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Rating	Accumulate
Price	Rs1,331
Target Price	Rs1,350
Implied Upside	1.4%
Sensex	19,664
Nifty	5,951

(Prices as on January 11, 2013)
Trading data

Market Cap. (Rs bn)	40.3
Shares o/s (m)	30.3
3M Avg. Daily value (Rs m)	29.6

Major shareholders

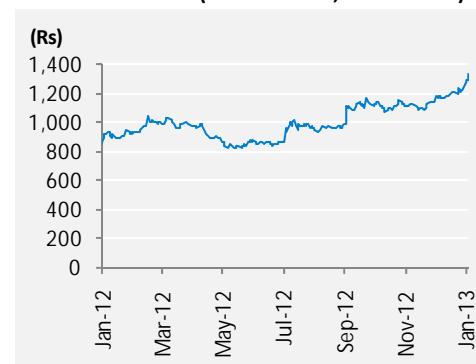
Promoters	51.12%
Foreign	19.09%
Domestic Inst.	21.12%
Public & Other	8.67%

Stock Performance

(%)	1M	6M	12M
Absolute	13.5	54.0	47.9
Relative	12.1	41.6	26.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	95.8	93.9	2.0
2015	109.5	116.6	-6.1

Price Performance (RIC: CMC.BO, BB: CMC IN)


Source: Bloomberg

CMC reported Q3FY13 results exceeding our/consensus expectation. The revenue growth has been consistently supported by SI (COGR of -9% over the last three quarters), while ITES remained relatively muted in Q3FY13. The margin profile continues to be stable as reiterated by the management. We reiterate our **'Accumulate'** rating, with a revised target price of **Rs1,350 (from Rs1,270) as we revise our estimates up for better growth and margin expectation (Exhibit 2).**

- Revenue beats expectations, margins in stable zone:** CMC reported revenue growth of 7.5% QoQ to Rs4,926.8m (PLe: Rs4,720m, Cons: Rs4,812m). However, excluding SEZ, top-line grew by 8% QoQ to Rs4,824.9m. EBITDA margins improved by 19bps at 16.8% (PLe: 17%, Cons: 16.6%), on account of better volume growth accompanied with operational efficiency and productivity. PAT improved by 23.6% QoQ to Rs610.6m (PLe: Rs562m, Cons: Rs570m), on account of lower tax (Q3FY13: 23.7%, Q2FY13: 31.5%) & higher other income.
- Offshore leverage to be pushed to FY14:** The management is confident of maintaining EBITDA margin in 15-17% range despite rupee appreciation. We expect offshore leverage to kick in from Q1FY14 which will aid margin expansion (Q3FY13 Offshore share: 23% of International business).
- Conference call highlights: 1)** TCS' contribution at ~58% (Q2FY13: 56%) **2)** CMC Americas grew 14% QoQ & 36% YoY in USD terms **3)** CMC International business (~68% of revenue) grew 11% QoQ & 38% YoY **4)** 26 new clients added in Q3FY13 (Q2FY13: 15) **5)** Forex gain in Q3FY13 at Rs34m **6)** DSO – 81 days (Q2FY13: 83) **7)** Cash & Cash equivalents: Rs2,180m (Investments: Rs1,130m) **8)** Employee count: 11,224 (Permanent: 4,743) **9) 10)** Capex: Rs220m (9MFY13: Rs670m) **11)** Experiencing good traction in SI, Embedded & real time systems, focus on emerging trends i.e. big data, analytics, cloud etc.
- Valuation & Recommendation:** We expect the revenue momentum to stay in the mid-twenties, with a stable margin profile. We reiterate **'Accumulate'**, with a target price of **Rs1,350**, 14x FY14E earnings estimates.

Key financials (Y/e March)	2012	2013E	2014E	2015E
Revenues (Rs m)	14,693	19,163	22,716	26,194
Growth (%)	35.5	30.4	18.5	15.3
EBITDA (Rs m)	2,243	3,217	3,862	4,285
PAT (Rs m)	1,518	2,374	2,903	3,317
EPS (Rs)	50.1	78.4	95.8	109.5
Growth (%)	(57.7)	56.4	22.3	14.3
Net DPS (Rs)	11.6	12.5	16.0	17.0

