

January 19, 2018

Cyient Ltd (CYILIM)

₹ 580

DLM weakness drags overall revenues...

- US\$ revenues grew 1.3% QoQ to \$152 million, below our 2.9% QoQ growth and \$154.4 million estimate
- Revenues in rupees grew 1.9% QoQ to ₹ 983.4 crore and were below our ₹ 998.9 crore estimate
- EBITDA margins remained unchanged QoQ to 14.6% and were ahead of our 14.4% estimate mainly due to lower material cost (down 27.7% QoQ)
- Reported PAT of ₹ 87.8 crore was below our ₹ 110.7 crore estimate on account of net effect of exceptional loss of ₹ 25.4 crore and tax reversal of ₹ 4.4 crore on account of IASI divestment. Adjusting for one-off items, the net profit works out to ₹ 108.8 crore largely in line with our estimate of ₹ 110.7 crore
- The company declared an interim dividend of ₹ 4/share

Strong growth in core services offset by DLM drag...

US\$ revenues grew 1.3% QoQ to \$152 million and was driven by strong growth from services, which grew 4.2% sequentially to highest ever at \$139.9 million (vs. our expectation of \$137 million). The DLM business (Rangsons) was a drag owing to pushing out of a project to subsequent quarters and de-grew 23.3% QoQ at \$12.1 million (vs. our expectation of \$17.4 million). However, the management expects a strong revival in growth in DLM on the back of order backlog with revenue growth of ~80-90% in Q4FY18 on a sequential basis. Cyient retained its guidance of 16% YoY growth in DLM (adjusting for the effect of excise duty) and double digit revenue growth in core services for FY18E. Further, the management foresees FY19E panning out on similar lines as FY18E. Consequently, we expect US\$ revenues to grow at 12.5% CAGR during FY18-20E.

Margins unchanged QoQ, maintains 50 bps improvement in FY18E...

EBITDA margins remained unchanged QoQ at 14.6% owing to a drag of 50 bps in services margins while DLM margins were at 1% (vs. 0.8% in Q2). However, overall utilisation grew sharply by 270 bps QoQ to 78.6% and was one of the contributors for sustaining the margins in this quarter despite headwinds. The management retains its EBITDA margin guidance of ~50 bps expansion in FY18E led by productivity enhancements. We expect margins at 14.1%, 14.4% in FY18E, FY19E, respectively.

Strong order intake in services lead to healthy overall growth...

After three consecutive declines in order intake in the services segment, Cyient's total services order intake witnessed strong growth of 124.8% QoQ to US\$241 million in Q3FY18. Total DLM order intake witnessed a weakness and declined 65.8% sequentially to US\$4 million. Total order intake was at US\$245 million, up 106.1% YoY. Strong order intake in services in the quarter has led overall order intake to report healthy number after witnessing negative growth in the past two quarters.

Consistency in performance needs to be watched; maintain HOLD...

Cyient reported Q3FY18 numbers wherein the Rangsons business dragged owing to weak execution though services reported healthy growth. Order intake, which was declining for last two consecutive quarters made a recovery with good growth. However, consistency in financial performance is what needs to be watched. We expect revenue, earnings to grow at 13.1%, 9.6% CAGR, respectively, in FY18-20E. We roll over our valuation to FY20E and continue to maintain our **HOLD** rating with a revised target price of ₹ 600 (14x FY20E EPS).

Rating matrix	
Rating	: Hold
Target	: ₹ 600
Target Period	: 12 months
Potential Upside	: 3%

What's Changed?	
Target	Changed from ₹ 545 to ₹ 600
EPS FY18E	Changed from ₹ 35.5 to ₹ 35.7
EPS FY19E	Changed from ₹ 41.2 to ₹ 37.5
EPS FY20E	Introduced at ₹ 42.9
Rating	Unchanged

Quarterly Performance					
	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Revenue	983	917	7.2	965	1.9
EBITDA	143	123	16.5	141	1.5
EBITDA (%)	14.6	13.4	116 bps	14.6	-5 bps
PAT	109	94	15.6	111	(2.3)

Key Financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	3,607	3,899	4,447	4,985
EBITDA	485	550	640	728
Net Profit	344	402	422	483
EPS (₹)	30.5	35.7	37.5	42.9

Valuation summary				
	FY17	FY18E	FY19E	FY20E
P/E	19.0	16.2	15.5	13.5
Target P/E	19.7	16.8	16.0	14.0
EV / EBITDA	11.8	9.3	8.1	6.4
P/BV	3.1	2.8	2.5	2.3
RoNW (%)	16.2	17.0	16.2	16.7
RoCE (%)	19.7	20.6	20.3	21.1

