companies. This has been largely on accounts several smaller deals versus few large deals. Research firm ISG has indicated 3 times jump in small deals with TCV of USD 25-99 versus soft stance on large deals. It also indicates incremental infusion of first time outsourcers which helps overcome budget cuts by large/matured clients. Few exceptions includes Wipro and Mindtree, as these are undergoing tail trimming of the non strategic/low profit clients to focus more on key accounts.

## PE Lifecycle: Mid Tier Stocks

We believe typically mid tier stocks undergo 5 stage PE lifecycle with each multiple between 7x-11x representing a stage. Here we discuss these to understand the likely re-rating possibility of the stock under purview:

### Exhibit 12: PE Lifecycle: Mid Tier Stocks

Stage	Multiple	Attributes
Low valuation	7x	<ul style="list-style-type: none"> <li>Environment improves</li> <li>Tier I upgrades begins</li> <li>Tier I stock performs</li> <li>Creates valuation gap over midcaps</li> </ul>
Inconsistency	8x	<ul style="list-style-type: none"> <li>Valuation gap remains as performance is mixed</li> <li>Past inconsistency remain overhang</li> </ul>
Consensus opinion	9x	<ul style="list-style-type: none"> <li>Mid cap rallies partially</li> <li>All stock rallies irrespective of differentiated financial performance</li> </ul>
No Major upside	10x	<ul style="list-style-type: none"> <li>View turns risk reward unfavourable</li> <li>Select good midcap stock continue to rally</li> </ul>
Fairly Priced	11x	<ul style="list-style-type: none"> <li>Stock run stabilizes</li> <li>One weak quarter and stock reacts sharply</li> </ul>

*We believe our preferred picks qualifies in the stage of inconsistency/consensus opinion and are trading in the price band of 8x-9x. We believe these stock would see sustained rallies owing to their financial performance ahead of peers.*

## Stock Price Performance

### Exhibit 13: IT Sector - Price performance YTD

Return	1M	3M	6M	12M
<b>TCS</b>	<b>-7%</b>	<b>-11%</b>	<b>0%</b>	<b>5%</b>
Infosys	-3%	-10%	-6%	-17%
Wipro	2%	0%	-6%	-9%
Cognizant	10%	8%	25%	8%
HCL Tech	2%	10%	32%	53%
<b>Tech Mahindra</b>	<b>0%</b>	<b>6%</b>	<b>42%</b>	<b>75%</b>
Mphasis	-5%	-6%	9%	17%
Patni iGate	3%	-1%	-3%	-3%
Mindtree	4%	-4%	11%	71%
<b>Persistent</b>	<b>2%</b>	<b>23%</b>	<b>41%</b>	<b>61%</b>
<b>KPIT Cummins</b>	<b>-3%</b>	<b>-18%</b>	<b>-6%</b>	<b>42%</b>
Hexaware	-20%	-36%	-28%	5%
Infotech	1%	2%	21%	58%
eClerx	10%	-17%	13%	-3%
<b>NIIT Tech</b>	<b>-3%</b>	<b>-9%</b>	<b>-8%</b>	<b>33%</b>
<b>CNX IT</b>	<b>-1%</b>	<b>-10%</b>	<b>-3%</b>	<b>-3%</b>

Source: NSE, Dolat Research

Our preferred picks have been sector outperformer by far delivering on an average outperformance of 46% in CY12 over CNX IT. We believe our preferred picks would deliver sustained outperformance owing to higher visibility, differential growth performance that may lead to PE multiple expansion for some of these mid tier stocks.

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**CMP: ₹ 710**

**Target Price: ₹ 765**

**Accumulate**

BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 293mn
Face Value	₹ 10/-
Market Cap	₹ bn
	USD mn
52 week High / Low	₹ 900 / 570
Avg. Volume (no)	38558
BSE Code	532927
NSE Symbol	ECLERX
Bloomberg Code	ECLX IN
Reuters Code	ECLE.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	54.16
MF/Banks/FIs	13.09
FII's	20.31
Public / Others	12.44



### Consolidation

**Marque clientele:** Eclerx despite being a small company has been able to enter several large companies supported by its end to end niche service offerings and execution skills. Its clientele list of 54 includes 23 of fortune 500 companies, contributing over 96% of its revenues.

**Demand offtake low:** It has been witnessing slow demand offtake for large projects/opportunity and is only adding up on regular Run-The-Business (RTB) deals in BFSI segment. Demand in the S&M segment is upbeat but again constitute of several smaller deals.

**Captive getting competitive:** The captive-third party trade off has been getting skewed in favor of former due to passage of benefits of ' depreciation and improved efficiency and cost models of these setups. Also, high geographic concentration risk is also leading to business shift away from India. Several clients wish to curb the country risk through multi country offshoring model.

**Agilyst integration:** We believe integration of acquired cable and telecom (C&T) business would impact the near term margins on account of lower segmental OPM, one time integration cost and incremental amortization. The total transaction is expected to the tune of USD 19-24mn with 6qtr integration process.

**View:** We believe Eclerx fits our criteria perfectly in terms of possession of scalable niche with strong clientele but lacks visibility owing to high reliance on client mining for business growth. It has been proactive to spread its vertical offering by acquiring Agilyst but has not been expanding its delivery prowess beyond India which could restrict its growth in long term. We reiterate our positive view with a TP of ₹ 765 valued at 10x (strong growth and OPM justify high PE) of its FY15E EPS of ₹ 76.5.

### Dolat 3 point analysis

Growth Visibility	Moderate in near term
Differentiations/niche	End-to-end offering in trading, analytics
Key triggers for future growth	Dodd Frank act implementation, scale up in S&M and C&T verticals
Risk & concerns	High Client concentration

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY12	4,729	38	1,768	37.4	1,424	30.1	49.0	16.8	14.5	49.0	62.0
FY13E	6550.8	39	2229	34.0	1712.2	26.1	58.9	20.3	12.0	42.9	54.7
FY14E	7505.3	15	2458	32.8	1929.9	25.7	66.4	12.7	10.7	37.3	48.6
FY15E	9109.4	21	2867	31.5	2223.3	24.4	76.5	15.2	9.3	33.8	44.3

Figures in ₹ mn

## Company Description

EClerx, is a niche BPO/KPO services provider serving its clients in financial services and sales & marketing supporting services segment with its domain expertise in data analytics and people, process & technology blend solutions. In the financial services domain, the company provides entire trade life cycle business to the banks whereas in the S&M Segment the Company is focused in providing the analytical services in the E-Commerce business.

## Quarterly Operating Metrics:

<b>EClerx</b>	<b>Q3 11</b>	<b>Q4 11</b>	<b>Q1 12</b>	<b>Q2 12</b>	<b>Q3 12</b>	<b>Q4 12</b>	<b>Q1 13</b>	<b>Q2 13</b>
Revenues (USD mn)	20	21	22	24	25	26	28	30
QoQ(%)	8.9	7.7	5.7	9.0	4.5	0.4	10.2	6.0
Revenues (INR mn)	872	955	996	1137	1320	1276	1537	1617
QoQ(%)	6.0	9.6	4.3	14.2	16.0	-3.3	20.5	5.2
EBIT	381	421	407	514	595	427	552	524
QOQ(%)	28.9	10.4	-3.2	26.3	15.7	-28.3	29.4	-5.1
PAT	360	296	352	442	499	304	493	252
QOQ(%)	30.3	-17.8	18.9	25.8	12.9	-39.1	62.2	-49.0

### Profitability

EBIT Margin (%)	36.0	43.7	44.0	40.9	40.9	45.2	45.1	33.5
PAT Margin(%)	33.6	41.3	30.9	35.3	35.3	38.9	37.8	23.8
Tax Rate (%)	10	14	20	20	20	19	18	25

### Key Operating Metrics

Top 5 (rev share)	86	87	88	86	86	87	80	79
SEZ Revenues	1	1	66	64	67	72	62	58
Net Employee Additions	196	131	357	140	116	134	1140	215
Attrition %	37	38.7	29.3	38.7	26.3	29.8	23.2	30.2

INCOME STATEMENT					CASH FLOW				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Net Sales</b>	<b>4,729</b>	<b>6,551</b>	<b>7,505</b>	<b>9,109</b>	<b>Profit before tax</b>	1,818	2,208	2,539	2,936
Total Income	4,729	6,551	7,505	9,109	Depreciation & w.o.	129	245	267	307
<b>Total Expenditure</b>	<b>2,832</b>	<b>4,076</b>	<b>4,780</b>	<b>5,936</b>	Net Interest Expense & Financial Charges	0			
COR	1,584	2,263	2,652	3,344	Direct taxes paid	(394)	(496)	(609)	(712)
SG&A	1,248	1,814	2,128	2,592	Chg. in Working Capital	(544)	(264)	(215)	(430)
Other Expenses	0	0	0	0	<b>(A) CF from Opt. Activities</b>	<b>1,009</b>	<b>1,693</b>	<b>1,982</b>	<b>2,100</b>
<b>EBIDTA</b>	<b>1,897</b>	<b>2,474</b>	<b>2,725</b>	<b>3,174</b>	Capex	(119)	(800)	(550)	(350)
Depreciation	129	245	267	307	Inc./ (Dec.) in Investments	(721)	(100)	(100)	(100)
<b>EBIT</b>	<b>1,768</b>	<b>2,229</b>	<b>2,458</b>	<b>2,867</b>	<b>(B) CF from Invnt. Activities</b>	<b>(839)</b>	<b>(900)</b>	<b>(650)</b>	<b>(450)</b>
Interest paid	0	0	0	0	Issue of Equity/ Preference	2	0	0	0
Other Income	49	(21)	81	69	Inc./ (Dec.) in Debt	45	0	0	0
Profit Before Tax & EO Items	1,818	2,208	2,539	2,936	Dividend Paid (Incl. Tax)	0	(592)	(677)	(677)
Tax Expenses	394	496	609	712	<b>(C) CF from Financing</b>	<b>47</b>	<b>(592)</b>	<b>(677)</b>	<b>(677)</b>
<b>Net Profit</b>	<b>1,424</b>	<b>1,712</b>	<b>1,930</b>	<b>2,223</b>	Net Change in Cash	216	201	655	973
					<b>Opening Cash balances</b>	1,515	1,687	1,888	2,542
					<b>Closing Cash balances</b>	1,731	1,888	2,542	3,516
					E-estimates				
BALANCE SHEET					IMPORTANT RATIOS				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Sources of Funds</b>					<b>(A) Measures of Performance (%)</b>				
Equity Capital	293	293	293	293	<b>Contribution Margin</b>				
Other Reserves	3,139	4,258	5,511	7,058	EBIDTA Margin	40.1	37.8	36.3	34.8
<b>Net Worth</b>	<b>3,432</b>	<b>4,552</b>	<b>5,805</b>	<b>7,351</b>	EBIT Margin	37.4	34.0	32.8	31.5
Unsecured Loans	45	45	45	45	Tax/PBT	21.7	22.5	24.0	24.3
<b>Loan Funds</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	Net Profit Margin	30.1	26.1	25.7	24.4
Deferred Tax Liability	(8)	0	0	0					
<b>Total Capital Employed</b>	<b>3,470</b>	<b>4,597</b>	<b>5,850</b>	<b>7,396</b>	<b>(B) As Percentage of Net Sales</b>				
					COR	33.5	34.5	35.3	36.7
<b>Applications of Funds</b>					SG&A Expenses	26.4	27.7	28.4	28.5
<b>Net Block</b>	<b>416</b>	<b>971</b>	<b>1,254</b>	<b>1,297</b>	<b>(C) Measures of Financial Status</b>				
<b>Intangibles</b>	<b>28</b>	<b>28</b>	<b>28</b>	<b>28</b>	Net 'Debt / Equity (x)	(0.5)	(0.4)	(0.4)	(0.5)
Capital Work in Progress	45	45	45	45	Debtors Period (days)	38	43	85	130
<b>Investments</b>	<b>999</b>	<b>1,099</b>	<b>1,199</b>	<b>1,299</b>	Fixed Assets Turnover (x)	9.7	6.3	5.7	6.7
<b>Current Assets, Loans &amp; Advances</b>					Working Capital Turnover (x)	2.4	2.7	2.3	1.9
Sundry Debtors	422	671	1,636	2,966	Non Cash Working Capital (₹ Mn)	295	567	782	1,212
Cash and Bank Balance	1,687	1,888	2,542	3,516	<b>(D) Measures of Investment</b>				
Loans and Advances	375	371	371	371	EPS (₹)	47.2	56.9	64.1	73.8
Other Current Assets	636	714	714	714	DPS (₹)	16.9	16.9	19.3	19.3
<i>sub total</i>	3,119	3,644	5,264	7,567	Dividend Payout (%)	35.7	29.7	30.1	26.1
<b>Less : Current Liabilities &amp; Provisions</b>					Profit Ploughback (%)	64.3	70.3	69.9	73.9
Current Liabilities	211	1,190	1,940	2,840	Book Value (₹)	113.9	151.2	192.8	244.1
Provisions	926	0	0	0	RoANW (%)	49.0	42.9	37.3	33.8
<i>sub total</i>	1,137	1,190	1,940	2,840	RoACE (%)	62.0	54.7	48.6	44.3
Net Current Assets	1,982	2,454	3,324	4,727	RoAIC (%) (Excl Cash & Invest.)	98.8	82.3	74.3	73.9
<b>Total Assets</b>	<b>3,470</b>	<b>4,597</b>	<b>5,850</b>	<b>7,396</b>	<b>(E) Valuation Ratios</b>				
E-estimates					CMP (₹)	710	710	710	710
					P/E (x)	15.0	12.5	11.1	9.6
					Market Cap. (₹ Mn.)	21,395	21,380	21,380	21,380
					MCap/ Sales (x)	4.5	3.3	2.8	2.3
					EV (₹ Mn.)	18,754	18,438	17,684	16,610
					EV/Sales (x)	4.0	2.8	2.4	1.8
					EV/EBDITA (x)	9.9	7.5	6.5	5.2
					P/BV (x)	6.2	4.7	3.7	2.9
					Dividend Yield (%)	2.4	2.4	2.7	2.7
					E-estimates				

