

KPIT Technologies

| | |
|-----------------------|--------------------|
| BSE SENSEX | S&P CNX |
| 36,321 | 10,890 |
| Bloomberg | KPIT IN |
| Equity Shares (m) | 200 |
| M.Cap.(INRb)/(USDb) | 42.5 / 0.6 |
| 52-Week Range (INR) | 315 / 186 |
| 1, 6, 12 Rel. Per (%) | -1/-26/2 |
| 12M Avg Val (INR M) | 561 |
| Free float (%) | 81.1 |

Financials & Valuations (INR b)

| Y/E Mar | 2018 | 2019E | 2020E |
|-------------|-------|-------|-------|
| Net Sales | 42.4 | 47.5 | 53.4 |
| EBITDA | 5.5 | 6.5 | 7.7 |
| PAT | 3.3 | 4.3 | 5.3 |
| EPS (INR) | 14.8 | 21.0 | 26.0 |
| Gr. (%) | 16.9 | 42.0 | 23.4 |
| BV/Sh (INR) | 105.3 | 126.7 | 153.1 |
| RoE (%) | 15.9 | 18.4 | 18.8 |
| RoCE (%) | 19.3 | 21.7 | 22.4 |
| P/E (x) | 14.6 | 10.3 | 8.4 |
| P/BV (x) | 2.1 | 1.7 | 1.4 |

| | |
|------------------------|---|
| Estimate change | ↔ |
| TP change | ↔ |
| Rating change | ↔ |

CMP: INR215
TP: INR280 (+30%)
Buy

Strong Engineering traction but at the expense of margins

- **Operating performance below estimate:** KPIT's USD revenue/EBITA/PAT grew 8.3%/45.7%/32.7% YoY in 9MFY19. 3QFY19 revenue declined 1.7% QoQ in constant currency (3% miss). While Engineering SBU (43% of revenue) grew 6.4% QoQ, IT Business dragged with a decline of 7.5% QoQ due to completion of a few large projects. EBITDA margin shrank 60bp QoQ (excluding translation loss) – 110bp miss – due to weaker revenue. PAT declined 25% QoQ (+6% YoY) to INR656m, 14% below our estimate due to the operational miss.
- **Segmental margin data come as a surprise:** KPIT shared the 3QFY19/9MFY19 data of the IT and Engineering businesses. The key surprise for us was the 9MFY19 EBITDA margin in Engineering Services, which stood at 11.8% v/s 15.4% for IT Services. This pegs KPIT's Engineering margin below that of peers such as LTTS and TELX, contrary to the impression that Engineering had better profitability than IT. Management cited ramp-up in employees, investments in building solutions and hardware procurement nature of P&P as the key factors behind the same, while the gross margin remained strong. It expects the margin trajectory to improve, going forward.
- **No let-off in Engineering demand just yet:** While IT Services may post only modest growth, Engineering Services continues to thrive. Despite muted expectations by Auto OEMs globally, KPIT expects growth in FY20 to slow down to no lower than 20%.
- **Valuation view:** Starting next quarter, the combined IT Services business of KPIT and Birlasoft will be a separate company with FY19 revenue of USD472-476m (12.5-13% EBITDA), while KPIT Engineering will be a separate company with revenue of ~USD272m. We value the three entities (KPIT-ITS, KPIT-Engineering and Birlasoft) separately – the IT businesses at a forward earnings multiple of 10x and Engineering business at 15x – to arrive at a price target of INR280 (29% upside). Maintain **Buy**.

Quarterly Performance

| Y/E March | FY18 | | | | FY19 | | | | (INR Million) | | | |
|-------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|--------|-------------|---------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | FY18 | FY19E | Est. 3QFY19 | Var. (% / bp) |
| Revenue (USD m) | 134 | 142 | 141 | 150 | 151 | 153 | 149 | 152 | 568 | 604 | 154 | -3.2 |
| QoQ (%) | 4.8 | 5.7 | -0.7 | 6.5 | 0.2 | 1.3 | -2.3 | 2.1 | 14.8 | 6.5 | 0.9 | -320bp |
| Revenue (INR m) | 8,704 | 9,160 | 9,128 | 9,664 | 10,138 | 10,789 | 10,613 | 10,832 | 36,656 | 42,372 | 11,081 | -4.2 |
| YoY (%) | 8.4 | 10.2 | 9.9 | 12.6 | 16.5 | 17.8 | 16.3 | 12.1 | 10.3 | 15.6 | 21.4 | -513bp |
| GPM (%) | 26.7 | 28.1 | 30.7 | 31.3 | 32.0 | 33.3 | 30.7 | 30.6 | 29.3 | 31.7 | 33.6 | -285bp |
| SGA (%) | 17.6 | 18.2 | 19.9 | 19.9 | 19.9 | 19.7 | 17.7 | 17.8 | 18.9 | 18.8 | 19.5 | -180bp |
| EBITDA | 795 | 902 | 989 | 1,099 | 1,229 | 1,466 | 1,386 | 1,383 | 3,785 | 5,291 | 1,564 | -11.4 |
| EBITDA Margin (%) | 9.1 | 9.9 | 10.8 | 11.4 | 12.1 | 13.6 | 13.1 | 12.8 | 10.3 | 12.5 | 14.1 | -105bp |
| EBIT Margin (%) | 6.9 | 7.8 | 8.6 | 8.7 | 9.4 | 10.2 | 8.8 | 10.0 | 8.0 | 9.6 | 10.7 | -194bp |
| Other income | 121 | 114 | 25 | 191 | 162 | 70 | 3 | -8 | 450 | 226 | -135 | -101.9 |
| Interest | 26 | 26 | 24 | 29 | 54 | 57 | 51 | 62 | 104 | 224 | 62 | -16.8 |
| ETR (%) | 23.4 | 24.4 | 21.3 | 16.5 | 22.6 | 21.2 | 25.8 | 25.8 | 21.1 | 23.7 | 23.0 | |
| PAT | 555 | 603 | 619 | 838 | 826 | 876 | 656 | 752 | 2,616 | 3,110 | 764 | -14.1 |
| QoQ (%) | 3.3 | 8.7 | 2.6 | 35.4 | -1.5 | 6.2 | -25.1 | 14.6 | | | -12.8 | -1232bp |
| YoY (%) | 0.9 | 7.4 | -15.9 | 56.0 | 48.7 | 45.2 | 6.0 | -10.3 | 9.7 | 18.9 | 23.4 | -1744bp |
| EPS (INR) | 2.8 | 3.0 | 3.1 | 3.8 | 3.9 | 4.1 | 3.2 | 3.6 | 12.7 | 14.8 | 3.7 | |
| Headcount | 12,261 | 11,946 | 12,211 | 12,527 | 12,951 | 13,169 | 13,584 | 13,599 | 12,527 | 13,599 | 13,232 | 2.7 |
| Util excl. trainees (%) | 68.8 | 70.2 | 70.8 | 73.0 | 71.2 | 72.8 | 70.1 | 71.5 | 70.7 | 71.4 | 74.3 | -417bp |
| Offshore rev. (%) | 39.9 | 37.7 | 38.0 | 36.5 | 36.4 | 45.8 | 37.2 | 37.2 | 38.0 | 36.9 | 44.6 | -741bp |
| Fixed Price (%) | 34.8 | 36.2 | 38.0 | 38.4 | 39.6 | 43.0 | | | | | | |