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	6,530.3
Total Debt (₹ Crore)	182.8
Cash and Investments (₹ Crore)	970.6
EV (₹ Crore)	5,724.8
52 week H/L	605 / 435
Equity capital	56.3
Face value	₹ 5

Price performance (%)				
	1M	3M	6M	12M
Cyient	4.5	7.0	12.8	19.3
KPIT	13.6	56.9	54.9	39.9
Mindtree	9.0	24.6	23.1	29.0
NIIT Tech	12.8	14.4	28.0	68.9

Research Analysts

Deepak Purswani, CFA
 deepak.purswani@icicisecurities.com

Deepti Tayal
 deepti.tayal@icicisecurities.com

Variance analysis

	Q3FY18	Q3Y18E	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	Comments
Revenue	983.4	999.0	917.1	7.2	965.4	1.9	Cipient reported revenues lower than our expectations owing to de-growth in DLM business though services reported healthy growth
Cost of revenue	632.9	637.4	605.6	4.5	623.5	1.5	
Gross Margin	350.5	361.6	311.5	12.5	341.9	2.5	
Gross margin (%)	35.6	36.2	34.0	168 bps	35.4	23 bps	
SG&A expenses	207.4	217.8	188.7	9.9	200.9	3.2	
EBITDA	143.1	143.9	122.8	16.5	141.0	1.5	
EBITDA Margin (%)	14.6	14.4	13.4	116 bps	14.6	-14 bps	Margins were above our expectations mainly due to lower material cost
Depreciation & amortisation	27.4	28.7	24.3	12.8	25.9	5.8	
EBIT	115.7	115.1	98.5	17.5	115.1	0.5	
EBIT Margin (%)	11.8	11.5	10.7	102 bps	11.9	-16 bps	
Other income (less interest)	21.7	36.5	26.3	-17.5	34.9	-37.8	
PBT	137.4	151.6	124.8	10.1	150.0	-8.4	
Tax paid	24.9	42.6	32.2	-22.7	42.1	-40.9	
PAT	108.8	110.7	94.2	15.6	111.4	-2.3	PAT was below our expectation on account of net effect of exceptional loss of ₹ 25.4 crore and tax reversal of ₹ 4.4 crore on account of IASI divestment. Adjusting for one-off items, net profit works out to ₹ 108.8 crore largely in line with our estimates

Key Metrics

Closing employees	13,829	13,100	13,094	5.6	13,568	1.9
Voluntary attrition (%)	16.8	15.0	22.6	-580 bps	14.2	260 bps
Overall utilisation (%)	78.6	75.7	78.3	30 bps	75.9	270 bps
Average \$/₹	64.7	64.7	67.5	-4.2	64.3	0.6

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E			FY20E		Comments
	Old	New	% Change	Old	New	% Change	Introduced		
Revenue	3,933.4	3,899.3	-0.9	4,504.2	4,447.3	-1.3	4,984.7		
EBITDA	550.7	549.8	-0.2	650.9	640.4	-1.6	727.8		
EBITDA Margin (%)	14.0	14.1	10 bps	14.5	14.4	-5 bps	14.6	Introduced FY20E estimates	
PAT	402.2	402.2	0.0	466.3	421.9	-9.5	483.4		
EPS (₹)	35.7	35.7	0.0	41.4	37.5	-9.5	42.9		

Source: Company, ICICIdirect.com Research

Assumptions

	FY16	FY17	Current FY18E	Earlier FY18E	Current FY19E	Earlier FY19E	Introduced FY20E
Closing employees (ex-Rangson)	12,498	13,084	13,718	13,718	14,232	14,232	14,648
Voluntary attrition (%)	18.4	20.2	19.0	19.0	19.0	19.0	19.0
Overall utilisation (%)	75.2	76.8	77.0	77.0	77.0	77.0	77.0
Average \$/₹	65.5	67.0	64.3	64.7	65.0	66.0	65.0