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**CMP: ₹ 90**

**Not Rated**

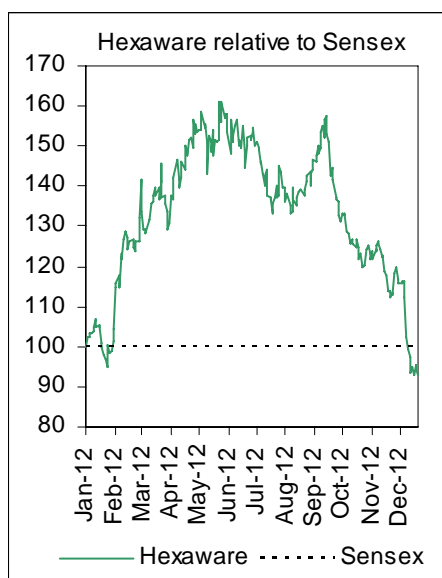
BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 296mn
Face Value	₹ 2/-
Market Cap	₹ 26bn
	USD 500mn
52 week High / Low	₹ 142 / 73
Avg. Volume (no)	4,219,950
BSE Code	532129
NSE Symbol	HEXAWARE
Bloomberg Code	HEXW IN
Reuters Code	HEXT.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	28.14
MF/Banks/FIs	9.20
FII's	42.60
Public / Others	20.06



### Break not a full stop

**Steamed out:** Hexaware has delivered best organic revenue growth in CY11 at 33% with a CQGR of 6% but is now seeing the momentum falling of in CY12 (likely to clock annual growth of over 18% in USD Revenues) though the annual growth would still be one of the best in the sector. We believe the growth engine 'Large Deal Win' has sort of steamed out at the moment and would take some time before it start get back in the groove.

**Solution based model:** Hexaware has build in its differentiation through solutions based offerings viz; Focusframe (Testing), Caliber point (HR and F&A), Risktech (Analytics). It has also focused on few niches such as less served verticals like Airlines and Peoplesoft practice.

**Healthcare the next hope:** It has added healthcare as a separate vertical in Q4CY11 and now banks heavily on the opportunities of HIPAA (Health Insurance Portability and Accountability Act) compliance before the regulatory deadline of 2014. It has created certain solution for the segment and is scaling up team of domain specialist to target this large opportunity.

**Margin trends downward:** In line with its topline OPM has also started trending off despite the supporting currency tailwinds and would see further softening as growth rate cools off; restricting EPS growth inline with the topline growth.

**Valuation attractive:** The stock has corrected over 30% in last 3 months owing to slipping growth rate, margin drag and recent guidance cut by the management. We believe the stock is attractive at 7x of its FY13E consensus estimates but would take its own sweet time to regain the confidence of sustained outperformance

### Dolat 3 point analysis

Growth Visibility	Moderate
Differentiations/niche	Peoplesoft, Airlines vertical
Key triggers for future growth	Healthcare - HIPAA, Client mining in Top 50 accounts
Risk & concerns	Weak discretionary spending (ERP)

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY11	14,505	37.55	2,400	16.5	2,670	148.1	9.1	145.6	9.9	26.9	24.1
FY12E	19,530	34.64	3,912	20.0	3,420	28.1	11.7	28.1	7.7	30.0	28.0
FY13E	22,538	15.40	4,703	20.9	3,930	14.9	13.4	14.9	6.7	29.9	28.2
FY14E	25,601	13.59	5,270	20.6	4,450	13.2	15.2	13.2	5.9	29.4	28.0

Figures in ₹ mn

### **Company Description**

Hexaware is the specialized IT and BPO service provider with leadership positions in Peoplesoft (ERP), HR IT, Airlines and BFSI segments. It has total employee strength of over 9000 based in 20 countries serving to its 217 clients globally.

CMP: USD 16

Not Rated

BSE Sensex	19,242
NSE Nifty	5,848

**Scrip Details**

Equity	USD 57mn
Face Value	USD 1/-
Market Cap	USD 922mn
52 week High / Low	USD 20 / 15
Avg. Volume (no)	0.16mn
Bloomberg Code	IGTE US
Reuters Code	PTI.US

**Married to Patni**

**Demand slow in near term:** Management has indicated delays in contract renewals and elongated client decision making in its recent quarterly release, resulting in below expected revenue growth. It is finding challenges in the European market and constant pricing decline in the onsite efforts.

**Outcome based pricing model:** It has launched a “mult-million dollar” advertising campaign that urges corporations to shift their outsourcing model from a ‘T&M efforts’ based one to one based on ‘outcomes based pricing’. It has been pressing for this model for quite some and expects some shift in renewal deals in its favor based on this model.

**Sales strategy:** It is devising various sales strategies such as hosting CEO Golf tournament in Jan’13, designing commercial ad to push its outcome based revenue model, hiring senior sales from large global firms – (hired managing partner at Accenture to Head its NA operations accounting 80% of its revenue) to take on the competition in the challenging environment .

**Integration still underway:** In CY11 it acquired Patni Computers, company twice its size. However; it has not been able to gain any momentum on large deal wins or business in general with a mere 2% growth on its fully consolidated quarterly revenue run rate of about USD 265mn clocked in Q3CY11. It has recently integrating sales team of both the firms and has done tail trimming by cutting about 70 clients (not renewing the deal) that are less profitable or strategic to its business, and would lead to certain business loss in the short-to-medium term.

**View:** We believe the company has taken short and risky route to scale up to a billion mark and now stuck amidst its integration and key client sales strategy. It has been innovating to enter large deals and has been successful in getting 3 in current fiscal but need some concentrated effort to emerge strong high growth player. We maintain our Neutral stance on its plans and expect it to be market performer.

**Dolat 3 point analysis**

Growth Visibility	Low to Moderate
Differentiations/niche	Innovative sales efforts
Key triggers for future growth	Shift towards outcome based pricing model
Risk & concerns	Weak Top Client growth

**Financials**

Year	Net Sales	gwth	EBIT	OPM (%)	PAT	PAT Mg	EPS (₹)	gwth	PER(x)
FY10	280.6	45.3	53.0	18.9	62.2	22.2	0.9	76.2	17.6
FY11	780	177.9	106	13.6	49	6.3	0.4	(56.7)	40.6
FY12E	1,076	38.0	206	19.1	94	8.8	0.9	117.9	18.6
FY13E	1,156	7.4	237	20.6	131	11.4	1.3	54.1	12.1

### **Company Description**

Igate is a leading mid tier India IT Services company with revenues of over USD 1bn and employee strength of 27500. It is serving over 300 clients several being fortune 1000 companies through its full spectrum services such as consulting, PES, BPO, IMS, ADM and others. In 2011 it acquired Patni computers with a total transaction value of USD 1.2bn financed by debt alongwith issuance of convertibles to PE firm Apax Partners.



**CMP: ₹ 112**

**Target Price: ₹ 155**

**Buy**

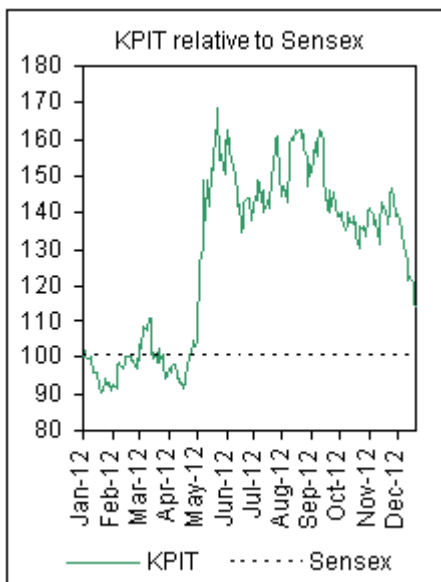
BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 382mn
Face Value	₹ 2/-
Market Cap	₹ 21bn
	USD 392mn
52 week High / Low	₹ 142 / 68
Avg. Volume (no)	481575
BSE Code	532400
NSE Symbol	KPIT
Bloomberg Code	KPIT IN
Reuters Code	KPIT.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	26.22
MF/Banks/FIs	13.58
FII's	26.74
Public / Others	33.46



### Niche + Catalyst

**Niche in Automotive:** It is leading engineering service provider in automotive segment. It is going to benefit from incremental role of IT in auto manufacturing as it would leverage its strong client profile. Client portfolio includes 16 large OEMs (6 of top 10) and 50 Tier I OES.

**'Revolvo'-ution:** Its inhouse built plug in parallel hybrid solution is likely to get commercial launch in FY14 and could act as a major catalyst in its revenue. Currently, it is undergoing trials for 200 cars and homologation process and should start witnessing commercialization in mid FY14.

**Focused approach:** It has divested non scalable, BFS division, diverting its entire efforts towards its strength i.e., Automotive, Enterprise segment and emerging Utilities sector in US.

**String of pearl:** It has mastered the art of acquiring small niche companies and scaling the business by client mining through wider offering and offshoring leverage. It has successfully integrated 5 companies in last five years – Systime, Sparta, CPG, In2Soft and Harita.

**Earn outs get funded:** Various acquisitions has strained its cash flows in recent past, with total earn out outgo expected at USD 50mn over next 6 quarters. However; it has risen about USD 30mn through private equity placement in Nov'12 and would raise some debt to fund this payments.

**Confident outlook:** Revenue in H1 has grown by 43% YoY basis on strong organic growth momentum and Systime integration. It has maintained its guidance of 35% revenue growth despite soft outlook for Q3.

**View:** We remain positive on the stock in view of its focused approach on its niche strength (Automotive, Enterprise services) and sustained strong business traction through new deal wins and through successful integration of acquired entities. We maintain our BUY rating with a TP of ₹ 155 (valued at 10x FY15E EPS).

### Dolat 3 point analysis

Growth Visibility	High in near/medium term
Differentiations/niche	Niche capabilities in Automotive, Wide offering in Enterprise biz
Key triggers for future growth	Uptick in discretionary spends, Revolo
Risk & concerns	Integration of acquired entity, cashflow generations

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY12	15,000	49.0	1,727	11.5	1,454	9.7	8.2	51.7	13.7	21.5	23.0
FY13E	22,792	51.9	3,226	14.2	2,154	9.4	11.3	38.1	9.9	23.3	26.9
FY14E	26,606	16.7	3,662	13.8	2,667	10.0	14.0	23.8	8.0	21.7	26.0
FY15E	31,753	19.3	4,124	13.0	2,999	9.4	15.7	12.4	7.1	20.1	24.4

Figures in ₹ mn

## Company Description

KPIT is the largest third party outsourcer to Global Automotive companies and a premium member of domain specific accreditations such as AUTOSAR and Jaspar. It has gained on the expertise through its long association with global leader in engine maker, Cummins; its JV partner. It also has strong offering in the Enterprise solution side with capabilities across all major ERP; SAP, Oracle and JD Edwards.