E: MOSL Estimates

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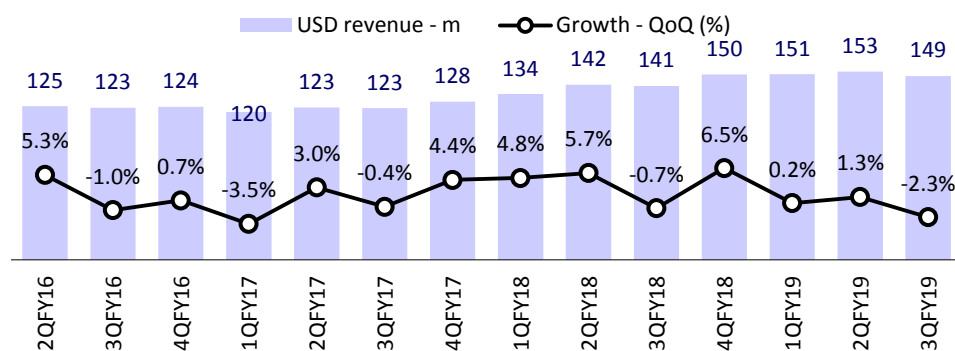
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3QFY19: Miss on revenue, impacted by weakness in IT

- KPIT's 3QFY19 revenue declined 1.7% QoQ in constant currency, a 3% miss to our estimate. While the Engineering SBU (43% of revenues) grew 6.4% QoQ, IT business dragged with a decline of 7.5% QoQ, led by SAP (14% of revenues, down 18% QoQ).
- In USD terms, growth stood at -2.3% QoQ, implying cross-currency headwind of 60bp.

Exhibit 1: Revenue dragged by weakness in IT (-7.5% QoQ)

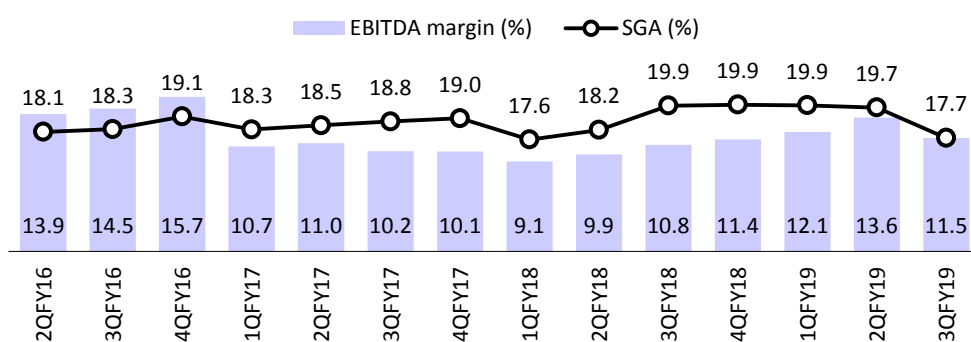


Source: MOSL, Company

Profitability miss

- EBITDA margin contracted by 210bp QoQ to 11.5% – 260bp miss – but EBITDA margins excluding forex loss in other expense was 13%.

Exhibit 2: Margin shrank 210bp QoQ, including forex loss



Source: MOSL, Company

- PAT stood at INR656m (-25% QoQ and +6% YoY), 14% below our estimate, led by operational miss.

Segment-wise performance: Growth led by Automotive/Engineering

- Growth in Product Engineering Services (+6.4% QoQ) was completely offset by weakness in Enterprise (-2.4% QoQ), BTU (-5.1% QoQ) and SAP (-18% QoQ).
- IT Services remained sluggish, with a decline of 7.5% QoQ.
- In line with the above, Automotive & Transportation grew by 6.4% QoQ.