Profitability & Valuation	2012	2013E	2014E	2015E
EBITDA margin (%)	15.3	16.8	17.0	16.4
RoE (%)	21.3	27.2	26.6	24.5
RoCE (%)	18.7	25.1	24.3	22.7
EV / sales (x)	2.7	2.0	1.7	1.5
EV / EBITDA (x)	17.9	12.2	10.1	8.9
PE (x)	26.6	17.0	13.9	12.2
P / BV (x)	5.2	4.2	3.3	2.7
Net dividend yield (%)	0.9	0.9	1.2	1.3

Source: Company Data; PL Research

Exhibit 1: Bottom-line surprise is due to higher other income and lower tax rate (Rs m)

Y/e March	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY	Cons	PLe	Var (Act. Vs Est.)
Sales	4,927	4,583	7.5%	3,962	24.4%	4,812	4,720.0	4.4%
EBITDA	828.8	762	8.8%	604	37.3%	798	802.4	3.3%
<i>EBITDA Margin</i>	<i>16.8%</i>	<i>16.6%</i>	<i>19 bps</i>	<i>15.2%</i>	<i>159 bps</i>	<i>16.6%</i>	<i>17.0%</i>	<i>-18 bps</i>
PAT	610.6	494	23.6%	414	47.6%	570	562.0	8.6%
EPS (diluted)	20.2	16.30	23.6%	13.65	47.6%	18.70	18.5	8.6%

Source: Company Data, Bloomberg, PL Research

Exhibit 2: Revising FY13 and FY14 estimates upward

	New		Old		Change	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	19,163	22,716	18,730	21,785	2.3%	4.3%
<i>EBITDA Margin</i>	<i>16.8%</i>	<i>17.0%</i>	<i>16.9%</i>	<i>16.8%</i>	<i>-11 bps</i>	<i>20 bps</i>
EPS	78.4	95.8	76.0	90.4	3.1%	6.0%
Target Price	1350		1270		6.3%	
Target Multiple	14		14		0.0%	

Source: Company Data, PL Research

Exhibit 3: SI and ITES drive growth

By Service Offering (Rs m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Customer Services	780.8	777.1	0.5%	931.5	-16.2%
Systems Integration	3,157.1	2,809.6	12.4%	2,276.2	38.7%
ITES	745.9	720.5	3.5%	550.7	35.5%
Education & Training	144.1	162.6	-11.4%	151.1	-4.7%
SEZ	101.9	116.5	-12.5%	52.7	93.4%
Unallocable Revenue	22.7	11.4	99.5%	38.6	-41.3%
% of Total					
Customer Services	15.8%	16.9%	-114 bps	23.3%	-752 bps
Systems Integration	63.7%	61.1%	264 bps	56.9%	686 bps
ITES	15.1%	15.7%	-61 bps	13.8%	130 bps
Education & Training	2.9%	3.5%	-63 bps	3.8%	-87 bps
SEZ	2.1%	2.5%	-48 bps	1.3%	74 bps
Unallocable Revenue	0.5%	0.2%	21 bps	1.0%	-51 bps

Source: Company Data, PL Research

Exhibit 4: Segment Results (PBIT)

By Service Offering (Rs m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Customer Services	57.7	107.8	-46.4%	75.3	-23.3%
Systems Integration	663.5	533.7	24.3%	521.8	27.1%
ITES	233.6	196.3	19.0%	170.5	37.0%
Education & Training	16.2	20.4	-20.5%	15.8	2.9%
SEZ	73.7	93.1	-20.9%	29.6	149.2%
PBIT Margin (%)					
Customer Services	7%	14%	-648 bps	8%	-68 bps
Systems Integration	21%	19%	202 bps	23%	-191 bps
ITES	31%	27%	408 bps	31%	36 bps
Education & Training	11%	13%	-128 bps	10%	83 bps
SEZ	72%	80%	-763 bps	56%	1618 bps

Source: Company Data, PL Research

Exhibit 5: Capital Employed

By Service Offering (Rs m)	Q3FY13	Q2FY13	QoQ	Q3FY12	YoY
Customer Services	825.9	911.4	-9.4%	700.6	17.9%
Systems Integration	1,848.4	1,756.4	5.2%	1,602.4	15.4%
ITES	711.6	626.6	13.6%	360.8	97.3%
Education & Training	66.2	43.7	51.4%	73.7	-10.2%
SEZ	2,720.0	2,668.8	1.9%	1,799.4	51.2%