*Exclude Rangsons' headcount, Source: Company, ICICIdirect.com Research

Conference call highlights

- **Maintains FY18E outlook:** The management has maintained its double digit revenue growth in core services business and 16% growth in the DLM business unit. They have retained their EBITDA margin guidance and expect it to expand ~50 bps in FY18E led by productivity enhancements
- **Update on B&F design acquisition:** In Q2FY18, Cyient through its step down subsidiary Cyient Defence Services Inc, US has signed a definitive agreement to acquire 100% equity ownership in B&F Design Inc, US. Enterprise value for the acquisition is \$5 million. B&F Design had CY15, CY16 revenue of US\$7.8 million, US\$8.5 million, respectively, with ~47 employees. It is expected to close by end of FY18E
- **DLM business:** DLM business (Rangsons) de-grew 23.3% sequentially at \$12.1 million (vs. our expectation of \$17.4 million) due to a project pushing out to subsequent quarters. Total DLM order intake witnessed a weakness and declined 65.8% sequentially to US\$4 million. It expects the division to grow 16% YoY adjusting for the effect of excise duty (vs. earlier expectation of 20%) led by strong order intake
- **Employee details:** The company's employee strength was at 13,829 employees (vs. 13,568 as at end of Q2FY18). Voluntary attrition increased 260 bps QoQ to 16.8% while it declined 580 bps YoY. Further, overall utilisation grew sharply by 270 bps QoQ to 78.6%. It was one of the contributors in sustaining margins this quarter despite headwinds. The management expects utilisation to be in a range of +/-200bps from current levels
- **Clientele update:** Top five customers and top 10 accounts witnessed a sequential decline and de-grew 2.4% and 0.6% QoQ, respectively. The decline may possibly be attributed to the weak quarter seasonality. Non-top 10 customer revenues saw decent growth and grew 3.5% sequentially. Client additions were multi quarter with 12 clients added in the quarter while one client transitioned into the \$1 million+ bucket taking the total count to 66
- **Cash position:** The cash & cash equivalent position was stable and at ₹ 1077 crore mark vs. ₹ 986.7 crore in Q2FY18. Further, DSO days were at 80 days (vs. 82 in Q2) including billed and unbilled revenue

Company Analysis

Business units update...

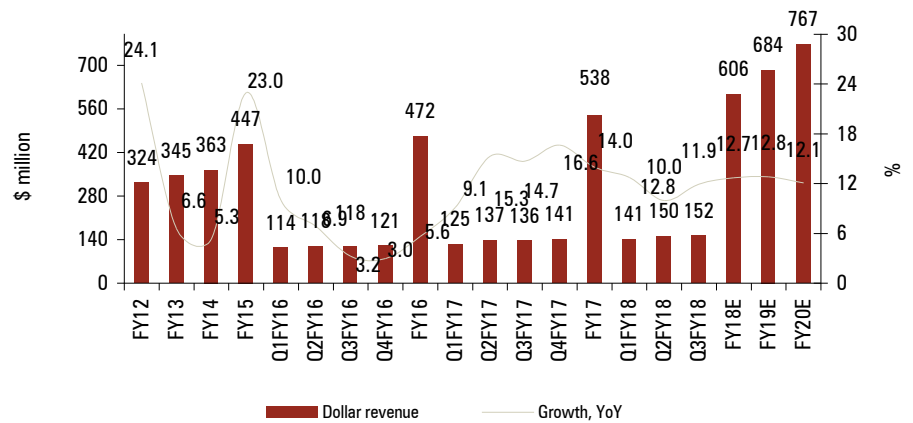
The management has said the pipeline continues to be strong for the company led by deal signings across business segments. Growth in core services was led by transportation, utilities & geospatial and aerospace & defense business units. Segregating across large industries: 1) **Aerospace** – grew 4.2% QoQ. Growth led by key clients and two large projects. It has maintained its positive outlook for the year ahead. 2) **Transportation** – Growth of 8.8% QoQ supported by momentum in key engagements and project wins. 3) **Medical technology and healthcare** – Declined 5.3% QoQ owing to seasonality impact but grew 21.8% YoY. The outlook stays positive with scaling up of new relationships. 4) **Communication** – Grew 1.5% QoQ. Growth was driven by volume growth in key accounts. 6) **Utilities & Geospatial** – Grew 8.7% QoQ driven by top three clients across North America and Europe. Expect investments in two new solutions to generate revenue in Q4. 8) **Design led manufacturing (DLM)** – Declined 23.3% QoQ (in US\$ terms) owing to certain projects pushing out to subsequent quarters. Expect growth to pick up in Q4 and year ahead with new opportunities in aerospace & defence and growth in legacy clients. The management has retained its expectation of division to post ~16% YoY growth led by strong order intake.

Reiterates guidance for both DLM & core services...

US\$ revenues grew 1.3% QoQ to \$152 million and was driven by strong growth from services, which grew 4.2% sequentially to highest ever at \$139.9 million (vs. our expectation of \$137 million). DLM business (Rangsons) was a drag owing to pushing out of a project to subsequent quarters and de-grew 23.3% QoQ at \$12.1 million (vs. our expectation of \$17.4 million). However, the management expects a strong revival in growth in DLM on the back of order backlog with revenue growth of ~80-90% in Q4FY18 on a sequential basis.