Exhibit 3: Strong growth in Europe

| Geographies | Contr. to 3Q Rev. (%) | Growth – QoQ (%) | Growth – YoY (%) |
|-------------------|-----------------------|------------------|------------------|
| USA | 59.3 | -6.1 | -1.6 |
| Europe | 26.4 | 13.1 | 40.4 |
| Rest of the world | 14.3 | -9.8 | -8.1 |

Source: Company, MOSL

Exhibit 4: Traction continues in Engineering business

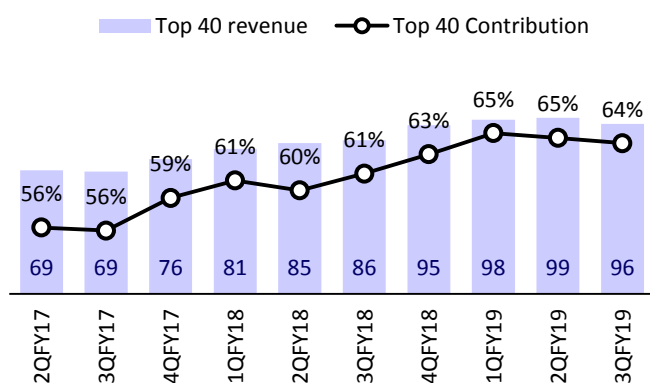
| Lines of Business | Contr. to 3Q Rev. (%) | Growth – QoQ (%) | Growth – YoY (%) |
|------------------------------|-----------------------|------------------|------------------|
| IES | 23.8 | -2.4 | -6.5 |
| Product Engineering Services | 43.2 | 6.4 | 17.2 |
| Products & Platforms | -10 | 40.4 | 9 |
| SAP | 14.3 | -18.0 | -24.5 |
| Digital Transformation | 14.8 | -5.1 | 51.1 |

Source: Company, MOSL

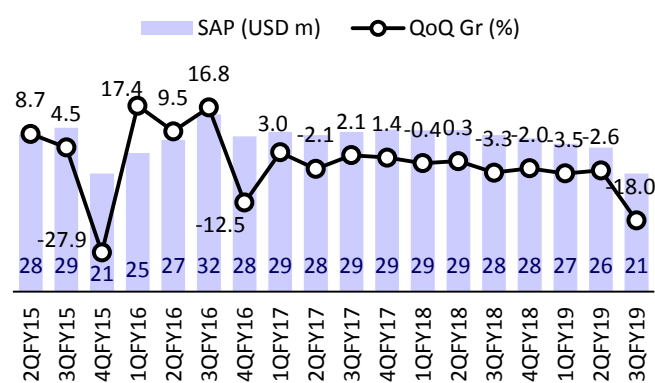
Exhibit 5: YoY decline in all verticals apart from Transportation

| Verticals | Contr. to 3Q Rev. (%) | Growth – QoQ (%) | Growth – YoY (%) |
|-----------------------------|-----------------------|------------------|------------------|
| Automotive & Transportation | 50.4 | 2.8 | 20.9 |
| Manufacturing | 25.9 | -6.3 | -5.5 |
| Energy & Utilities | 16.7 | -9.9 | -3.3 |
| Others | 6.9 | -2.3 | -15.5 |

Source: MOSL, Company

Exhibit 6: Revenue contribution from top 40 stagnant

Source: MOSL, Company

Exhibit 7: SAP decline due to completion of 2 large projects

Source: MOSL, Company

Takeaways from management commentary

- **3Q performance:** Weakness in IT segment was a function of seasonality and project completions. ~2.5% was the impact from lower working days and ~3.5% due to two of the largest implementation projects that got over. It will take another quarter for the new projects to start.
- **Combined entity metrics:**
 - 9MFY19 revenues for Birlasoft stood at USD108m, and it should end the year with ~USD144-145m. YoY growth excluding GE ramp-down stands at 15%.
 - IT segment for KPIT reported USD252m revenue for 9M and should end the year with ~USD327-330m.
 - Engineering services clocked USD200m for 9M and should end with USD272m revenues in FY19.
 - EBITDA margins for KPIT's IT segment should range between 12.5-14%

- **Merger synergies for Birlasoft:** Birlasoft has a prevalent ADM practice but virtually non-existent ERP practice, while it is the other way round for KPIT. This creates natural opportunities for cross-selling of services for the merged IT entity.
- **Transaction update:** With the NCLT approvals in place, 4QFY19 will be the first full quarter of independent quarterly reporting by KPIT (KPIT Engineering Business) and Birlasoft (Birlasoft + KPIT IT Business). On 18th January, KPIT's shares will be allotted to Birlasoft promoters. Starting 24th January 2019, KPIT will start trading ex-engineering. KPIT's engineering business will get listed on BSE and NSE on 19th March.
- **Gross margins in Engineering are strong, but investments are high:** Three factors for lower margins in Engineering services are: [1] Investment in people (~500 people Germany facility is now being expanded to ~1,000 people), [2] ~4% of revenues get invested into building new technologies and [3] P&P hardware procurement business, which the company should do away with by 1HFY20. Since the gross margin trends are very healthy, KPIT remains confident of a recovery in Engineering Services margins.
- **Moderate growth in IT but continued momentum in Engineering in FY20:** Exit for the IT business is on a weaker footing with some gap between project completions and the onset of new programs. However, the Engineering business should grow at least 20% YoY in FY20 as well. Note that 20% is lower than the previous two years, mainly factoring in some recent weakness in the commentary of global auto majors.

Change in estimates

- We value KPIT by taking a view on the growth of three segments separately: (1) KPIT's IT segment, (2) Birlasoft and (3) KPIT's engineering business.
- KPIT shared the 3QFY19 and 9MFY19 data of IT business and Engineering business. The key surprise for us was the 9MFY19 EBITDA margin in Engineering Services, which was 11.8%, compared to IT Services at 15.4%.
- Based on the slightly muted outlook for IT Services, we now model 4%/6% growth in the IT services for FY20/21. For the Engineering services segment, we expect 20% growth for FY20 as well as FY21. We expect revenue growth in Birlasoft to be 12% during this period.
- As far as the net margins go for FY20/21, we model gradual improvement to 8% and 9% in FY20/21 for Engineering Services. For the period, our net margin estimates for Birlasoft stand at 10% and that for KPIT's IT services stand at 9%/10%.
- Consequently, this translates into combined entity PAT of INR5.35b/6.44b for FY20/21 and EPS of INR19.5/23.4 per share.