## Quarterly Operating Metrics:

KPIT Cummins	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Revenues (USD mn)	56.9	65.5	70.1	70.4	73.4	95.4	98.0	103.4
QoQ(%)	12.1	15.2	7.0	0.4	4.3	29.9	2.8	5.5
Revenues (INR mn)	2737	2972	3161	3250	3789	4800	5383	5672
QoQ(%)	17	9	6	3	17	27	12	5
EBIT	300	271	303	328	447	649	693	828
QOQ(%)	7.1	-9.8	11.7	8.3	36.1	45.4	6.7	19.5
PAT	251	263	241	365	411	437	513	461
QOQ(%)	6	5	-8	51	13	6	17	-10
<b>Profitability</b>								
EBIT Margin (%)	11.0	9.1	9.6	10.1	11.8	13.5	12.9	14.6
PAT Margin(%)	9.2	8.9	7.6	11.2	10.8	9.1	9.5	8.1
Tax Rate (%)	16.3	13.8	22.5	20.6	23.8	24.7	25.7	28.9
<b>Key Operating Metrics</b>								
Volume Growth (%)	7.6	10.6	2.9	2.1	0.0	16.7	3.3	4.1
Pricing Growth (%)	-3.6	8.2	2.6	-4.9	3.3	6.0	-2.1	-0.2
Net Employee Additions	609	276	285	70	-40	163	1012	154
Client Addition	5	3	4	4	2	4	3	4
Utiliastion (%)	65	67	68	70	69	74	75	75

<b>INCOME STATEMENT</b>					<b>CASH FLOW</b>				
	₹ mn								
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Net Sales</b>	<b>15,000</b>	<b>22,792</b>	<b>26,601</b>	<b>31,660</b>	<b>Profit before tax</b>	1,886	3,018	3,653	4,080
Other Operational income	0	0	5	93	Depreciation & w.o.	445	463	505	640
Total Income	15,000	22,792	26,606	31,753	Direct taxes paid	(437)	(840)	(986)	(1,081)
<b>Total Expenditure</b>	<b>12,828</b>	<b>19,104</b>	<b>22,439</b>	<b>26,989</b>	Chg in Working Capital (Non Cash)	(350)	(530)	(750)	(1,150)
Employee Expenses	7,706	11,634	13,722	16,550	Other	4	(25)	0	0
Other COR	1,407	0	0	0	<b>(A) CF from Opt. Activities</b>	<b>1,548</b>	<b>2,086</b>	<b>2,422</b>	<b>2,489</b>
S&M Expenses	2,496	7,470	8,714	10,377	Capex	(2,000)	(800)	(900)	(950)
G&A Expenses	1,220	0	0	0	Inc./ (Dec.) in Investments	0	(200)	(100)	(100)
Revolvo Expenses	0	0	3	63	<b>(B) CF from Investing Activities</b>	<b>(2,000)</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,050)</b>
<b>EBIDTA</b>	<b>2,172</b>	<b>3,688</b>	<b>4,167</b>	<b>4,764</b>	Issue of Equity/ Preference	0	1,620	0	0
Depreciation	445	463	505	640	Inc./ (Dec.) in Debt	0	(300)	(200)	(200)
<b>EBIT</b>	<b>1,727</b>	<b>3,226</b>	<b>3,662</b>	<b>4,124</b>	Dividend Paid (Incl. Tax)	(166)	(178)	(178)	(178)
Interest paid	79	97	84	27	Exchange differences	(6)			
Other Income	239	(111)	75	(17)	<b>(C) Cash Flow from Financing</b>	<b>(172)</b>	<b>1,142</b>	<b>(378)</b>	<b>(378)</b>
Profit Before Tax & EO Items	1,886	3,018	3,653	4,080	Net Change in Cash	(624)	2,228	1,044	1,061
Tax Expenses	437	840	986	1,081	Opening Cash balances	2,096	1,473	3,701	4,745
Net Profit	1,450	2,178	2,667	2,999	Closing Cash balances	1,472	3,701	4,745	5,806
Minority Interest	4	(25)	0	0	E-estimates				
<b>Net Profit</b>	<b>1,454</b>	<b>2,154</b>	<b>2,667</b>	<b>2,999</b>					
<b>BALANCE SHEET</b>					<b>IMPORTANT RATIOS</b>				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Sources of Funds</b>					<b>(A) Measures of Performance (%)</b>				
Equity Capital	356	382	382	382	<b>Contribution Margin</b>				
Share premium	2,015	3,609	3,609	3,609	EBIDTA Margin	14.5	16.2	15.7	15.0
Other Reserves	4,754	7,056	9,545	12,365	EBIT Margin	11.5	14.2	13.8	13.0
<b>Net Worth</b>	<b>7,125</b>	<b>11,047</b>	<b>13,536</b>	<b>16,357</b>	Interest / Sales	0.5	0.4	0.3	0.1
Minority Interest	326	0	0	0	Tax/PBT	23.1	27.8	27.0	26.5
Secured Loans	822	822	822	822	Net Profit Margin	9.7	9.4	10.0	9.5
Unsecured Loans	1,664	1,364	1,164	964	<b>(B) As Percentage of Net Sales</b>				
<b>Loan Funds</b>	<b>2,812</b>	<b>2,186</b>	<b>1,986</b>	<b>1,786</b>	Employee Expenses	51.4	51.0	51.6	52.1
Deferred Tax Liability		0	0	0	S&M Expenses	16.6	32.8	32.7	32.7
<b>Total Capital Employed</b>	<b>9,938</b>	<b>13,233</b>	<b>15,522</b>	<b>18,143</b>	<b>(C) Measures of Financial Status</b>				
<b>Applications of Funds</b>					Net Debt / Equity (x)	0.2	(0.1)	(0.2)	(0.2)
<b>Net Block</b>	<b>4,961</b>	<b>5,299</b>	<b>5,694</b>	<b>6,004</b>	Interest Coverage (x)	21.8	33.3	43.6	152.7
<b>Intangibles</b>	<b>421</b>	<b>421</b>	<b>421</b>	<b>421</b>	Average Cost Of Debt (%)	2.8	4.4	4.2	1.5
Capital Work in Progress	92	92	92	92	Debtors Period (days)	128	102	96	102
<b>Investments</b>	<b>582</b>	<b>782</b>	<b>882</b>	<b>982</b>	Fixed Assets Turnover (x)	3.0	4.2	4.6	5.2
<b>Current Assets, Loans &amp; Advances</b>					Working Capital Turnover (x)	3.9	3.4	3.2	3.0
Sundry Debtors	4,380	5,260	6,510	8,160	Non Cash Working Capital (₹ Mn)	2,407	2,937	3,687	4,837
Cash and Bank Balance	1,473	3,701	4,745	5,806	<b>(D) Measures of Investment</b>				
Loans and Advances	1,452	1,502	1,552	1,602	EPS (₹)	8.2	11.3	14.0	15.7
<i>sub total</i>	<i>7,305</i>	<i>10,464</i>	<i>12,808</i>	<i>15,568</i>	CEPS (₹)	10.7	13.7	16.6	19.1
<b>Less : Current Liabilities &amp; Provisions</b>					DPS (₹)	0.7	0.8	0.8	0.8
Current Liabilities	2,820	2,157	2,707	3,257	Dividend Payout (%)	8.6	7.1	5.7	5.1
Provisions	605	1,669	1,669	1,669	Book Value (₹)	40.0	57.9	70.9	85.7
<i>sub total</i>	<i>3,425</i>	<i>3,825</i>	<i>4,375</i>	<i>4,925</i>	RoANW (%)	22.1	23.7	21.7	20.1
Net Current Assets	3,880	6,639	8,433	10,643	RoACE (%)	20.2	27.8	25.5	24.5
<b>Total Assets</b>	<b>9,938</b>	<b>13,233</b>	<b>15,522</b>	<b>18,143</b>	RoAIC (%) (Excl Cash & Invest.)	27.6	38.8	39.3	38.8
E-estimates					<b>(E) Valuation Ratios</b>				
					CMP (₹)	112	112	112	112
					P/E (x)	13.7	9.9	8.0	7.1
					Market Cap. (₹ Mn.)	19,930	21,381	21,381	21,381
					MCap/ Sales (x)	1.3	0.9	0.8	0.7
					EV (₹ Mn.)	20,687	19,084	17,740	16,379
					EV/Sales (x)	1.4	0.8	0.7	0.5
					EV/EBDITA (x)	9.5	5.2	4.3	3.4
					P/BV (x)	2.8	1.9	1.6	1.3
					Dividend Yield (%)	0.6	0.7	0.7	0.7
					E-estimates				

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**CMP: ₹ 694**

**Target Price: ₹ 765**

**Accumulate**

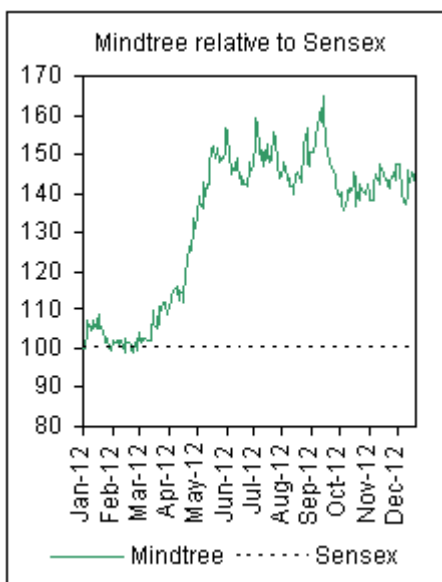
BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 400mn
Face Value	₹ 10/-
Market Cap	₹ 28bn
	USD 512mn
52 week High / Low	₹ 762 / 372
Avg. Volume (no)	128,302
BSE Code	532819
NSE Symbol	MINDTREE
Bloomberg Code	MTCL IN
Reuters Code	MINT.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	19.47
MF/Banks/FIs	9.76
FII's	23.25
Public / Others	47.52



### Consistent inconsistency

**Cut in outlook:** Management has cut its outlook from NASSCOM growth to less than 11% growth for revenues in FY13 in USD terms, inline with our expectations. We believe achieving a double digit revenue growth is also daunting and holds the risk of a further cut. Management believes they expect better H2 (rare historically) in view of its stage of discussions on various large deals (6 deal all USD 20mn+) in pipeline.

**OPM sustenance holds risk:** Mindtree has witnessed 700bps improvement in OPM over FY12 driven by efficiency and Fx gains, sustenance of which we believe holds risk in view of soft revenue growth and ' appreciation. We have build in 110bps decline in OPM systemically over next 6 quarters.

**Strategy dicey:** It has devised various strategies to boost up its growth but has not delivered consistently and changed track often. It started business of white label handset and then sold the assets in 2010. It later on emphasized on PES segment but is now witnessing slower demand in the segment PES Revenue grew just 1% CQGR in last 6 quarters (tough peers on confident on the business). We believe it does not possess any specific niche strength or business focus to drive its revenues in coming period.

**Large deal missing:** Mindtree has wide service offering across several vertical but has not been able to crack large multi-million dollar deals. It has just 100mn dollar client in its portfolio as compared for its peers who are witnessing traction driven by large deal signings. It has replicated model of other large IT companies but has not performed to potential owing to integration and other company specific issues.

**View:** Cut in revenue forecast, high expectancy from H2 and risk on OPM sustenance leads to lowering in our confidence on the stock despite economical valuations. Thus, we maintain our sector underperformer (among small cap stocks) on the stock with a Target price of ₹ 765 valued at 8.5x of FY15E earnings (inline with current 1 year forward valuations).

### Dolat 3 point analysis

Growth Visibility	Low in medium term
Differentiations/niche	Niche capabilities in PES, Testing
Key triggers for future growth	Uptick in discretionary spends, Large deal wins
Risk & concerns	Weak future strategy, management decision making

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY12	19,127	26.8	2,262	11.8	2,226	11.6	55.4	116.8	12.5	25.4	28.7
FY13E	23,494	22.8	4,219	18.0	3,123	13.3	77.6	40.2	8.9	27.8	40.6
FY14E	26,046	10.9	4,391	16.9	3,308	12.7	81.1	4.4	8.6	23.4	32.9
FY15E	28,888	10.9	4,835	16.7	3,687	12.8	90.4	11.4	7.7	21.3	28.4

Figures in ₹ mn

## Company Description

Mindtree is a mid Tier IT player founded in 1999 with multi service offering covering both IT Services (ADM) and R&D services (OPD, testing and maintenance) for its 230+ clients across verticals. It has a total employee count of over 11,000 with over 80% efforts based in offshore locations.

## Quarterly Operating Metrics:

Mindtree	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Revenues (USD mn)	85	86	93	101	104	105	106	107
QoQ(%)	3.5	1.2	7.3	9.5	2.3	1.3	0.4	1.7
Revenues	3848	3912	4118	4555	5197	5257	5611	5940
QoQ(%)	0.1	1.7	5.3	10.6	14.1	1.2	6.7	5.9
EBIT	243	256	305	416	724	817	975	1119
Q0Q(%)	-10.1	5.3	19.1	36.4	74.0	12.8	19.3	14.8
PAT	304	320	376	555	606	689	860	681
Q0Q(%)	30.8	5.3	17.5	47.6	9.2	13.7	24.8	-20.8

### Profitability

EBIT Margin (%)	6.3	6.5	7.4	9.1	13.9	15.5	17.4	18.8
PAT Margin(%)	7.9	8.2	9.1	12.2	11.7	13.1	15.3	11.5
Tax Rate (%)	9.8	9.9	13.2	16.4	17.4	16.5	16.2	23.2

### Key Operating Metrics

Volume Growth (%)	-0.1	2.0	6.2	5.9	-0.8	5.1	0.2	1.0
Pricing Growth (%)	-0.4	9.3	-0.3	1.0	3.5	3.5	-3.6	0.4
Net Employee Additions	87	-124	30	1003	354	66	-170	53
Client Addition	30	39	25	15	9	6	19	11
Utilisation (%)	69	71	73	71	68	68	69	72