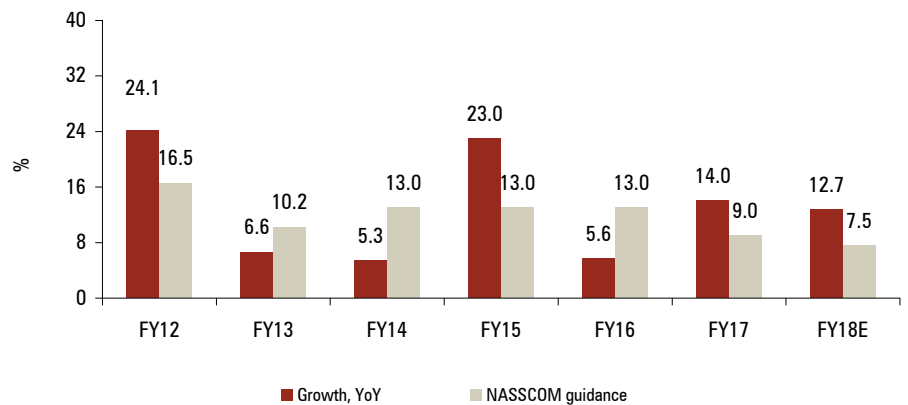
Among geographies, EMEA (27.7% of revenue) led growth with 8.1% QoQ followed by North America (55.1% of revenue) reporting 5.9% growth. Asia Pacific (17.2% of revenue) witnessed a decline of 6.2%. Going ahead, Cyient retained its guidance of double digit revenue growth in core services and 16% YoY growth in DLM backed by healthy growth in its key verticals and strong order backlog. Consequently, we expect US\$ revenues to grow at 12.5% CAGR in FY18-20E.

Exhibit 2: Dollar revenues may grow at 12.5% CAGR during FY18-20E



Source: Company, ICICIdirect.com Research

Exhibit 3: Cyient vs. Nasscom guidance



Source: Company, ICICIdirect.com Research

Services order intake strong, DLM weak...

After three consecutive declines in order intake in the services segment, Cyient's total services order intake witnessed strong growth of 124.8% QoQ to US\$241 million in Q3FY18. Total DLM order intake witnessed a weakness and declined 65.8% sequentially to US\$4 million. Total order intake was at US\$245 million, growth of 106.1% YoY. Strong order intake in services in the quarter has led to overall order report a healthy number after witnessing negative growth in past two quarters. The company did not provide the segregation of order intake among the ones to be executable in the current fiscal and executable in the next fiscal.

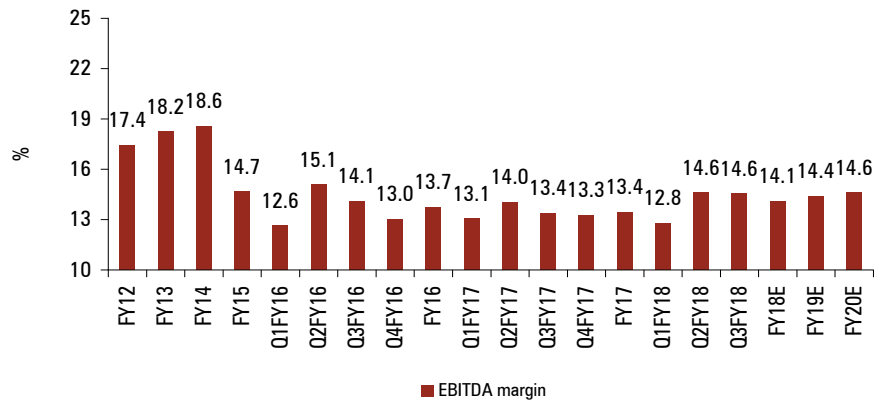
Decline in top five, top 10 buckets...

Top five customers (40.1% of revenues) and top 10 accounts (54% of revenues) witnessed a sequential decline and de-grew 2.4% and 0.6% QoQ, respectively. The decline may possibly be attributed to the weak quarter seasonality. Non-top 10 customer revenues saw decent growth and grew 3.5% sequentially. Client additions were multi quarter with 12 clients added in the quarter while one client transitioned to the \$1 million+ bucket taking the total count to 66.

Margins ahead of expectations owing to lower material cost...