Exhibit 8: The breakup of estimates by business segment

| | FY19 | | | | FY20 | | | | FY21 | | | |
|-----------|-----------|---------|-----------|-------|-----------|---------|-----------|-------|-----------|---------|-----------|-------|
| | KPIT Engg | KPIT IT | Birlasoft | Total | KPIT Engg | KPIT IT | Birlasoft | Total | KPIT Engg | KPIT IT | Birlasoft | Total |
| USDm | 272 | 327 | 156 | 744 | 326 | 340 | 175 | 829 | 392 | 360 | 156 | 934 |
| YoY. % | 29.3 | -1.0 | 4.1 | 9.4 | 20.0 | 4.0 | 12.0 | 11.4 | 20.0 | 6.0 | 12.0 | 12.7 |
| INR/USD | 70.9 | 70.9 | 70.9 | 70.9 | 73.4 | 73.4 | 73.4 | 73.4 | 72.0 | 72.0 | 72.0 | 72.0 |
| PAT | 1928 | 1391 | 1028 | 4348 | 1917 | 2247 | 1192 | 5355 | 2538 | 2595 | 1310 | 6443 |
| Margin. % | 10.0 | 6.0 | 10.0 | 8.2 | 8.0 | 9.0 | 10.0 | 8.8 | 9.0 | 10.0 | 10.0 | 9.6 |
| EPS - INR | | | | 15.8 | | | | 19.5 | | | | 23.4 |

Source: Company, MOSL

Valuation and view

- **Merger-demerger scheme:** After several years of coping with integration issues and legacy pressures in its IT services business, KPIT announced that it would demerge its Engineering business and merge the IT services bit with Birlasoft. The transaction is expected to get executed by the year-end.
- **Contrasting financial performance:** KPIT's Engineering business has been its strongpoint, exhibiting 16% revenue CAGR over the last five years. Meanwhile, the rest of the business has crawled at a 3% CAGR over the same period. Birlasoft too has been under pressure because of issues in its top client and has witnessed a decline of ~4% in revenue over the last three years.
- **Historical valuations subpar:** Over the last ten years, KPIT has, on an average, traded at a forward P/E multiple of 10x, which is materially lower compared to peers because of (i) subdued consolidated revenue growth, (ii) periodic inconsistency in performance, (iii) troubled inorganic foray, and (iv) execution not being superior. However, we note that during this period, positioning, prowess and performance in the Engineering business has been strong; and a majority of the issues can be attributed to the company's presence and efforts in the IT services business.
- **Performance expectations divergent:** On completion of the transaction, we reckon the Engineering Services side should grow at a 20% CAGR. We are also assuming that by then, KPIT's IT services business should have progressed further on correcting mix issues, and that Birlasoft would have gotten out of the woods with its client-specific issues. We also expect the combined entity to exhibit 11.2% revenue CAGR over FY18-21 – fuelled by growth in Engineering Services.
- **Valuing entities discretely:** We value KPIT's Engineering business at 15x FY20 earnings because of (i) its high growth, (ii) superior margin profile, and (iii) positioning in ERD and acclaimed capabilities in Automotive; conservatively at the lower end of peers like CYL, LTTS and TELX. The IT Services business-we value at 10x forward earnings, at the bottom quartile of peers given limited history to lay confidence on and past issues in performance.
- **Valuation view:** Starting next quarter, the cumulative IT Services business of KPIT and Birlasoft will be a separate company with FY19 revenues between USD472-476m (12.5-13% EBITDA) and KPIT Engineering will be a separate company with revenues at ~USD272m. Valuing the three entities (KPIT-ITS, KPIT-Engineering and Birlasoft) separately, with the IT businesses at a forward earnings multiple of 10x and Engineering business at 15x; to arrive at a price target of INR280 (29% upside). Maintain **Buy**.

Exhibit 9: Demerger to result in value unlocking; Potential value calculations

| Valuations - FY21 earnings basis | multiple (x) | TP (INR m) |
|----------------------------------|--------------|---------------|
| KPIT - Engineering Services | 15 | 38,071 |
| KPIT - IT Services | 10 | 25,955 |
| Birlasoft | 10 | 13,096 |
| Total | 14.4 | 77,122 |
| Number of share (m) | 275 | |
| TP (INR) | 280 | |
| CMP (INR) | 216.2 | |
| Upside (%) | 29.7 | |

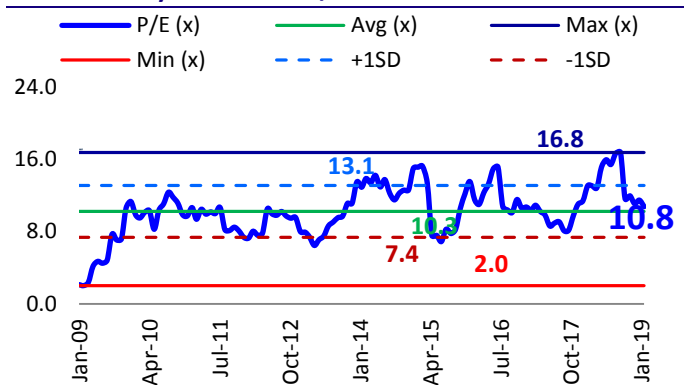
Source: Company, MOSL

Key triggers

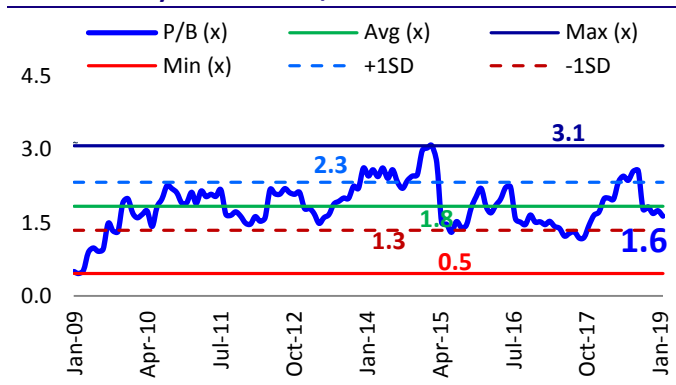
- Improved revenue growth outlook in IT Services
- Turnaround in net margins
- Synergy deals post-merger of IT businesses