INCOME STATEMENT					CASH FLOW				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Net Sales</b>	<b>19,127</b>	<b>23,494</b>	<b>26,046</b>	<b>28,888</b>	<b>Profit before tax</b>	2,656	3,922	4,296	4,785
Total Income	19,127	23,494	26,046	28,888	Depreciation & w.o.	341	0	0	0
<b>Total Expenditure</b>	<b>16,524</b>	<b>19,275</b>	<b>21,655</b>	<b>24,053</b>	Net Interest Expense	275	354	270	100
Cost of Revenues	12,617	14,836	16,602	18,448	Direct taxes paid	430	799	988	1,098
SG&A	3,907	4,438	5,053	5,604	Chg in Working Capital	(180)	(40)	128	(180)
<b>EBIDTA (Excl. Other Income)</b>	<b>2,603</b>	<b>4,219</b>	<b>4,391</b>	<b>4,835</b>	<b>(A) CF from Operating Activities</b>	<b>2,662</b>	<b>3,437</b>	<b>3,706</b>	<b>3,607</b>
Depreciation	341	0	0	0	Capex {Inc./ (Dec.) in FA n WIP}	(1,800)	(1,250)	(1,350)	(1,600)
<b>EBIT</b>	<b>2,262</b>	<b>4,219</b>	<b>4,391</b>	<b>4,835</b>	Inc./ (Dec.) in Investments	(450)	(500)	(200)	(200)
Other Income	269	346	270	100	<b>(B) CF from Investing Activities</b>	<b>(2,250)</b>	<b>(1,750)</b>	<b>(1,550)</b>	<b>(1,800)</b>
Interest	6	8	0	0	Issue of Equity/ Preference	0	0	0	0
<b>PBT</b>	<b>2,525</b>	<b>4,557</b>	<b>4,661</b>	<b>4,935</b>	Inc./ (Dec.) in Debt	(12)	(52)	0	0
Tax Expenses	430	799	988	1,098	Interest exp net	(263)	(338)	(270)	(100)
<b>Net Profit</b>	<b>1,964</b>	<b>4,393</b>	<b>4,038</b>	<b>3,987</b>	Dividend Paid (Incl. Tax)	(188)	(281)	(304)	(304)
<b>BALANCE SHEET</b>					<b>(C) Cash Flow from Financing</b>	<b>(463)</b>	<b>(671)</b>	<b>(574)</b>	<b>(404)</b>
<b>Particulars</b>	<b>Mar12</b>	<b>Mar13E</b>	<b>Mar14E</b>	<b>Mar15E</b>	Net Change in Cash	(51)	1,016	1,582	1,403
<b>Sources of Funds</b>					Opening Cash balances	459	408	1,424	3,006
Equity Capital	400	400	400	400	Closing Cash balances	408	1,424	3,006	4,409
Other Reserves	9,400	12,252	15,256	18,639	E-estimates				
<b>Net Worth</b>	<b>9,800</b>	<b>12,653</b>	<b>15,656</b>	<b>19,039</b>	<b>IMPORTANT RATIOS</b>				
<b>Loan Funds</b>	<b>46</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>Particulars</b>	<b>Mar12</b>	<b>Mar13E</b>	<b>Mar14E</b>	<b>Mar15E</b>
<b>Total Capital Employed</b>	<b>9,846</b>	<b>12,653</b>	<b>15,656</b>	<b>19,039</b>	<b>(A) Measures of Performance (%)</b>				
<b>Applications of Funds</b>					<b>Contribution Margin</b>				
Gross Block	7,424	8,674	10,024	11,624	EBIDTA Margin (excl. O.I.)	13.6	18.0	16.9	16.7
Less: Accumulated Depreciation	2,959	2,959	2,959	2,959	EBIT Margin	11.8	18.0	16.9	16.7
<b>Net Block</b>	<b>4,465</b>	<b>5,715</b>	<b>7,065</b>	<b>8,665</b>	Tax/PBT	17.0	17.5	21.2	22.3
Other Non Current Assets	28	28	28	28	Net Profit Margin	10.3	18.7	15.5	13.8
<b>Investments</b>	<b>1,562</b>	<b>2,062</b>	<b>2,262</b>	<b>2,462</b>	<b>(B) As Percentage of Net Sales</b>				
<b>Current Assets, Loans &amp; Advances</b>					Cost of revenues	66.0	63.1	63.7	63.9
Sundry Debtors	3,275	4,175	5,450	6,900	SG&A	20.4	18.9	19.4	19.4
Cash and Bank Balance	408	1,425	3,006	4,409	<b>(C) Measures of Financial Status</b>				
Loans and Advances	2,656	2,856	2,856	2,856	Debtors Period (days)	62	65	76	87
<i>sub total</i>	6,339	8,456	11,312	14,165	Fixed Assets Turnover (x)	4.3	4.1	3.7	3.3
<b>Less : Current Liabilities &amp; Provisions</b>					Working Capital Turnover (x)	5.0	4.8	4.1	3.7
Current Liabilities	2,548	3,608	5,011	6,281	Non Cash W Capital (Rs Mn)	3,383	3,423	3,295	3,475
Net Current Assets	3,791	4,848	6,301	7,884	<b>(D) Measures of Investment</b>				
<b>Total Assets</b>	<b>9,846</b>	<b>12,653</b>	<b>15,656</b>	<b>19,039</b>	EPS (Rs.)	55.4	77.6	81.1	90.4
E-estimates					DPS (Rs.)	4.0	6.0	6.4	6.4
					Dividend Payout (%)	8.4	9.0	9.2	8.3
					Book Value (Rs.)	244	314	384	467
					RoANW (%)	22.4	39.1	28.5	23.0
					RoACE (%)	23.0	33.3	28.0	25.4
					RoAIC (%) (Excl Cash & Invest.)	23.8	38.0	33.3	30.9
					<b>(E) Valuation Ratios</b>				
					CMP (₹)	694	694	694	694
					P/E (x)	12.5	8.9	8.6	7.7
					Market Cap. (₹ Mn.)	27,894	27,922	28,317	28,317
					MCap/ Sales (x)	1.5	1.2	1.1	1.0
					EV (₹ Mn.)	25,970	24,435	23,048	21,446
					EV/Sales (x)	1.4	1.0	0.9	0.7
					EV/EBIT (x)	11.5	5.8	5.2	4.4
					P/BV (x)	2.8	2.2	1.8	1.5
					E-estimates				

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**CMP: ₹ 380**

**Target Price: ₹ 400**

**Accumulate**

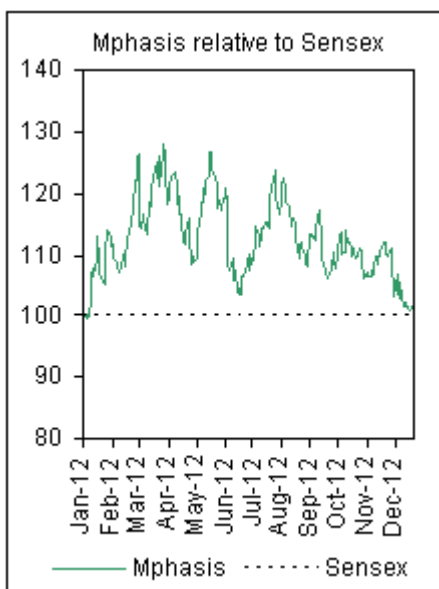
BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 2101mn
Face Value	₹ 10/-
Market Cap	₹ 80bn
	USD 1465mn
52 week High / Low	₹ 439 / 295
Avg. Volume (no)	166635
BSE Code	526299
NSE Symbol	MPHISIS
Bloomberg Code	MPHL IN
Reuters Code	MBFL.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	60.50
MF/Banks/FIs	5.22
FII's	23.29
Public / Others	10.99



### HP: Boon or Bane

**Organic growth remains cautious:** It has sounded out strong outlook of 1.5x of market growth for its direct channel but maintain negative stance on HP Enterprise revenues. We believe the overall outlook to be bleak even after consolidating Digital Risk acquisition owing to sustained revenue fall in the HP revenues.

**Acquires Digital Risk:** Mphasis has acquired US based Risk, Compliance and Transaction management solution company; Digital Risk for a total EV of USD 202mn. Digital Risk employs about 1500 US based professionals and serve about 25-30 clients in the retail mortgage industry. The company has turnover of USD 127mn and Adj EBITDA margin of 12.2%. 3 year Revenue CAGR is 70%. It has license for 46 states in US and offer services across mortgage life cycle – Safe Act, Dodd Frank, Harp 2.0, MHA. We believe the deal actually brings in the much needed sales momentum to the company (2 yr Rev CAGR of 5%) but the deal is very expensive and EPS dilutive.

**Road Ahead:** It plans to grow direct channel and to gain industry leadership in chosen vertical – BFSI and Healthcare. It wishes to generate 20% of revenues to be solution driven and to maintain 15-18% OPM and reinvest the surplus. All incremental investments would be made in emerging services and specific niche spaces.

**Building on Analytics:** It is working on to possess strong capabilities in Advanced Analytics (unstructured data analytics such as Web 2.0) area that is likely to grow at 20% CAGR over 2011-15E (Source: Forrester). Mphasis to focus on claims analytics, customer analytics, contact centre analytics and predictive campaign analytics.

**View:** Maintain underperformer rating despite attractive valuations (8.5x on its FY14E Oct EPS) owing to dismal financial performance and sustained weak demand from HP (55% of the revenues).

### Dolat 3 point analysis

Growth Visibility	Low in near term
Differentiations/niche	BFSI, Healthcare, Advance Analytics
Key triggers for future growth	Advanced Analytics
Risk & concerns	Sustained decline in HP business

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY11	50,980	1.2	8,294	16.3	8,218	16.1	39.1	(24.7)	9.7	22.8	25.0
FY12	53,573	5.1	8,766	16.4	7,923	14.8	37.7	(3.6)	10.1	19.1	19.6
FY13E	56,857	6.1	9,211	16.2	8,363	14.7	39.8	5.6	9.5	17.8	18.3
FY14E	64,211	12.9	10,402	16.2	9,357	14.6	44.6	11.9	8.5	17.5	18.3

Figures in ₹ mn

## Company Description

Mphasis consistently delivers Applications services, Infrastructure services, and Business Process Outsourcing (BPO) services globally through a combination of technology knowhow, domain and process expertise. It services clients in BFSI, Manufacturing, Communications, Media & Entertainment, Healthcare, Transportation, Retail & CPG and Energy & Utilities around the world. It scaled up in FY08 as EDS India merged its India operation post the acquisition of Mphasis and managed a billion dollar mark in 2010 as it gained from ITO opportunity from parent, HP. However; the momentum has lost since then and the company seem struck revisiting its plan to grow as HP (55% of revenues) continues its downward spiral in its outsourcing to Mphasis.

## Quarterly Operating Metrics:

<b>Mphasis</b>	<b>Q1 11</b>	<b>Q2 11</b>	<b>Q3 11</b>	<b>Q4 11</b>	<b>Q1 12</b>	<b>Q2 12</b>	<b>Q3 12</b>	<b>Q4 12</b>
Revenues (USD mn)	271	282	290	293	295	266	247	241
QoQ(%)	-8.4	4.1	2.8	1.1	#REF!	-9.8	-7.1	-2.6
Revenues (INR mn)	12164	12461	12937	13138	13672	13289	13551	13062
QoQ(%)	-9.6	2.4	3.8	1.6	4.1	-2.8	2.0	-3.6
EBIT (INR mn)	2574	2407	2077	1937	2054	2159	2260	2293
QOQ(%)	-19.7	-6.5	-13.7	-6.7	6.1	5.1	4.7	1.5
PAT (INR mn)	2267	2173	1948	1830	1516.9	1363.3	1209.7	1056.1
QOQ(%)	-20.2	-4.1	-10.4	-6.1	-17.1	-10.1	-11.3	-12.7
<b>Profitability</b>								
EBIT Margin (%)	21.2	19.3	16.1	14.7	15.0	16.2	16.7	17.6
PAT Margin(%)	18.6	17.4	15.1	13.9	11.1	10.3	8.9	8.1
Tax Rate (%)	18.4	17.3	15.1	13.9	10.68	9.11	7.54	5.97
<b>Key Operating Metrics</b>								
Net Employee Additions	1069	644	-474	-856	-1613	-119	458	-1008
Client Addition	18	30	27	25	28	18	24	22
Utilisation (%)	0.0	76.2	75.4	81.0	79.2	81.4	82.0	84.8