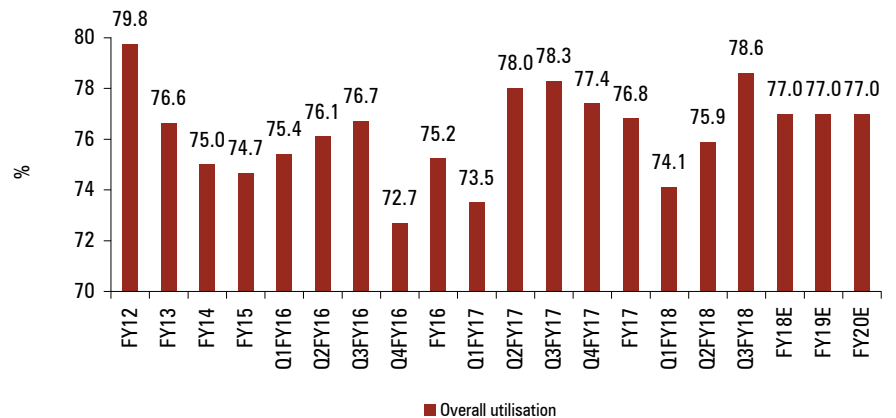
EBITDA margins remain unchanged QoQ to 14.6% owing to a drag of 50 bps in services margins while DLM margins were at 1% (vs. 0.8% in Q2). However, overall utilisation grew sharply by 270 bps QoQ to 78.6% and was one of the contributors in sustaining margins in this quarter despite the headwinds. The management retained its EBITDA margin guidance of ~50 bps expansion in FY18E led by productivity enhancements. We expect margins at 14.1%, 14.4% in FY18E, FY19E, respectively.

Exhibit 4: Expects margin to remain unchanged QoQ



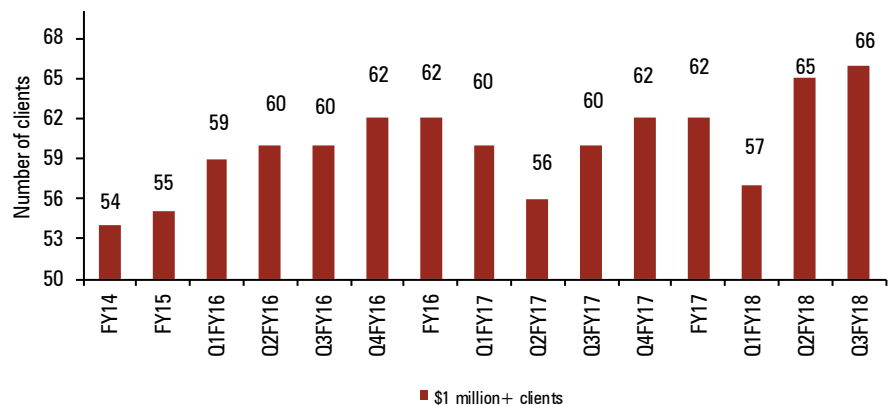
Source: Company, ICICIdirect.com Research

Exhibit 5: Utilisation expands 270 bps QoQ to 78.6%



Source: Company, ICICIdirect.com Research

Exhibit 6: Clients in \$1 million+ bucket



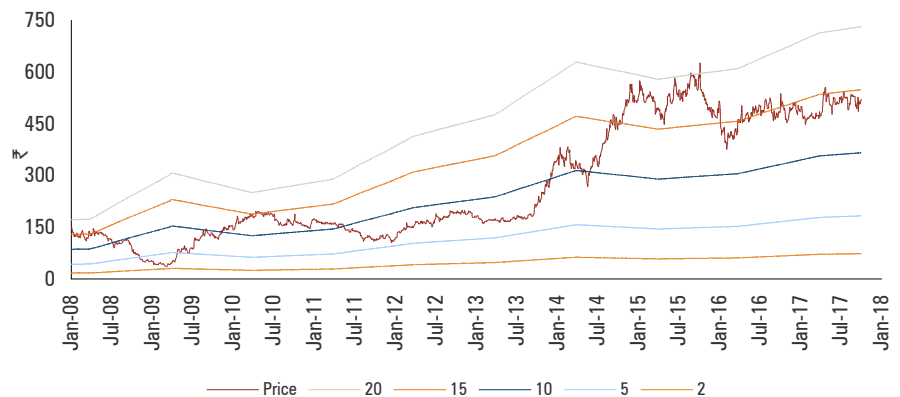
Source: Company, ICICIdirect.com Research

Outlook and valuation

Cyient reported Q3FY18 numbers wherein revenues were below our estimates mainly on account of de-growth in the Rangsons business though services reported healthy growth (4.2% sequential growth). Margins were ahead of our expectations due to lower material cost. Overall, the management maintains its double digit revenue growth in core services business in FY18E and its Rangsons business to grow ~16% YoY with ~50 bps expansion in margins over FY17.