Key risk factors

- Continued weakness in Engineering margins
- Sustained slowdown of SAP business
- Strengthening of the Rupee v/s the dollar

Exhibit 10: 1-year forward P/E

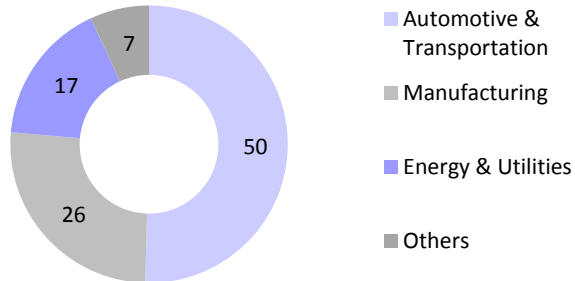
Source: Company, MOSL

Exhibit 11: 1-year forward P/B

Source: Company, MOSL

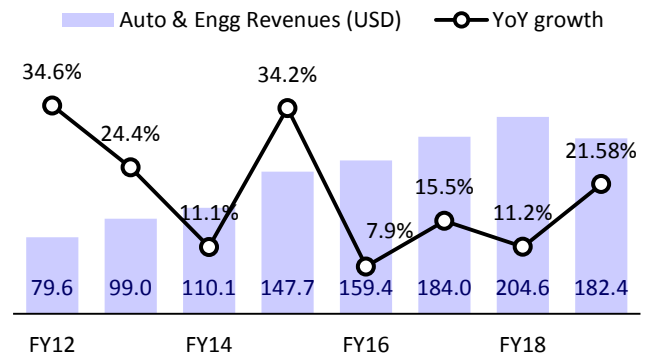
Story in charts

Exhibit 12: Offerings focused on select verticals, with mix of Automotive and Manufacturing