INCOME STATEMENT					CASH FLOW				
Particulars	Oct11	Oct12	Oct13E	Oct14E	Particulars	Oct11	Oct12	Oct13E	Oct14E
<b>Net Sales</b>	50,980	53,573	56,857	64,211	<b>Profit before tax</b>	10,046	10,279	10,861	12,152
Total Income	50,980	53,573	56,857	64,211	Depreciation & w.o.	1,551	(373)	0	0
<b>Total Expenditure</b>	<b>41,135</b>	<b>44,807</b>	<b>47,646</b>	<b>53,809</b>	Net Interest Exp	(1,136)	0	0	0
COR	36,977	39,791	42,358	47,709	Direct taxes paid	1,828	2,356	2,498	2,795
G&A	1,839	2,134	2,331	2,825	Chg in Working Capital	1,027	3,818	(1,600)	(2,625)
S&M	2,319	2,882	2,957	3,275	<b>(A) CF from Opt Activities</b>	<b>9,660</b>	<b>11,368</b>	<b>6,763</b>	<b>6,732</b>
<b>EBIDTA</b>	<b>9,845</b>	<b>8,766</b>	<b>9,211</b>	<b>10,402</b>	Capex {Inc./ (Dec.) in FA n WIP}	4,923	608	3,000	3,000
Depreciation	1,551	0	0	0	<b>Free Cash Flow</b>	<b>4,737</b>	<b>10,760</b>	<b>3,763</b>	<b>3,732</b>
<b>EBIT</b>	<b>8,294</b>	<b>8,766</b>	<b>9,211</b>	<b>10,402</b>	Inc./ (Dec.) in Investments	3,165	7,427	2,500	3,500
Other Income	1,801	1,513	1,650	1,750	<b>(B) CF from Investing Activities</b>	<b>8,088</b>	<b>8,035</b>	<b>5,500</b>	<b>6,500</b>
Interest	49	0	0	0	Issue of Equity/ Preference	1	1	0	0
<b>PBT</b>	<b>10,046</b>	<b>10,279</b>	<b>10,861</b>	<b>12,152</b>	Inc./ (Dec.) in Debt	0	353	0	0
Tax Expenses	1,828	2,356	2,498	2,795	Interest exp net	1,136	1,807	0	0
<b>Net Profit</b>	<b>8,218</b>	<b>7,923</b>	<b>8,363</b>	<b>9,357</b>	Dividend Paid (Incl. Tax)	1,597	4,179	2,458	2,458
<b>BALANCE SHEET</b>					<b>(C) Cash Flow from Financing</b>	<b>(460)</b>	<b>(2,018)</b>	<b>(2,458)</b>	<b>(2,458)</b>
<b>Particulars</b>	<b>Oct11</b>	<b>Oct12</b>	<b>Oct13E</b>	<b>Oct14E</b>	Net Change in Cash	1,112	1,315	(1,195)	(2,226)
<b>Sources of Funds</b>					Opening Cash balances	1,784	2,896	4,211	3,016
Equity Capital	2,100	2,101	2,101	2,101	Closing Cash balances	2,896	4,211	3,016	790
Share premium	0	41,946	47,851	54,750	E-estimates				
Other Reserves	36,898	0	0	0	<b>IMPORTANT RATIOS</b>				
<b>Net Worth</b>	<b>38,998</b>	<b>44,047</b>	<b>49,952</b>	<b>56,851</b>	<b>Particulars</b>	<b>Oct11</b>	<b>Oct12</b>	<b>Oct13E</b>	<b>Oct14E</b>
Unsecured Loans	2,946	3,299	3,299	3,299	<b>(A) Measures of Performance (%)</b>				
<b>Loan Funds</b>	<b>2,946</b>	<b>3,299</b>	<b>3,299</b>	<b>3,299</b>	<b>Contribution Margin</b>				
Deferred Tax Liability	0	0	0	0	Gross Profit Margin	80.7	83.6	83.8	83.8
<b>Total Capital Employed</b>	<b>41,944</b>	<b>47,346</b>	<b>53,251</b>	<b>60,150</b>	EBIDTA Margin	19.3	16.4	16.2	16.2
<b>Applications of Funds</b>					Tax/PBT	18.2	22.9	23.0	23.0
<b>Gross Block</b>	<b>11,339</b>	<b>11,401</b>	<b>14,201</b>	<b>17,001</b>	Net Profit Margin	16.1	14.8	14.7	14.6
Less: Accumulated Depreciation	8,495	9,041	9,041	9,041	<b>(B) As Percentage of Net Sales</b>				
<b>Net Block</b>	<b>2,844</b>	<b>2,360</b>	<b>5,160</b>	<b>7,960</b>	COR	72.5	74.3	74.5	74.3
Capital Work in Progress	102	150	350	550	G&A	3.6	4.0	4.1	4.4
Goodwill	8,698	9,612	9,612	9,612	S&M	4.5	5.4	5.2	5.1
<b>Investments</b>	<b>17,765</b>	<b>25,192</b>	<b>27,692</b>	<b>31,192</b>	<b>(C) Measures of Financial Status</b>				
<b>Current Assets, Loans &amp; Advances</b>					Debtors Period (days)	94	82	88	89
Sundry Debtors	13,072	12,102	13,752	15,652	Fixed Assets Turnover (x)	0.2	0.2	0.2	0.3
Cash and Bank Balance	2,896	4,211	3,016	790	Working Capital Turnover (x)	0.2	0.2	0.2	0.2
Loans and Advances	9,641	6,652	7,152	7,952	Non Cash Working Capital (₹ Mn)	9,639	5,821	7,421	10,046
Other Current Assets	1	5	655	1,925	<b>(D) Measures of Investment</b>				
<i>sub total</i>	25,610	22,970	24,575	26,319	EPS (₹)	39.1	37.7	39.8	44.6
<b>Less : Current Liabilities &amp; Provisions</b>					DPS (₹)	6.5	17.0	10.0	10.0
Current Liabilities	13,075	12,938	14,138	15,483	Cash per share	98.4	140.1	146.3	152.3
<i>sub total</i>	13,075	12,938	14,138	15,483	Dividend Payout (%)	16.6	45.1	25.1	22.5
Net Current Assets	12,535	10,032	10,437	10,836	Profit Ploughback (%)	83.4	54.9	74.9	77.5
<b>Total Assets</b>	<b>41,944</b>	<b>47,346</b>	<b>53,251</b>	<b>60,150</b>	Book Value (₹)	185.8	209.8	237.9	270.8
E-estimates					RoANW (%)	22.8	19.1	17.8	17.5
					RoACE (%)	25.0	19.6	18.3	18.3
					<b>(E) Valuation Ratios</b>				
					CMP (₹)	380	380	380	380
					P/E (x)	9.7	10.1	9.5	8.5
					Market Cap. (₹ Mn.)	79,800	79,838	79,838	79,838
					MCap/ Sales (x)	1.6	1.5	1.4	1.2
					EV (₹ Mn.)	62,085	53,734	52,429	51,155
					EV/Sales (x)	1.2	1.0	0.9	0.8
					EV/EBDITA (x)	6.3	6.1	5.7	4.9
					P/BV (x)	2.0	1.8	1.6	1.4
					Dividend Yield (%)	1.7	4.5	2.6	2.6
					E-estimates				

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**CMP: ₹ 270**

**Target Price: ₹ 365**

**Buy**

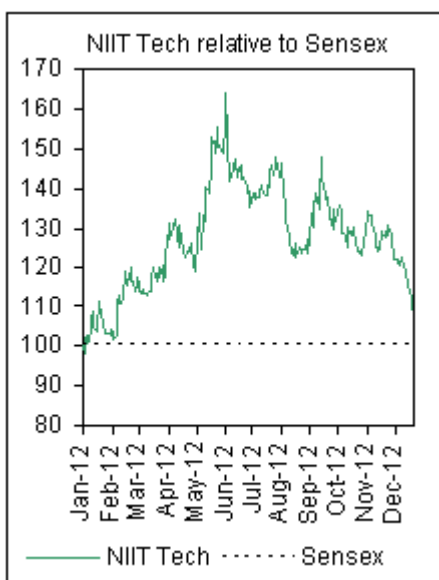
BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 596mn
Face Value	₹ 10/-
Market Cap	₹ 16bn
	USD 297mn
52 week High / Low	₹ 325 / 166
Avg. Volume (no)	89217
BSE Code	532541
NSE Symbol	NIITTECH
Bloomberg Code	NITEC IN
Reuters Code	NITT.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	31.37
MF/Banks/FIs	17.24
FIIIs	27.09
Public / Others	24.30



### Solace in visibility

**Comforting Visibility:** The biggest comfort in NIIT Tech is its fast growing and healthy order book of about USD 250mn+ (up % YoY) executable over next twelve month. It has added about USD 176mn in H1 and commentary exudes confidence of exceeding NASSCOM guidance of industry growth at 11-14% for FY13. Historically, it has achieved over 1.8x of its NTM forward order position and our revenue estimate of USD 366mn imply about 1.5x of its FY12 closing order book position.

**Strong Domain capability:** It has carved its niche positioning by developing niche capabilities in various segments of transportation industry (airlines, surface transport, Airports and travel & distribution companies) and insurance vertical (Life, P&C, Reinsurance). It has a strong repository of solutions and platforms for these industry viz, Cosys (Cargo handling), Monalisa (Airline accounting & analytics), Subscribe (Insurance & reinsurance), Exact (GIS), IPF3 (Insurance framework) and others.

**Sales team beefed up:** It has boosted its sales strength by over 25% in last two years including top hires from large peers (HCL, TCS, Wipro) to target large deals in its niche segment. Its million dollar client count has double from 33 in Jun'10 to 67 at the end of current quarter.

**Outlook strong with margin concerns:** Management sounds confident on the outlook but sees some pressure on profitability considering certain onetime cost such as transition cost of Sabre Manila center acquisition, hardware component in the CCTNS deal and stable to declining pricing outlook. We believe currency tailwinds and volume growth would provide cushion against most of these pressures and would support OPM in the narrow band of 14-15% in FY13-14E.

**View:** We believe NIIT Tech perfectly fits in our criteria of differentiation model with business visibility perfectly and thus we reiterate our positive view with a Buy rating and TP of ₹ 365 valued at 8x of its FY15E EPS of ₹ 46. Historically, it has been trading at a lower multiple in the midcap space owing to its inconsistent growth in past, which we believe would fade away and thus could lead to even higher price performance.

### Dolat 3 point analysis

Growth Visibility	High
Differentiations/niche	Insurance, Travel vertical; Solutions led model
Key triggers for future growth	Large deal wins, IP led revenues
Risk & concerns	Poor cash /margin generation in govt projects

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY12	15,764	27.9	2,319	14.7	1,971	12.5	33.2	7.3%	8.1	23.5	27.3
FY13E	19,809	25.7	2,837	14.3	2,166	10.9	36.1	8.7	7.5	21.7	28.0
FY14E	23,107	16.6	3,117	13.5	2,430	10.5	40.5	12.1	6.7	20.8	26.4
FY15E	27,216	17.8	3,628	13.3	2,762	10.2	46.0	13.7	5.9	20.3	26.4

Figures in ₹ mn

## Company Description

NIIT Tech is leading provider of Services and solutions in US, Europe and Asia Pacific markets employing over 7600 IT personnel. It offers its wide service offerings of ADM, BPO, enterprise solutions, IP assets, managed services to it's over 68 mn\$ clients. It has carved its niche by focusing in specific verticals such as Transportation, Insurance, Manufacturing and Government sector.

## Quarterly Operating Metrics:

<b>NIIT Tech</b>	<b>Q3 11</b>	<b>Q4 11</b>	<b>Q1 12</b>	<b>Q2 12</b>	<b>Q3 12</b>	<b>Q4 12</b>	<b>Q1 13</b>	<b>Q2 13</b>
Revenues (USD mn)	67	70	74	82	85	89	88	90
QoQ(%)	-10.7	4.7	5.9	11.7	3.6	3.9	-1.1	2.6
Revenues	3006	3157	3288	3711	4330	4435	4696	5001
QoQ(%)	-7.4	5.0	4.1	12.9	16.7	2.4	5.9	6.5
EBIT	552	555	531	467	688	633	625	710
Q0Q(%)	6.0	0.5	-4.3	-12.1	47.3	-8.0	-1.3	13.6
PAT	478	500	412	458	640	461	575.4	431
Q0Q(%)	9.9	4.6	-17.6	11.2	39.7	-28.0	24.8	-25.1
<b>Profitability</b>								
EBIT Margin (%)	18.4	17.6	16.1	12.6	15.9	14.3	13.3	14.2
PAT Margin(%)	15.9	15.8	12.5	12.3	14.8	10.4	12.3	8.6
Tax Rate (%)	16	11	26	26	26	19	29	25
<b>Key Operating Metrics</b>								
Order intake (USD mn)	50	116	86	200	75	92	83	93
Executable in 12M	137	169	200	232	245	243	240	253
Net Employee Additions	364	448	459	468	245	384	82	173
Utilisaiton (%)	84.4	83.6	80.0	82.5	80.2	79.0	78.5	79.8