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	14,693	19,163	22,716	26,194
Software Dev. Exp.	6,168	8,366	9,983	11,440
Gross Profit	8,525	10,797	12,734	14,753
Employee Cost	4,402	5,296	6,244	7,368
Other Expenses	1,880	2,285	2,627	3,100
EBITDA	2,243	3,217	3,862	4,285
Depr. & Amortization	214	172	245	290
Net Interest	—	2	2	2
Other Income	175	123	205	205
Profit before Tax	2,204	3,166	3,820	4,198
Total Tax	686	791	917	882
Profit after Tax	1,518	2,374	2,903	3,317
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	1,518	2,374	2,903	3,317
Avg. Shares O/S (m)	30.3	30.3	30.3	30.3
EPS (Rs.)	50.1	78.4	95.8	109.5

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	557	2,371	2,777	3,250
C/F from Investing	(184)	(958)	(2,272)	(1,991)
C/F from Financing	(351)	(379)	(485)	(514)
Inc. / Dec. in Cash	23	1,034	20	745
Opening Cash	565	588	1,622	1,643
Closing Cash	588	1,622	1,643	2,388
FCFF	(738)	1,413	505	1,259
FCFE	(665)	1,413	505	1,260

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	35.5	30.4	18.5	15.3
EBITDA (%)	6.5	43.4	20.1	11.0
PAT (%)	(15.4)	56.4	22.3	14.3
EPS (%)	(57.7)	56.4	22.3	14.3
Profitability				
EBITDA Margin (%)	15.3	16.8	17.0	16.4
PAT Margin (%)	10.3	12.4	12.8	12.7
RoCE (%)	18.7	25.1	24.3	22.7
RoE (%)	21.3	27.2	26.6	24.5
Balance Sheet				
Net Debt : Equity	—	(0.1)	(0.1)	(0.1)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	26.6	17.0	13.9	12.2
P / B (x)	5.2	4.2	3.3	2.7
EV / EBITDA (x)	17.9	12.2	10.1	8.9
EV / Sales (x)	2.7	2.0	1.7	1.5
Earnings Quality				
Eff. Tax Rate	31.1	25.0	24.0	21.0
Other Inc / PBT	7.9	3.9	5.4	4.9
Eff. Depr. Rate (%)	6.0	3.8	3.6	3.3
FCFE / PAT	(43.8)	59.5	17.4	38.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	7,722	9,717	12,136	14,937
Total Debt	396	396	396	397
Other Liabilities	—	—	—	—
Total Liabilities	8,118	10,114	12,532	15,334
Net Fixed Assets	2,915	3,702	5,729	7,429
Goodwill	3	3	3	3
Investments	2,922	2,922	2,922	2,922
Net Current Assets	2,168	3,377	3,768	4,870
<i>Cash & Equivalents</i>	588	1,622	1,643	2,388
<i>Other Current Assets</i>	5,954	7,267	8,629	10,053
<i>Current Liabilities</i>	4,375	5,513	6,504	7,571
Other Assets	110	110	110	110
Total Assets	8,118	10,114	12,532	15,335

Quarterly Financials (Rs m)

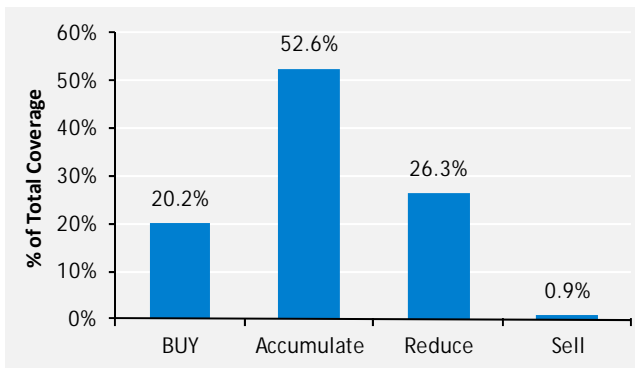
Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Revenue	4,099	4,523	4,583	4,927
EBITDA	601	752	762	829
<i>% of revenue</i>	14.7	16.6	16.6	16.8
Depr. & Amortization	64	54	56	54
Net Interest	—	—	—	—
Other Income	60	57	15	26
Profit before Tax	597	755	721	801
Total Tax	167	171	227	190
Profit after Tax	429	584	494	611
Adj. PAT	429	584	494	611

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Revenue (US\$ mn)	305	360	425	514
Rs/US\$	48	53	54	51
Gross Margin	88	89	89	89
Subcontracting Cost (as % of Revenue)	30	32	33	33

Source: Company Data, PL Research.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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