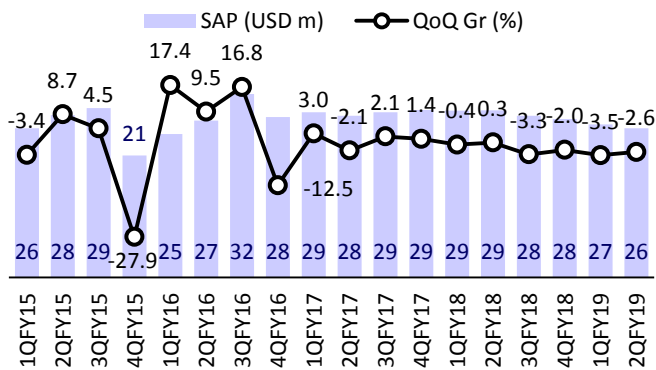
Source: Company, MOSL

Exhibit 13: Auto Engg to be the key growth driver going forward



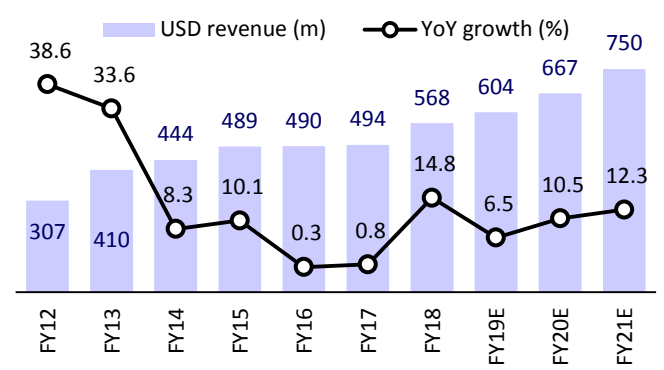
Source: Company, MOSL

Exhibit 14: SAP continues to decline



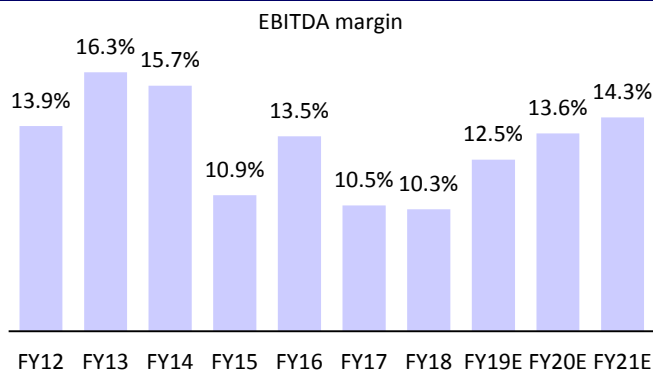
Source: Company, MOSL

Exhibit 15: Gradual pickup in growth from FY19



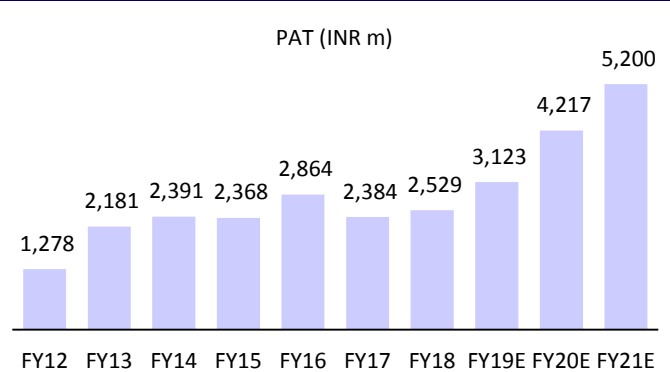
Source: Company, MOSL

Exhibit 16: Margin recovery on course in FY19



Source: Company, MOSL

Exhibit 17: 27% PAT CAGR over FY18-21



Source: Company, MOSL

Operating metrics

Exhibit 18: Operating metrics

| | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | 3QFY19 |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Geography Analysis (%) | | | | | | | | | |
| USA | 70.1 | 67.7 | 63.9 | 63.7 | 63.7 | 61.5 | 63.1 | 61.7 | 59.3 |
| Europe | 14.4 | 16.8 | 18.8 | 18.5 | 19.9 | 20.8 | 20.0 | 22.8 | 26.4 |
| ROW | 15.5 | 15.6 | 17.3 | 17.9 | 16.4 | 17.7 | 16.8 | 15.5 | 14.3 |
| LOB Analysis (%) | | | | | | | | | |
| Integrated Enterprise Solutions | 29.6 | 27.7 | 27.9 | 27.0 | 26.9 | 29.6 | 25.7 | 23.8 | 23.8 |
| Product Engineering | 31.8 | 35.5 | 35.2 | 33.7 | 39.0 | 36.3 | 38.2 | 39.7 | 43.2 |
| Products & Platforms | 3.9 | 3.9 | 5.5 | 4.2 | 3.8 | 5.4 | 3.3 | 4.3 | 4.0 |
| SAP | 23.4 | 22.7 | 21.6 | 20.5 | 20.0 | 18.4 | 17.7 | 17.0 | 14.3 |
| Business Transformation Unit | 11.4 | 10.3 | 9.8 | 14.6 | 10.3 | 10.3 | 15.2 | 15.2 | 14.8 |
| Customer Details | | | | | | | | | |
| No. of Customers Added | 2 | 3 | 2 | 4 | 3 | 4 | 3 | 3 | 3 |
| No. of Active Customers | 225 | 228 | 230 | 234 | 237 | 241 | 244 | 244 | 251 |
| Customers with a run-rate of > \$1m | 89 | 90 | 90 | 94 | 92 | 94 | 93 | 93 | 96 |
| Top Customer - Cummins | 12.6 | 12.4 | 12.5 | 12.0 | 12.2 | 12.1 | - | - | - |
| Top 20 Customers (%) | 44.1 | 47.7 | 51.5 | 49.5 | 50.7 | 51.8 | 52.5 | 48.6 | 49.9 |
| Top 40 Customers (%) | 55.9 | 59.0 | 60.6 | 59.7 | 61.3 | 63.1 | 65.1 | 64.6 | 64.1 |
| Revenue Split (%) | | | | | | | | | |
| Onsite Revenues | 57.0 | 55.8 | 53.1 | 55.2 | 56.0 | 52.5 | 54.2 | 54.1 | 56.4 |
| Offshore Revenues | 43.0 | 44.2 | 43.6 | 42.7 | 43.2 | 46.5 | 45.1 | 45.8 | 43.5 |
| Contract Type (%) | | | | | | | | | |
| T&M | 65.6 | 63.3 | 61.9 | 61.6 | 61.1 | 60.6 | 59.8 | 56.9 | 55.8 |
| FP | 33.7 | 35.8 | 34.8 | 36.2 | 38.0 | 38.4 | 39.6 | 43.0 | 44.0 |
| Debtor Days | 76 | 74 | 76 | 73 | 71 | 70 | 73 | 77 | 84 |
| HR - Details | | | | | | | | | |
| Development Team: | | | | | | | | | |
| Onsite (Avg) | 1,664 | 1,705 | 1,692 | 1,751 | 1,762 | 1,764 | 1,856 | 1,886 | 2,089 |
| Offshore (Avg) | 9,238 | 9,413 | 9,608 | 9,469 | 9,438 | 9,712 | 9,965 | 10,251 | 10,353 |
| Onsite FTE | 1,483 | 1,524 | 1,513 | 1,621 | 1,643 | 1,643 | 1,734 | 1,775 | 1,883 |
| Offshore FTE | 6,267 | 6,426 | 6,614 | 6,648 | 6,683 | 7,085 | 7,098 | 7,459 | 7,255 |
| Total FTE | 7,750 | 7,950 | 8,127 | 8,269 | 8,326 | 8,728 | 8,832 | 9,224 | 9,138 |
| Development | 11,017 | 11,225 | 11,368 | 11,070 | 11,324 | 11,626 | 12,040 | 12,244 | 12,654 |
| Support | 616 | 629 | 635 | 630 | 636 | 645 | 651 | 663 | 665 |
| Marketing | 248 | 256 | 258 | 246 | 251 | 256 | 260 | 262 | 265 |
| Total | 11,881 | 12,110 | 12,261 | 11,946 | 12,211 | 12,527 | 12,951 | 13,169 | 13,584 |
| Utilization (%) | | | | | | | | | |
| Onsite | 89.2 | 89.4 | 89.4 | 92.6 | 93.3 | 93.1 | 93.4 | 94.1 | 90.1 |
| Offshore (Incl. Trainees) | 67.8 | 68.3 | 68.8 | 70.2 | 70.8 | 73.0 | 71.2 | 72.8 | 70.1 |