INCOME STATEMENT					CASH FLOW				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Net Sales</b>	<b>15,764</b>	<b>19,809</b>	<b>23,107</b>	<b>27,216</b>	<b>Profit before tax</b>	2,601	3,045	3,383	3,888
Total Income	15,764	19,809	23,107	27,216	Depreciation & w.o.	364	537	589	660
<b>Total Expenditure</b>	<b>13,081</b>	<b>16,435</b>	<b>19,401</b>	<b>22,928</b>	Net Interest Expense	0			
COR	9,876	12,691	14,780	17,549	Direct taxes paid	(637)	(828)	(880)	(1,050)
SG&A	3,205	3,744	4,621	5,379	Chg in Working Capital (Non Cash)	(321)	(225)	(1,185)	(1,245)
<b>EBIDTA</b>	<b>2,683</b>	<b>3,374</b>	<b>3,705</b>	<b>4,288</b>	<b>(A) CF from Opt. Activities</b>	<b>2,007</b>	<b>2,529</b>	<b>1,907</b>	<b>2,253</b>
Depreciation	364	537	589	660	Capex	(903)	(1,500)	(1,200)	(900)
<b>EBIT</b>	<b>2,319</b>	<b>2,837</b>	<b>3,117</b>	<b>3,628</b>	Inc./ (Dec.) in Investments	(106)	(25)	(25)	(35)
Other Income	282	208	267	260	<b>(B) CF from Investing Activities</b>	<b>(1,009)</b>	<b>(1,525)</b>	<b>(1,225)</b>	<b>(935)</b>
Profit Before Tax & EO Items	2,601	3,045	3,383	3,888	Issue of Equity/ Preference	4	0	0	0
Tax Expenses	637	828	880	1,050	Inc./ (Dec.) in Debt	16	0	0	0
Net Profit bfr MI	1,964	2,217	2,504	2,838	Dividend Paid (Incl. Tax)	(554)	(625)	(625)	(660)
Minority Interest	(7)	51	74	76	Others	566	(51)	(74)	(76)
<b>Net Profit</b>	<b>1,971</b>	<b>2,166</b>	<b>2,430</b>	<b>2,762</b>	<b>(C) Cash Flow from Financing</b>	<b>31</b>	<b>(676)</b>	<b>(699)</b>	<b>(736)</b>
<b>BALANCE SHEET</b>					Net Change in Cash	1,029	328	(17)	582
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Opening Cash balances	1,194	2,223	2,550	2,533
<b>Sources of Funds</b>					Closing Cash balances	2,223	2,550	2,533	3,115
Equity Capital	596	596	596	596	E-estimates				
Share premium	8,626	8,626	8,626	8,626	<b>IMPORTANT RATIOS</b>				
Other Reserves	0	1,540	3,345	5,447	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Net Worth</b>	<b>9,222</b>	<b>10,762</b>	<b>12,567</b>	<b>14,669</b>	<b>(A) Measures of Performance (%)</b>				
Secured Loans	67	63	63	63	<b>Contribution Margin</b>				
Unsecured Loans	59	62	62	62	EBIDTA Margin	17.0	17.0	16.0	15.8
<b>Loan Funds</b>	<b>126</b>	<b>126</b>	<b>126</b>	<b>126</b>	EBIT Margin	14.7	14.3	13.5	13.3
Deferred Tax Liability	0	0	0	0	Tax/PBT	24.5	27.2	26.0	27.0
<b>Total Capital Employed</b>	<b>9,348</b>	<b>10,888</b>	<b>12,692</b>	<b>14,795</b>	Net Profit Margin	12.5	10.9	10.5	10.2
<b>Applications of Funds</b>					<b>(B) As Percentage of Net Sales</b>				
<b>Net Block</b>	<b>2,866</b>	<b>3,829</b>	<b>4,441</b>	<b>4,681</b>	Employee Expenses	62.6	64.1	64.0	64.5
<b>Intangibles</b>	<b>1,365</b>	<b>1,365</b>	<b>1,365</b>	<b>1,365</b>	SG&A Expenses	20.3	18.9	20.0	19.8
Capital Work in Progress	2	2	2	2	<b>(C) Measures of Financial Status</b>				
<b>Investments</b>	<b>549</b>	<b>574</b>	<b>599</b>	<b>634</b>	Net 'Debt / Equity (x)	(0.2)	(0.2)	(0.2)	(0.2)
<b>Current Assets, Loans &amp; Advances</b>					Debtors Period (days)	86	95	118	131
Inventories	7	7	7	7	Fixed Assets Turnover (x)	3.7	3.8	4.0	4.5
Sundry Debtors	3,315	4,633	6,933	9,033	Working Capital Turnover (x)	3.5	3.9	3.7	3.4
Cash and Bank Balance	2,223	2,550	2,533	3,115	Non Cash Working Capital (₹ Mn)	2,342	2,567	3,752	4,997
Loans and Advances	2,451	1,063	1,183	1,278	<b>(D) Measures of Investment</b>				
Other Current Assets	277	1,721	1,846	1,991	EPS (₹)	33.2	36.1	40.5	46.0
<i>sub total</i>	8,272	9,975	12,503	15,425	DPS (₹)	8.0	8.9	8.9	9.4
<b>Less : Current Liabilities &amp; Provisions</b>					Dividend Payout (%)	24.2	24.8	22.1	20.5
Current Liabilities	2,758	4,857	6,217	7,312	Profit Ploughback (%)	75.8	75.2	77.9	79.5
Provisions	949	0	0	0	Book Value (₹)	155.3	179.4	209.3	244.4
<i>sub total</i>	3,707	4,857	6,217	7,312	RoANW (%)	23.5	21.7	20.8	20.3
Net Current Assets	4,565	5,118	6,286	8,113	RoACE (%)	20.6	20.4	19.6	19.3
<b>Total Assets</b>	<b>9,348</b>	<b>10,888</b>	<b>12,692</b>	<b>14,795</b>	RoAIC (%) (Excl Cash & Invest.)	32.5	34.0	30.7	31.1
E-estimates					<b>(E) Valuation Ratios</b>				
					CMP (₹)	270	270	270	270
					P/E (x)	8.1	7.5	6.7	5.9
					Market Cap. (₹ Mn.)	16,029	16,201	16,208	16,208
					MCap/ Sales (x)	1.0	0.8	0.7	0.6
					EV (₹ Mn.)	13,383	13,203	13,201	12,584
					EV/Sales (x)	0.8	0.7	0.6	0.5
					EV/EBDITA (x)	5.0	3.9	3.6	2.9
					P/BV (x)	1.7	1.5	1.3	1.1
					Dividend Yield (%)	3.0	3.3	3.3	3.5
					E-estimates				

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**CMP: ₹ 493**

**Target Price: ₹ 595**

**Buy**

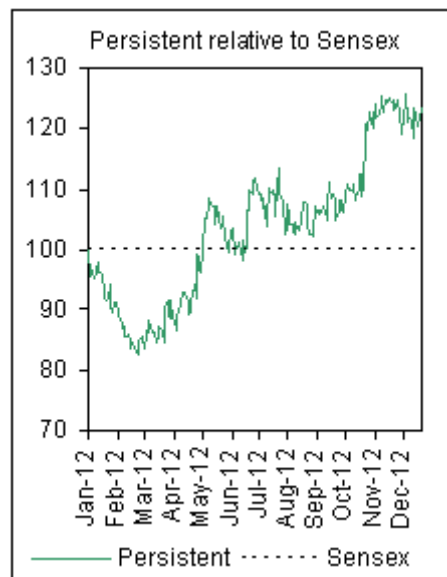
BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 402mn
Face Value	₹ 10/-
Market Cap	₹ 20bn
	USD 364mn
52 week High / Low	₹ 515 / 297
Avg. Volume (no)	73433
BSE Code	533179
NSE Symbol	PERSISTENT
Bloomberg Code	PSYS IN
Reuters Code	PERS.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	38.95
MF/Banks/FIs	32.08
FII's	2.60
Public / Others	26.37



### Breaking Dawn

**PES under penetrated:** It has large opportunity in PES segment considering the current low wallet share in several large account it serves and under-penetration in several upcoming startups (1100 new startups emerged in CY2011 alone). It is currently serving just fraction of the current offering to these large ISVs and has large upsell opportunity.

**IP business growing:** It is building its IP repository through Internal R&D (spends 5% of sales) and acquiring end of lifecycle or non-strategic assets from customers to rebuild and market the IP asset. Its IP revenues have grown at a CAGR of 60% over FY09-12 and offer a non-linear growth opportunity.

**Sell-With:** Partnered with Technology leaders such as Microsoft, IBM, Google, Cisco and others for joint go-to-market efforts for deployment of partner's co-developed products. Thus, it is well placed to benefit from the changing dynamics in favor of next generation technologies as it has engaged with most of the large traditional and emerging (Salesforce, Hadoop) technology giants.

**Wide bandwidth:** It has showcased its wide senior/mid level management team in its Analyst Day, giving loads of confidence on wide management bandwidth. It has been able to attract and retain best in class talent both at entry level (first choice on campus) as well as senior level (Software masters and several Doctorates). It has also expanded the role of these mid tier managers by delegating self driven-low attention accounts to relieve management bandwidth towards hunting of new critical accounts.

**Rcloud:** It has acquired another company in the cloud based disaster management services, Doyenz - with annual revenue run rate of USD 4mn (effective Oct). It expects large opportunity in terms of offering 'backup-as-a-service' to several SMB on its client/partner data centers.

**View:** Remain positive on account of ahead of industry growth, incremental focus on non linear – IP led revenues, sustained profitability outlook and attractive valuation (8x of FY15E Earnings). We maintain our Buy rating with a TP of ₹ 595 valued at 9.5x FY15E EPS of 62.4).

### Dolat 3 point analysis

Growth Visibility	High in near/medium term
Differentiations/niche	End-to-end offering in OPD, Strong Client/partner profile
Key triggers for future growth	Emergence of Cloud/analytics/Mobility/Bigdata
Risk & concerns	Slower adoption of NGT, low bargaining power with partners

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY12	10,003	28.9	1,713	17.1	1,418	14.2	35.4	1.5	13.9	17.6	15.3
FY13E	13,030	30.3	2,738	21.0	2,049	15.7	51.0	43.8	9.7	21.4	20.4
FY14E	14,943	14.7	2,873	19.2	2,193	14.7	54.6	7.0	9.0	19.1	17.9
FY15E	17,224	15.3	3,245	18.8	2,509	14.6	62.4	14.4	7.9	18.6	17.3

Figures in ₹ mn

## Company Description

Persistent Systems is a niche player with strong Product Engineering (PES) capabilities across the entire product lifecycle. They have made early strides in growing and next generation technologies such as Cloud Computing, Business analytics, enterprise mobility, collaboration and Bigdata.

## Quarterly Operating Metrics:

Persistent	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Revenues (USD mn)	43	47	50	52	52	54	55	60
QoQ(%)	6.7	8.8	6.3	3.1	0.3	4.9	1.3	9.4
Revenues	1949	2128	2238	2382	2677	2706	3007	3269
QoQ(%)	4.2	9.2	5.2	6.4	12.4	1.1	11.1	8.7
EBIT	321	262	275	314	537	587	622	701
QOQ(%)	-2.4	-18.6	5.2	14.2	71.1	9.3	5.9	12.7
PAT	361	340	293	324	406	324	416	446
QOQ(%)	2.1	-5.9	-13.9	10.7	25.2	-20.1	28.3	7.4
<b>Profitability</b>								
EBIT Margin (%)	16.5	12.3	13.2	20.1	21.7	21.7	20.7	21.4
PAT Margin(%)	18.5	13.1	13.6	15.2	12.0	12.0	13.8	13.7
Tax Rate (%)	8.2	4.9	31.1	28.2	28.1	25.4	27.7	28.3
<b>Key Operating Metrics</b>								
IP (% of rev)	7.5	10.3	6.1	7.6	9.2	12.1	13.9	18.9
Offshore Pricing Growth (%)	1.8	1.7	1.3	0.0	0.2	3.1	0.1	2.1
Net Employee Additions	179	900	260	280	-194	-78	-92	-166
Utilisation (%)	73.2	73.0	72.7	73.8	74.1	71.7	74.1	77.7