Cyient reported Q3FY18 numbers wherein the Rangsons business dragged owing to weak execution though services reported healthy growth. Order intake, which was declining for last two consecutive quarters made a recovery with good growth. However, consistency in financial performance is what needs to be watched. We anticipate Cyient will report revenue, earnings growth at 13.1%, 9.6% CAGR, respectively, in FY18-20E. We roll over our valuation to FY20E and continue to maintain HOLD with our revised target price of ₹ 600 (14x FY20E EPS).

Exhibit 7: One year forward rolling PE



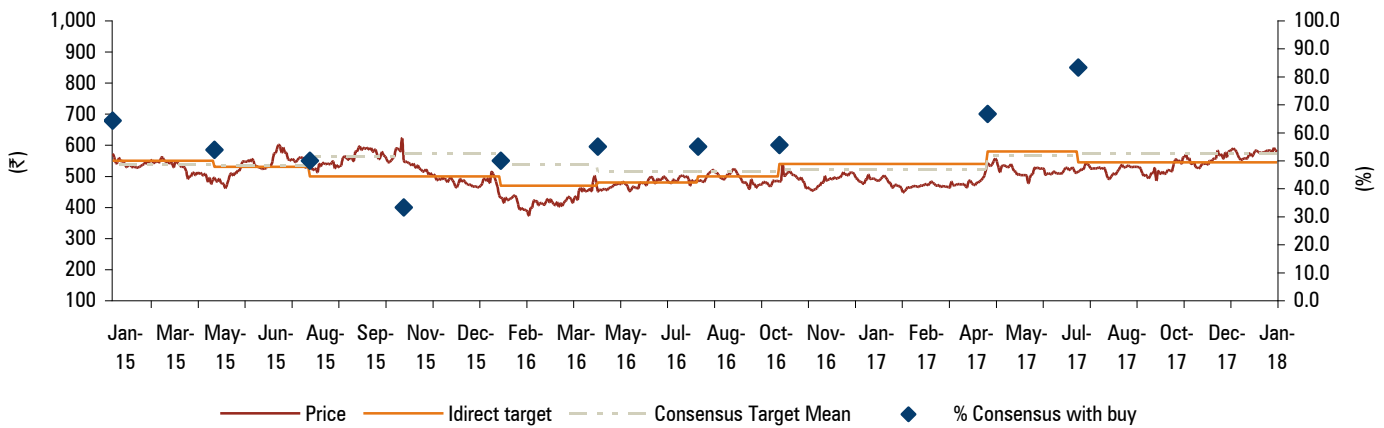
Source: Company, ICICIdirect.com Research

Exhibit 8: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	3,096	13.1	29.0	(7.7)	20.0	14.0	17.8	20.3
FY17	3,607	16.5	30.5	5.4	19.0	11.8	16.2	19.7
FY18E	3,899	8.1	35.7	16.9	16.2	9.3	17.0	20.6
FY19E	4,447	14.1	37.5	4.9	15.5	8.1	16.2	20.3
FY20E	4,985	12.1	42.9	14.6	13.5	6.4	16.7	21.1

Source: Company, ICICIdirect.com Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Nov-16	Acquires UK-based geospatial services provider Blom Aerofilms Ltd, in an all-cash transaction. Blom had CY15 revenues of ~ 6 million Pound and an sustainable EBITDA margin of 10%
Jan-17	Acquires US based Certon Software Inc for US\$ 7.5 million to bolster its presence in Avionics solutions for Aerospace and Defence space.
Feb-17	Cyient Inc, subsidiary of Cyient Ltd signs a joint go to market agreement with a privately owned Italian company ASE SpA, a leading provider of electricity generation and distribution systems to the international aerospace and defense industry
Mar-17	According to media sources, Cyient inks agreement with Thyssenkrupp elevator to support its MAX platform
Mar-17	Selected by the world's largest international cable TV and broadband company Liberty Global, to support its new GIGAWorld initiative to bring Gigabit broadband speeds to its operations in Europe
Apr-17	Cyient collaborates with Amdocs to implement GIS services as part of Netlink's trust B/OSS project
Jul-17	Cyient signs agreement with Kii Corporation, a global leader in Internet of Things (IoT) solutions, to explore, bid and address business opportunities around 'smart city' deployments. Under the terms of the agreement, Cyient would also provide Kii with project delivery and implementation services. Cyient, through its step down subsidiary Cyient Defence Services Inc, US signs definitive agreement to acquire 100% equity ownership in B&F Design Inc, US. Enterprise value for the acquisition is \$5 million. B&F Design had CY15 & CY16 revenue of US\$ 7.8 million and US\$ 8.5 million, respectively, with ~47 employees.
Sep-17	This engagement would strengthen the company's capabilities in aerospace and defence vertical (~35-40% of revenues) Cyient signs definitive agreement to sell its entire stake of 49% in Infotech Aerospace Services Inc (IASI) to United Technologies Corporation. IASI contributed ₹ 11.8 crore to Cyient PAT in FY17. The company will receive US\$1.8 million (post additional dividend disbursement of US\$9.1 million from cash reserves) from transaction