Source: Company, MOSL

Financials and Valuations

Key Assumptions

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| INR/USD Rate | 60.6 | 61.1 | 65.8 | 67.2 | 64.6 | 70.1 | 71.2 | 71.2 |
| Revenues (USD m) | 444.3 | 489.0 | 490.3 | 494.4 | 567.6 | 604.2 | 667.5 | 749.7 |
| Offshore Revenue (%) | 46.0 | 46.5 | 43.2 | 42.0 | 38.0 | 36.9 | 37.9 | 37.8 |
| Total Headcount | 9,296 | 10,980 | 10,910 | 12,110 | 12,527 | 13,599 | 15,035 | 16,771 |
| Net Addition | 975 | 1,684 | (70) | 1,200 | 417 | 1,072 | 1,436 | 1,736 |
| Per capita productivity (USD) | 47,798 | 44,536 | 44,942 | 40,824 | 45,310 | 44,431 | 44,396 | 44,704 |
| Offshore Utilization (%) | 72.1 | 69.3 | 68.8 | 68.3 | 70.7 | 71.4 | 74.5 | 74.2 |
| Onsite Utilization (%) | 91.1 | 89.5 | 89.7 | 89.3 | 92.1 | 92.3 | 93.1 | 93.2 |

Income statement

(INR m)

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sales | 26,940 | 29,899 | 32,243 | 33,234 | 36,656 | 42,372 | 47,535 | 53,391 |
| Change (%) | 20.3 | 11.0 | 7.8 | 3.1 | 10.3 | 15.6 | 12.2 | 12.3 |
| Cost of Services | 18,180 | 21,957 | 21,859 | 23,549 | 25,933 | 28,955 | 32,772 | 36,624 |
| SG&A Expenses | 4,528 | 4,675 | 5,982 | 6,199 | 6,938 | 7,954 | 8,254 | 9,085 |
| EBITDA | 4,233 | 3,268 | 4,402 | 3,486 | 3,785 | 5,464 | 6,509 | 7,682 |
| % of Net Sales | 15.7 | 10.9 | 13.7 | 10.5 | 10.3 | 12.9 | 13.7 | 14.4 |
| Depreciation | 540 | 851 | 691 | 827 | 843 | 1,218 | 1,218 | 1,296 |
| Interest | 287 | 279 | 152 | 136 | 104 | 224 | 257 | 204 |
| Other Income | -74 | 345 | 248 | 207 | 450 | 226 | 524 | 665 |
| EO Item (net) | 0 | 0 | 113 | -261 | -26 | 0 | 0 | 0 |
| PBT | 3,332 | 2,483 | 3,693 | 2,991 | 3,314 | 4,249 | 5,558 | 6,846 |
| Tax | 941 | 115 | 830 | 606 | 698 | 966 | 1,272 | 1,567 |
| Rate (%) | 28.2 | 4.6 | 22.5 | 20.3 | 21.0 | 22.7 | 22.9 | 22.9 |
| PAT | 2,391 | 2,368 | 2,864 | 2,385 | 2,616 | 3,283 | 4,286 | 5,279 |
| Eq. in earnings of affiliates | 0 | 0 | 0 | 0 | -72 | -125 | -39 | -49 |
| Minority Interest | 0 | 0 | 0 | 0 | 15 | 34 | 30 | 31 |
| Net Income | 2,391 | 2,368 | 2,864 | 2,384 | 2,529 | 3,123 | 4,217 | 5,200 |
| Change (%) | 24.8 | -4.8 | 20.9 | -16.7 | 6.1 | 23.5 | 35.0 | 23.3 |

Balance Sheet

(INR m)

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 377 | 377 | 383 | 383 | 387 | 390 | 390 | 390 |
| Reserves | 12,360 | 12,577 | 13,424 | 15,440 | 17,782 | 20,581 | 24,839 | 30,086 |
| Net Worth | 12,736 | 12,954 | 13,807 | 15,823 | 18,169 | 20,971 | 25,229 | 30,476 |
| Minority Interest | - | - | - | 18.1 | 35.7 | 31.9 | 31.9 | 31.9 |
| Loan & other long term liabilities | 1,549 | 1,211 | 2,189 | 1,696 | 1,506 | 1,433 | 833 | 233 |
| Capital Employed | 14,285 | 14,165 | 15,996 | 17,538 | 19,711 | 22,436 | 26,094 | 30,741 |
| Fixed Assets | 2,161 | 2,328 | 2,850 | 3,968 | 4,335 | 4,377 | 3,959 | 3,462 |
| Other LT assets | 5,994 | 5,088 | 4,025 | 4,117 | 4,275 | 4,446 | 4,446 | 4,446 |
| Curr. Assets | 10,122 | 13,149 | 12,777 | 14,631 | 16,572 | 19,936 | 24,935 | 30,989 |
| Debtors | 6,743 | 6,979 | 6,861 | 7,843 | 8,057 | 8,839 | 9,992 | 11,146 |
| Cash & Bank Balance | 1,908 | 4,228 | 4,333 | 3,902 | 5,049 | 8,056 | 11,507 | 16,009 |
| Loans & Advances | 1,471 | 1,942 | 1,583 | 2,886 | 3,466 | 3,040 | 3,437 | 3,834 |
| Current Liab. & Prov | 6,949 | 8,536 | 5,956 | 7,676 | 7,618 | 8,374 | 9,466 | 10,560 |
| Net Current Assets | 3,173 | 4,613 | 6,821 | 6,956 | 8,954 | 11,562 | 15,469 | 20,430 |
| Application of Funds | 14,285 | 14,165 | 15,996 | 17,538 | 19,711 | 22,436 | 26,094 | 30,741 |