INCOME STATEMENT					CASH FLOW				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Net Sales</b>	10,003	13,030	14,943	17,224	<b>Profit before tax</b>	1,969	2,866	3,067	3,484
<b>Total Expenditure</b>	<b>7,679</b>	<b>9,559</b>	<b>11,190</b>	<b>12,941</b>	Depreciation & w.o.	611	733	880	1,038
Employee Expenses	5,922	7,083	8,650	10,012	Direct taxes paid	551	817	874	976
SG&A	1,757	2,476	2,540	2,928	Chg. in W Capital (Non Cash)	(135)	(120)	(355)	(278)
<b>EBIDTA</b>	<b>2,324</b>	<b>3,471</b>	<b>3,753</b>	<b>4,283</b>	<b>(A) CF from Opt. Activities</b>	<b>1,894</b>	<b>2,662</b>	<b>2,718</b>	<b>3,269</b>
Depreciation	611	733	880	1,038	Capex {Inc./ (Dec) in FA & WIP}	(600)	(900)	(1,100)	(1,675)
<b>EBIT</b>	<b>1,713</b>	<b>2,738</b>	<b>2,873</b>	<b>3,245</b>	Inc./ (Dec.) in Investments	(300)	(500)	(200)	(100)
Other Income	256	128	194	239	Other	(43)			
<b>PBT</b>	<b>1,969</b>	<b>2,866</b>	<b>3,067</b>	<b>3,484</b>	<b>(B) CF from Investing Activities</b>	<b>(943)</b>	<b>(1,400)</b>	<b>(1,300)</b>	<b>(1,775)</b>
Tax Expenses	551	817	874	976	Issue of Equity/ Preference	62	62	0	0
<b>Net Profit</b>	<b>1,418</b>	<b>2,049</b>	<b>2,193</b>	<b>2,509</b>	Inc./ (Dec.) in Debt	(30)	0	0	0
					Dividend Paid (Incl. Tax)	240	281	281	322
					<b>(C) Cash Flow from Financing</b>	<b>(208)</b>	<b>(219)</b>	<b>(281)</b>	<b>(322)</b>
					Net Change in Cash	743	1,043	1,137	1,172
					Opening Cash balances	1,000	1,743	2,786	3,922
					Closing Cash balances	1,743	2,786	3,922	5,094
					E-estimates				
<b>BALANCE SHEET</b>					<b>IMPORTANT RATIOS</b>				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Sources of Funds</b>					<b>(A) Measures of Performance (%)</b>				
Equity Capital	400	402	402	402	<b>Contribution Margin</b>				
Share premium	1,797	1,857	1,857	1,857	EBIDTA Margin	23.2	26.6	25.1	24.9
Other Reserves	6,471	8,239	10,151	12,338	EBIT Margin	17.1	21.0	19.2	18.8
<b>Net Worth</b>	<b>8,668</b>	<b>10,498</b>	<b>12,409</b>	<b>14,596</b>	Tax/PBT	28.0	28.5	28.5	28.0
Deferred Tax Liability	0	0	0	0	Net Profit Margin	14.2	15.7	14.7	14.6
<b>Total Capital Employed</b>	<b>8,668</b>	<b>10,498</b>	<b>12,409</b>	<b>14,596</b>					
					<b>(B) As Percentage of Net Sales</b>				
<b>Applications of Funds</b>					Employee Expenses	59.2	54.4	57.9	58.1
Gross Block	5,343	6,343	7,543	9,218	SG&A	17.6	19.0	17.0	17.0
Less: Accumulated Depreciation	2,892	3,626	4,505	5,544	Depreciation	6.1	5.6	5.9	6.0
<b>Net Block</b>	<b>2,450</b>	<b>2,717</b>	<b>3,037</b>	<b>3,674</b>					
Capital Work in Progress	405	305	205	205	<b>(C) Measures of Financial Status</b>				
<b>Investments</b>	<b>2,800</b>	<b>3,300</b>	<b>3,500</b>	<b>3,600</b>	Fixed Assets Turnover (x)	3.5	4.3	4.6	4.4
<b>Current Assets, Loans &amp; Advances</b>					Working Capital Turnover (x)	3.3	3.1	2.6	2.4
Sundry Debtors	1,892	2,262	3,262	4,385	Non Cash Working Capital (₹ Mn)	1,270	1,390	1,745	2,023
Cash and Bank Balance	1,743	2,786	3,922	5,094					
Loans and Advances	919	994	1,074	1,154	<b>(D) Measures of Investment</b>				
Other Current Assets	326	426	526	626	EPS (₹)	35.4	51.0	54.6	62.4
<i>sub total</i>	4,880	6,468	8,785	11,260	DPS (₹)	6.0	7.0	7.0	8.0
<b>Less : Current Liabilities &amp; Provisions</b>					Dividend Payout (%)	16.9	13.7	12.8	12.8
Current Liabilities	1,867	2,292	3,117	4,142	Book Value (₹)	216.7	261.1	308.7	363.1
<i>sub total</i>	1,867	2,292	3,117	4,142	RoANW (%)	17.6	21.4	19.1	18.6
Net Current Assets	3,013	4,176	5,667	7,117	RoACE (%)	24.4	29.9	26.8	25.8
<b>Total Assets</b>	<b>8,668</b>	<b>10,498</b>	<b>12,409</b>	<b>14,596</b>	RoAIC (%) (Excl Cash & Invest.)	24.7	35.5	33.9	34.2
E-estimates									
					<b>(E) Valuation Ratios</b>				
					CMP (₹)	493	493	493	493
					P/E (x)	13.9	9.7	9.0	7.9
					Market Cap. (₹ Mn.)	19,720	19,819	19,819	19,819
					MCap/ Sales (x)	2.0	1.5	1.3	1.2
					EV (₹ Mn.)	15,177	13,733	12,396	11,124
					EV/Sales (x)	2.0	1.4	1.0	0.7
					EV/EBITDA (x)	6.5	4.0	3.3	2.6
					P/BV (x)	2.3	1.9	1.6	1.4
					Dividend Yield (%)	1.2	1.4	1.4	1.6
					E-estimates				

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**CMP: ₹ 948**

**Target Price: ₹ 1325**

**Buy**

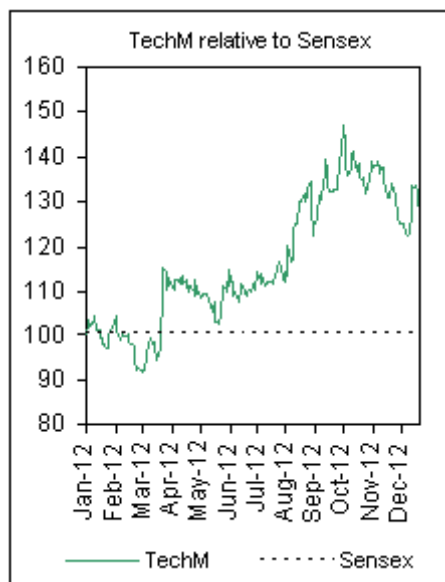
BSE Sensex	19,242
NSE Nifty	5,848

### Scrip Details

Equity	₹ 1275mn
Face Value	₹ 10/-
Market Cap	₹ 121bn
	USD 2218mn
52 week High / Low	₹ 1043 / 556
Avg. Volume (no)	893884
BSE Code	532755
NSE Symbol	TECHM
Bloomberg Code	TECHM IN
Reuters Code	TEML.BO

### Shareholding Pattern as on Sept'12(%)

Promoter	56.68
MF/Banks/FIs	18.68
FIIIs	15.12
Public / Others	9.52



### In Top Gear

**Traction is back:** After successful integration with MSAT, Tech M has been turning for the better on all the right notes. It has announced acquisition of Hutchison captive BPO and 51% stake in Global VAS provider entity, Comviva. It has also inked multi-million USD deals with KPN Dutch Telecom (size about USD 100mn) and other deal with UK based TSP (about USD 70mn).

**Efficiency to flow in:** The combined entity (TechM + MSAT) would gain on efficiency by optimum utilization of resources through better bench management, rationalization of office/centers across the globe and better procurement advantage.

**2+2=5:** The combined entity would enrich in terms of service offerings, geographical presence, large client pool offering cross/up sell opportunities (Clients: TechM 130 ; MSAT 372) and a de-risked model in terms of high client/vertical concentration. MSAT is among top5 Indian vendors with deal pipeline addition in CY12.

**Concerns overcame:** It has overcome most of its concerns with declining BT revenue share, settlement of various claims on Satyam (Unpaid, Aberdeen, Class Action Suit), BT stake sale, high losses turned into profits and client/employee attrition. As most of the concerns already addressed it would start gaining on business traction and better productivity.

**Merger on cards:** Post merger the combined entity would become 6<sup>th</sup> largest Indian IT company with a revenue of over USD 3.5bn, sales growth of 12%+ and EBIT margin of 15%+. With only AP court verdict pending, we believe the stock is all set for a re-rating driven by scale, derisked model and improved operating metrics.

**View:** We have build in modest revenue growth of 11% over FY13-15E and OPM decline of 100bps which we believe is fairly conservative. We believe consensus estimates are quite pessimistic on earning gains post integration and thus would undergo regular upgradation in coming period. We maintain TechM as our top pick in the sector with a TP of ₹ 1325, valued at 10x of its FY15E EPS of ₹ 132.5.

### Dolat 3 point analysis

Growth Visibility	High in near/medium term
Differentiations/niche	Strong niche capabilities, deal momentum in TechM/MSAT
Key triggers for future growth	Uptick in spends in Telecom, Better participation in mega deals
Risk & concerns	Delay in merger, thin top management bandwidth

### Financials

Year	Net Sales	growth(%)	EBIT	OPM(%)	PAT	PAT Mg	EPS(₹)	growth(%)	PER(x)	ROANW(%)	ROACE(%)
FY12	54,897	6.8	7,581	13.8	10,954	20.0	85.9	68.0	11.0	14.5	14.4
FY13E	66,184	20.6	11,405	17.2	13,038	19.7	102.3	19.0	9.3	16.9	19.2
FY14E	74,791	13.0	12,298	16.4	15,054	20.1	118.1	15.5	8.0	16.3	18.7
FY15E	83,379	11.5	14,081	16.9	16,952	20.3	133.0	12.6	7.1	16.8	19.5

Figures in ₹ mn

## Company Description

Tech Mahindra is the largest Indian provider of networking technology solutions and business process outsourcing (BPO) services to the global telecommunications industry. It was formed out as a JV between British Telecom and Mahindra Group and gained on domain capabilities through its alliance with BT. In 2009 it acquired Mahindra Satyam to emerge out as a full service provider across verticals.

## Quarterly Operating Metrics:

Tech Mahindra	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Revenues (USD mn)	269	279	290	296	289	282	281	299
QoQ(%)	-18	4	4	2	-3	-2	-0	6
Revenues	12111	12615	12925	13333	14449	14190	15434	16314
QoQ(%)	-21	4	2	3	8	-2	9	6
EBIT	2151	2203	2083	1535	1953	2009	2881	2896
QoQ(%)	-13	2	-5	-26	27	3	43	1
Core PAT	2055	2065	1804	1388	1444	746	1883	1777
QoQ(%)	10	0	-13	-23	4	-48	152	-6
PAT inc MSAT	2570	921	2764	2404	2759	3024	3385	2963
QoQ(%)	71	-64	200	-13	15	10	12	-12

### Profitability

EBIT Margin (%)	17.8	17.5	16.1	11.5	13.5	14.2	18.7	17.8
PAT Margin(%)	21.2	7.3	21.4	18.0	19.1	21.3	21.9	18.2
Tax Rate (%)	15	10	22	22	17	15	24	12

### Key Operating Metrics

BT Revenues	118	114	116	110	101	104	101	99
BT Rev share	44	41	40	37	35	37	36	33
Net Employee Add	201	4,125	4,517	807	-911	-1,983	-133	9,849
Utilisation (%)	76	74	71	72	73	74	74	74
Client Add	2	2	0	0	2	0	0	0