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Vineyard Point Software Pvt. Ltd.	30-Sep-17	10.0%	11.3	0.0
2	The Carlyle Group	30-Sep-17	9.9%	11.1	0.0
3	Amansa Capital Pte Ltd.	30-Sep-17	6.4%	7.2	3.1
4	First State Investments (Singapore)	30-Sep-17	6.1%	6.8	0.2
5	Infocad Enterprises Pvt. Ltd.	30-Sep-17	5.0%	5.6	0.0
6	Franklin Templeton Asset Management (India) Pvt. Ltd	30-Sep-17	4.7%	5.3	3.4
7	Stewart Investors	31-Oct-17	4.2%	4.8	0.0
8	ICICI Prudential Life Insurance Company Ltd.	30-Sep-17	4.2%	4.7	0.0
9	T. Rowe Price International (UK) Ltd.	30-Sep-17	3.9%	4.3	1.0
10	Aditya Birla Sun Life AMC Limited	30-Sep-17	3.1%	3.5	2.5

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-17	Sep-17	Dec-17
Promoter	22.18	22.18	22.18
Public	77.82	77.82	77.82
Others	--	--	--
Total	100.00	100.00	100.00

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Franklin Templeton Asset Management (India) Pvt. Ltd.	26.6m	3.4m	OppenheimerFunds, Inc.	-39.6m	-5.0m
Amansa Capital Pte Ltd.	24.1m	3.1m	Lavender Investments, Ltd.	-10.7m	-1.4m
Aditya Birla Sun Life AMC Limited	19.8m	2.5m	State Street Global Advisors (US)	-1.3m	-0.2m
Norges Bank Investment Management (NBIM)	10.4m	1.3m	BlackRock Institutional Trust Company, N.A.	-1.3m	-0.2m
DSP BlackRock Investment Managers Pvt. Ltd.	9.5m	1.2m	ICICI Prudential Life Insurance Company Ltd.	-0.0m	-0.0m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement	₹ Crore			
	FY17	FY18E	FY19E	FY20E
Total Revenues	3,607	3,899	4,447	4,985
Growth (%)	16.5	8.1	14.1	12.1
COGS	2,365	2,519	2,860	3,200
Other expenditure	757	831	947	1,057
EBITDA	485	550	640	728
Growth (%)	14.1	13.4	16.5	13.6
Depreciation	95	113	129	145
Other Income	87	114	80	92
Interest	19	20	20	20
PBT before Exceptional Items	458	530	571	655
Growth (%)	8.5	15.8	7.7	14.8
Tax	105	138	154	177
PAT before Exceptional Items	301	392	427	488
Exceptional items	(26)	-	-	-
PAT before MI	327	392	427	488
Minority Int & Pft. from associates	17	10	(5)	(5)
PAT	344	402	422	483
Growth (%)	5.4	16.9	4.9	14.6
EPS	30.5	35.7	37.5	42.9
EPS (Growth %)	5.4	16.9	4.9	14.6

Source: Company, ICICIdirect.com Research

Balance sheet	₹ Crore			
	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity	56	56	56	56
Reserves & Surplus	2,061	2,305	2,543	2,842
Networth	2,117	2,362	2,599	2,898
Minority Interest	3	8	3	(2)
Borrowings	165	165	165	165
Long term Liabilities & provisions	138	138	138	138
Source of funds	2,423	2,673	2,906	3,200
Assets				
Net fixed assets	302	307	300	280
Net intangible assets	139	140	138	134
CWIP	9	9	9	9
Goodwill	328	328	328	328
Other non current assets	184	184	184	184
Non current Investments	103	108	108	108
Inventories	94	117	133	150
Debtors	650	650	832	829
Cash & Cash equivalents	878	1,463	1,392	1,956
Other current assets	450	406	439	470
Trade payables	402	681	554	830
Current liabilities	288	265	280	295
Provisions	24	105	135	134
Application of funds	2,423	2,662	2,894	3,188

Source: Company, ICICIdirect.com Research

Cash flow statement	₹ Crore			
	FY17	FY18E	FY19E	FY20E
PBT	432	530	571	655
Depreciation	95	113	129	145
WC changes	37	358	(313)	246
Other non cash adju.	(44)	(94)	(60)	(72)
Income taxes pd.	(100)	(138)	(154)	(177)
CF from operations	420	769	174	796
Other Investments	(77)	114	80	80
Acq. Of business	-	-	-	-
(Purchase)/Sale of Fixed Assets	(104)	(120)	(120)	(120)
CF from investing Activities	(180)	(6)	(40)	(28)
Inc / (Dec) in Equity Capital	2	-	-	-
Change in debt funds	(20)	(20)	(20)	(20)
Dividend & DDT	(75)	(158)	(184)	(184)
CF from Financial Activities	(93)	(178)	(204)	(204)
Exchange rate differences	28	-	-	-
Opening cash balance	683	857	1,442	1,371
Cash as margins/associates	21	21	21	21
Cash c/f to balance sheet	878	1,463	1,392	1,956

Source: Company, ICICIdirect.com Research

Key ratios	₹ Crore			
	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
Adjusted EPS (Diluted)	30.5	35.7	37.5	42.9
Cash per Share	78.0	129.9	123.6	173.7
BV per share	188.0	209.7	230.8	257.3
DPS	10.5	12.0	14.0	14.0
Operating Ratios (%)				
EBITDA Margin	13.4	14.1	14.4	14.6
PAT Margin	9.5	10.3	9.5	9.7
Debtor days	66	61	68	61
Creditor days	41	64	45	61
Return Ratios (%)				
RoE	16.2	17.0	16.2	16.7
RoCE	19.7	20.6	20.3	21.1
RoIC	38.1	64.5	52.1	82.1
Valuation Ratios (x)				
P/E	19.0	16.2	15.5	13.5
EV / EBITDA	11.8	9.3	8.1	6.4
EV / Net Sales	1.6	1.3	1.2	0.9
Market Cap / Sales	1.8	1.7	1.5	1.3
Price to Book Value	3.1	2.8	2.5	2.3
Solvency Ratios				
Debt/EBITDA	0.3	0.3	0.3	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.7	1.1	1.4	1.2
Quick Ratio	1.5	1.0	1.3	1.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (IT)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE(%)		
	(₹)	TP(₹)	Rating		FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Cyient (INFENT)	580	600	Hold	6,530	30.5	35.7	37.5	19.0	16.2	15.5	11.8	9.3	8.1	19.7	20.6	20.3	16.2	17.0	16.2
Eclerx (ECLSER)	1,528	1,125	Sell	6,299	86.4	74.8	88.4	17.7	20.4	17.3	12.1	14.0	12.2	34.5	28.1	28.9	29.1	22.4	23.9
Firstsource (FIRSOU)	46	47	Buy	3,034	4.1	4.3	4.7	11.1	10.7	9.7	8.6	7.8	6.6	11.7	11.9	12.7	13.8	12.5	12.2
HCL Tech (HCLTEC)	916	930	Hold	129,312	60.0	60.1	66.2	15.3	15.3	13.8	12.4	11.5	9.7	29.0	29.0	28.9	25.3	24.4	23.5
Infosys (INFTEC)	1,082	1,110	Hold	247,294	62.8	66.1	68.2	17.2	16.4	15.9	11.7	12.1	10.9	28.8	31.6	29.4	20.8	22.7	20.9
KPIT Tech (KPISYS)	204	160	Hold	4,059	10.6	11.7	T	19.2	17.5	14.3	11.2	10.9	8.7	14.5	15.3	17.1	15.1	13.2	14.2
Mindtree (MINCON)	623	600	Hold	10,462	24.9	32.0	33.9	25.0	19.5	18.4	13.8	13.5	10.6	21.2	24.9	24.3	16.2	20.0	18.9
NIIT Technologies (NIITEC)	702	660	Hold	2,515	40.8	43.4	50.9	15.7	16.2	13.8	3.7	3.3	2.4	29.8	31.3	36.3	14.8	14.2	14.8
Persistent (PSYS)	765	730	Buy	6,119	37.6	47.9	38.8	16.9	16.4	13.7	9.9	9.0	7.1	20.7	19.4	21.4	15.9	14.6	16.0
TCS (TCS)	2,756	2,750	Hold	539,818	133.4	132.5	144.4	20.7	20.8	19.1	15.3	15.4	13.4	38.0	37.9	34.9	29.8	29.5	27.1
Tech Mahindra (TECMAH)	552	505	Hold	54,245	31.7	37.5	39.3	17.4	14.7	14.0	12.0	10.8	8.5	19.4	19.8	18.8	17.1	17.7	16.4
Wipro (WIPRO)	319	350	Buy	157,490	17.5	19.1	20.7	18.3	16.7	15.4	11.9	12.7	10.8	16.8	18.1	17.2	16.3	17.8	16.5

Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: >10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Deepak Purswani, CFA MBA (Finance), Deepti Tayal, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.