INCOME STATEMENT					CASH FLOW				
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Particulars	Mar12	Mar13E	Mar14E	Mar15E
<b>Net Sales</b>	<b>54,897</b>	<b>66,184</b>	<b>74,791</b>	<b>83,379</b>	<b>Profit before tax</b>	7,537	9,548	11,208	13,409
<b>Total Expenditure</b>	<b>45,703</b>	<b>52,890</b>	<b>60,427</b>	<b>66,963</b>	Depreciation & w.o.	1,613	1,888	2,066	2,335
Cost of Revenues	36,782	42,229	48,460	53,774	Net Interest Expense		1,143	1,215	1,072
S&M	8,921	10,661	11,967	13,189	Direct taxes paid	(1,437)	(2,049)	(2,690)	(3,218)
<b>EBIDTA</b>	<b>10,176</b>	<b>12,579</b>	<b>14,489</b>	<b>16,816</b>	Chg in Working Capital (Non Cash)	(1,611)	(615)	(2,532)	(2,720)
Depreciation	1,613	1,888	2,066	2,335	Other				
<b>EBIT</b>	<b>7,581</b>	<b>11,405</b>	<b>12,298</b>	<b>14,081</b>	<b>(A) CF from Operating Activities</b>	<b>6,102</b>	<b>9,915</b>	<b>9,267</b>	<b>10,878</b>
Other Income	982	(714)	125	400	Capex	1,713	(2,425)	(3,050)	(3,400)
Interest	1,026	1,143	1,215	1,072	Inc./ (Dec.) in Investments	(6,796)	0	0	0
<b>PBT</b>	<b>7,537</b>	<b>9,548</b>	<b>11,208</b>	<b>13,409</b>	Other (adj for MSAT share)	519	(73)	(94)	(41)
Tax Expenses	1,437	2,049	2,690	3,218	<b>(B) CF from Investing Activities</b>	<b>(4,564)</b>	<b>(2,498)</b>	<b>(3,144)</b>	<b>(3,441)</b>
<b>Net Profit bfr MI &amp; Associate</b>	<b>6,100</b>	<b>7,499</b>	<b>8,518</b>	<b>10,191</b>	Issue of Equity/ Preference	15	0	0	0
Minority Interest	(715)	73	221	242	Inc./ (Dec.) in Debt	(183)	150	(2,000)	(2,000)
<b>Net Profit bfr Associate share</b>	<b>6,815</b>	<b>7,426</b>	<b>8,297</b>	<b>9,949</b>	Interest exp net	(1,026)	(1,143)	(1,215)	(1,072)
<b>Profit/Loss from Satyam</b>	<b>5,570</b>	<b>5,612</b>	<b>6,757</b>	<b>7,003</b>	Dividend Paid (Incl. Tax)	(593)	(740)	(740)	(740)
<b>Net PAT</b>	<b>10,954</b>	<b>13,038</b>	<b>15,054</b>	<b>16,952</b>	<b>(C) Cash Flow from Financing</b>	<b>(1,787)</b>	<b>(1,733)</b>	<b>(3,955)</b>	<b>(3,812)</b>
<b>BALANCE SHEET</b>					Net Change in Cash	(249)	5,685	2,169	3,625
Particulars	Mar12	Mar13E	Mar14E	Mar15E	Opening Cash balances	2,666	2,417	8,102	10,271
<b>Sources of Funds</b>					Adj: Unrealised loss/gain on foreign currency				
Equity Capital	1,275	1,275	1,275	1,275	Closing Cash balances	2,417	8,102	10,271	13,897
Share premium	39,233	39,233	39,233	39,233	E-estimates				
Other Reserves	0	6,687	14,244	23,454	<b>IMPORTANT RATIOS</b>				
<b>Net Worth</b>	<b>40,508</b>	<b>47,195</b>	<b>54,752</b>	<b>63,962</b>	Particulars	Mar12	Mar13E	Mar14E	Mar15E
Secured Loans	5,266	5,266	5,266	5,266	<b>(A) Measures of Performance (%)</b>				
Unsecured Loans	10,295	10,445	8,445	6,445	<b>Contribution Margin</b>				
<b>Loan Funds</b>	<b>15,561</b>	<b>15,711</b>	<b>13,711</b>	<b>11,711</b>	EBIDTA Margin (excl. O.I.)	16.7	20.1	19.2	19.7
<b>Total Capital Employed</b>	<b>56,069</b>	<b>62,906</b>	<b>68,463</b>	<b>75,673</b>	Interest / Sales	1.9	1.7	1.6	1.3
<b>Applications of Funds</b>					EBIT Margin	13.8	17.2	16.4	16.9
<b>Net Block</b>	<b>6,862</b>	<b>7,424</b>	<b>8,608</b>	<b>9,973</b>	Tax/PBT	19.1	21.5	24.0	24.0
Other Non Current Assets	1,629	1,604	1,404	1,104	Net Profit Margin	12.4	11.2	11.1	11.9
<b>Investments</b>	<b>35,876</b>	<b>35,876</b>	<b>35,876</b>	<b>35,876</b>	<b>(B) As Percentage of Net Sales</b>				
<b>Current Assets, Loans &amp; Advances</b>					Cost of revenues	67.0	63.8	64.8	64.5
Inventories	6	6	6	6	SG&A	16.3	16.1	16.0	15.8
Sundry Debtors	13,172	14,422	18,622	22,422	<b>(C) Measures of Financial Status</b>				
Cash and Bank Balance	2,418	8,103	10,271	13,896	Net 'Debt / Equity (x)	0.3	0.2	0.1	(0.0)
Loans and Advances	8,229	8,209	8,209	8,209	Interest Coverage (x)	0.1	0.1	0.1	0.1
Other Current Assets	0	10	10	10	Average Cost Of Debt (%)	0.1	0.1	0.1	0.1
<i>sub total</i>	23,825	30,750	37,118	44,543	Debtors Period (days)	88	80	91	98
<b>Less : Current Liabilities &amp; Provisions</b>					Fixed Assets Turnover (x)	6.5	7.3	7.5	7.5
Current Liabilities	10,617	12,748	14,543	15,823	Working Capital Turnover (x)	4.7	3.7	3.3	2.9
Provisions	1,506	0	0	0	Non Cash Working Capital (Rs Mn)	9,284	9,899	12,304	14,824
<i>sub total</i>	12,123	12,748	14,543	15,823	<b>(D) Measures of Investment</b>				
Net Current Assets	11,702	18,002	22,575	28,720	EPS (₹) (incl Satyam)	85.9	102.3	118.1	78.0
<b>Total Assets</b>	<b>56,069</b>	<b>62,906</b>	<b>68,463</b>	<b>75,673</b>	CEPS (₹)	66.1	73.1	81.3	96.3
E-estimates					DPS (₹)	4.0	5.0	5.0	5.0
					Dividend Payout (%)	11.0	10.0	8.9	7.4
					Book Value (₹)	317.7	370.2	429.4	501.7
					RoANW (%)	18.4	16.9	16.3	16.8
					RoACE (%)	16.2	18.0	18.9	20.1
					RoAIC (%) (Excl Cash & Invest.)	48.3	58.3	60.2	60.1
					<b>(E) Valuation Ratios</b>				
					CMP (₹)	948	948	948	948
					P/E (x)	11.0	9.3	8.0	12.1
					Market Cap. (₹ Mn.)	120,870	120,870	120,870	120,870
					MCap/ Sales (x)	2.2	1.8	1.6	1.4
					EV (₹ Mn.)	126,837	121,302	124,310	118,685
					EV/Sales (x)	2.3	1.8	1.7	1.4
					EV/EBDITA (x)	13.8	9.1	8.7	7.2
					P/BV (x)	3.0	2.6	2.2	1.9
					Dividend Yield (%)	0.4	0.5	0.5	0.5
					E-estimates				

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## Can Niche be scalable? Or playing the catch up game well, the right strategy?

### **Case Study 1: Cognizant: playing the catch up game well**

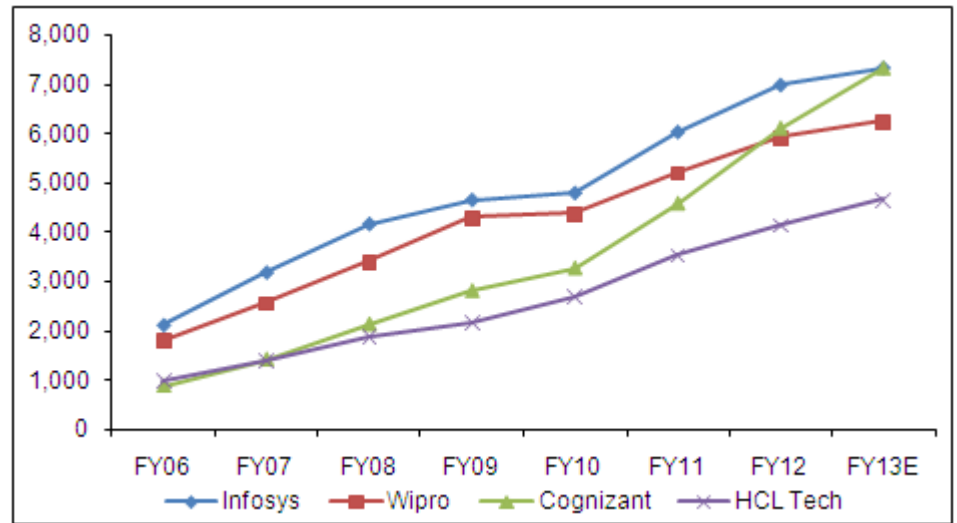
Cognizant is easily the biggest success stories in the offshore industry in the last decade. It has grown over 51 times its size at the onset of the millennium to achieve revenues of over USD 7 billion with revenue CAGR of about 38% for last 12 years. Here we look at key similarities and differentiation employed by Cognizant to reach where it is today.

**Played the catch up game well:** Cognizant evolved out of captive spun-off from Dun & Bradstreet in 1994 and has largely grown in its initial years through leveraging its parents' relationship with several leading financial clients. It has never been in the lead to take on various opportunities be it IMS, BPO, ERP or newer vertical focuses but has played the catch up game very well.

**2/3 in a box:** The biggest strength and differentiation for Cognizant has been its 2 in a box strategy wherein it deploys an account manager (a single point contact for client) and delivery manager for each account (to ensure smooth and efficient delivery) and is now a Harvard Case study. It is now integrating consulting team (1700 consultant) into the delivery rather than a separate entity to better penetrate into the accounts leveraging its consulting prowess, and may eventually turn into 3 in a box model.

**OPM capped:** It has never been in the profitability race and has capped its profitability to trade for higher revenue growth and thus dispense higher spends on S&M versus the peers. It spends about 23% of its revenues into S&M compared for 12-14% for its peers. The strategy has worked well so far as it benefits from various levers of high volume growth and thus maintains its high growth momentum despite challenging environment.

**Partnership play:** It has moved ahead from the mindset of build or acquire – or let the opportunity pass, to a complete new mindset of partner the leader. That is don't own but get the access. It has over 20 partnerships and alliances to play the gaps it has in its offering. Ex: Global alliance for CBS deployment for Temenos to mark its presence as against developing own product suite like peers TCS (Bancs) and Infosys (Finacle). It has thus overcome all its Indian peers (except TCS) in last 6 years to emerge as second largest player in the segment. It has grown over 1.5x the size of HCL Tech organically since reaching the Billion dollar milestone together in 2006.

**Exhibit 14: Cognizant revenues versus peers (USD bn)**


Source: Company, Dolat Research

**Exhibit 15: Incremental quarterly revenues (USD mn)**

USD mn	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
Infosys	32	78	64	62	138	89	17	69	75	60	-35	-19	45
TCS	58	97	51	108	210	140	100	168	113	61	62	80	125
Wipro	32	62	39	38	69	71	56	8	65	33	31	-21	26
Cognizant	73	52	57	145	112	94	60	114	116	63	47	84	97

Source: Company, Dolat Research

The incremental revenues trend does not indicate any macro-challenges such as weak demand or client spend cuts and sign of growth steaming off. We remain optimistic on Cognizant's as evident from its recent performance targets for management (100% achievement) set at 16% revenue growth.

**Case Study 2: Tech Mahindra: Niches are scalable**

Tech Mahindra is the largest Indian provider of networking technology solutions and business process outsourcing (BPO) services to the global telecommunications industry. It was formed out as a JV between British Telecom and Mahindra Group and gained on domain capabilities thorough its alliance with BT.

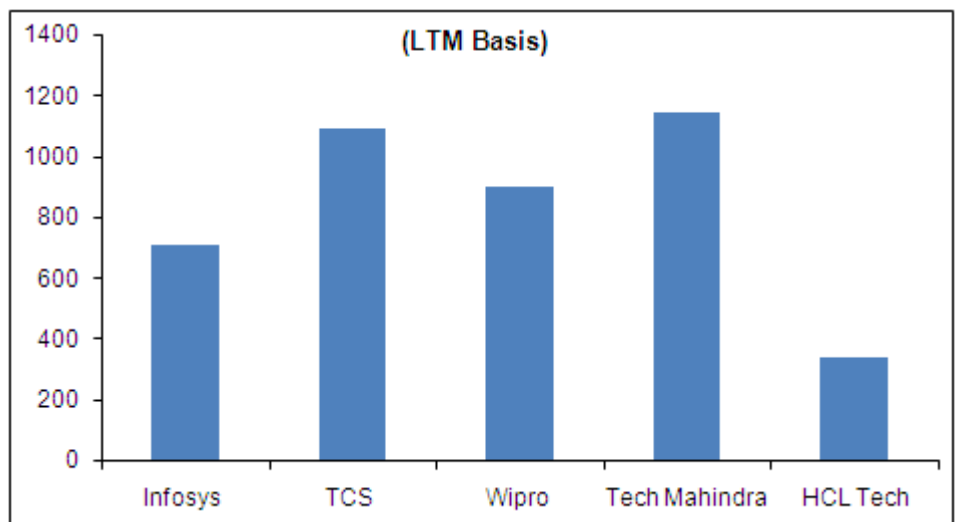
**Niche Vertical Focus:** TechM traditionally has been focused entirely in the Telecom domain and has developed strong domain capabilities over the years. It has emerged as end-to-end service provider in the sector and has the largest practice in the telecom vertical (refer exhibit).

**Strong clientele:** Till date, Tech Mahindra has successfully implemented more than 16 Greenfield Operations globally and has over 128 active customer engagements mostly in the Telecom sector. The clientele suggest very high customer penetration considering the total TSP, TEM universe.

**Diversification the next play:** Though Tech Mahindra has relied heavily on its vertical specific capabilities to scale up to the Billion dollar mark in the past but it has now acquired Satyam to diversify its service and vertical offerings as its growth got stuck up with the poor investment cycle in the telecom vertical over last 5 years (refer exhibit).

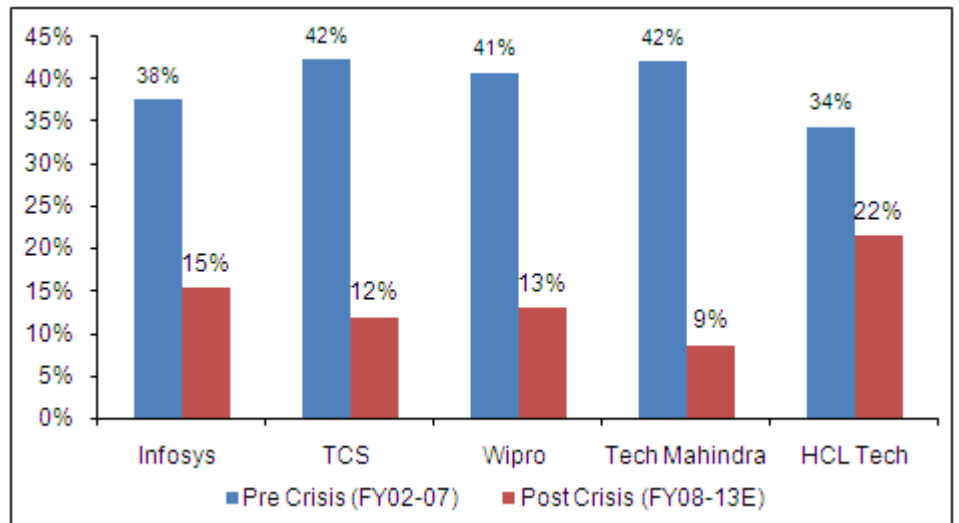
Thus, we believe that the niche can be scaled up but to maintain the momentum a company needs to have more streams to maintain its traction to overcome certain specific challenges.

**Exhibit 16: Telecom vertical revenues – Peer set (USD bn)**



Source: Company, Dolat Research

**Exhibit 17: Revenues growth – Pre Crisis and Post crisis**



Source: Company, Dolat Research

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<b>BUY</b>	Upside above 20%
<b>ACCUMULATE</b>	Upside above 5% and up to 20%
<b>REDUCE</b>	Upside of upto 5% or downside of upto 15%
<b>SELL</b>	Downside of more than 15%

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