E: MOSL Estimates

Financials and Valuations

Ratios

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Basic (INR) | | | | | | | | |
| EPS | 14.9 | 12.0 | 14.1 | 12.0 | 12.7 | 14.8 | 21.0 | 26.0 |
| Cash EPS | 14.9 | 16.3 | 17.5 | 16.1 | 17.3 | 21.7 | 27.5 | 32.9 |
| Book Value | 64.6 | 65.7 | 69.0 | 79.3 | 91.1 | 105.3 | 126.7 | 153.1 |
| DPS | 1.1 | 1.2 | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Payout % | 7.4 | 10.0 | 10.7 | 16.7 | 15.8 | 13.5 | 9.5 | 7.7 |
| Valuation (x) | | | | | | | | |
| P/E | 14.6 | 18.1 | 15.4 | 18.2 | 17.1 | 14.6 | 10.3 | 8.4 |
| Cash P/E | 14.6 | 13.3 | 12.4 | 13.5 | 12.5 | 10.0 | 7.9 | 6.6 |
| EV/EBITDA | 9.7 | 11.7 | 8.9 | 11.1 | 10.0 | 6.6 | 4.8 | 3.4 |
| EV/Sales | 1.5 | 1.3 | 1.2 | 1.2 | 1.0 | 0.8 | 0.6 | 0.5 |
| Price/Book Value | 3.4 | 3.3 | 3.1 | 2.7 | 2.4 | 2.1 | 1.7 | 1.4 |
| Dividend Yield (%) | 0.5 | 0.6 | 0.7 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Profitability Ratios (%) | | | | | | | | |
| RoE | 20.5 | 18.4 | 21.0 | 16.1 | 15.4 | 15.9 | 18.4 | 18.8 |
| RoCE | 27.5 | 16.8 | 24.3 | 15.9 | 15.8 | 19.3 | 21.7 | 22.4 |
| RoIC | 23.0 | 20.4 | 26.2 | 16.8 | 16.4 | 21.4 | 28.0 | 33.4 |
| Turnover Ratios | | | | | | | | |
| Debtors (Days) | 91 | 85 | 78 | 86 | 80 | 76 | 77 | 76 |
| Fixed Asset Turnover (x) | 12.9 | 13.5 | 12.7 | 9.8 | 8.9 | 9.9 | 11.5 | 14.6 |

Cash Flow Statement

(INR m)

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E | FY21E |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| CF from Operations | 2,760 | 3,149 | 4,591 | 4,077 | 4,959 | 5,472 | 5,771 | 6,772 |
| Cash for Working Capital | -1,730 | 880 | -2,103 | -566 | -851 | 399 | -457 | -458 |
| Net Operating CF | 1,030 | 4,029 | 2,489 | 3,511 | 4,108 | 5,871 | 5,314 | 6,315 |
| Net Purchase of FA | -2,023 | -1,184 | -1,214 | -1,944 | -1,210 | -1,428 | -800 | -800 |
| Free Cash Flow | -994 | 2,845 | 1,275 | 1,567 | 2,898 | 4,444 | 4,514 | 5,515 |
| Net Purchase of Invest. | 112 | 85 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Cash from Invest. | -1,912 | -1,099 | -1,214 | -1,944 | -1,210 | -1,428 | -800 | -800 |
| Proc. from equity issues | 75 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from LTB/STB | 951 | -610 | 318 | -674 | -386 | -352 | -857 | -804 |
| Dividend Payments | -197 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash Flow from Fin. | 829 | -610 | 318 | -674 | -386 | -352 | -857 | -804 |
| Net Cash Flow | -53 | 2,320 | 1,593 | 893 | 2,513 | 4,091 | 3,658 | 4,711 |
| Exchange Diff/Cash from sub. | 57 | -184 | -4,163 | -4,363 | -4,403 | -4,122 | -3,245 | -3,246 |
| Opening Cash Bal. | 1,921 | 1,908 | 4,228 | 4,333 | 3,902 | 5,049 | 8,056 | 11,507 |
| Add: Net Cash | -53 | 2,320 | 1,593 | 893 | 2,513 | 4,091 | 3,658 | 4,711 |
| Closing Cash Bal. | 1,908 | 4,228 | 4,333 | 3,902 | 5,049 | 8,056 | 11,507 | 16,009 |

E: MOSL Estimates

Corporate profile

Company description

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Exhibit 1: Sensex rebased

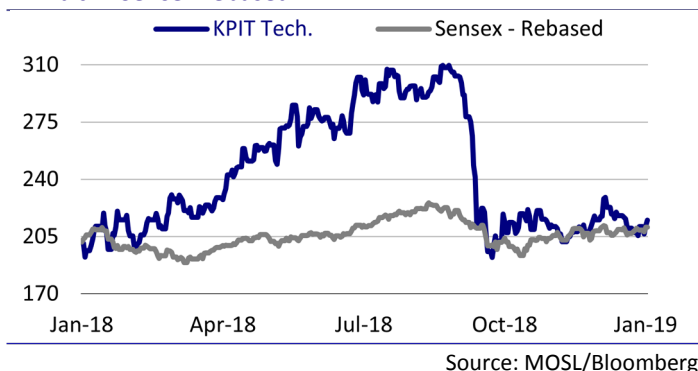


Exhibit 2: Shareholding pattern (%)

| | Sep-18 | Jun-18 | Sep-17 |
|----------|--------|--------|--------|
| Promoter | 18.9 | 18.9 | 18.9 |
| DII | 6.6 | 5.0 | 6.5 |
| FII | 51.7 | 53.4 | 48.4 |
| Others | 22.7 | 22.7 | 26.1 |

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

| Holder Name | % Holding |
|---------------------------------------|-----------|
| New Horizon Opportunities Master Fund | 2.5 |
| Bengal Finance & Investment Pvt. Ltd. | 2.5 |
| Acacia Partners, Lp | 2.4 |
| Idfc Sterling Value Fund | 2.4 |
| Acacia Institutional Partners, Lp | 2.3 |

Source: Capitaline

Exhibit 4: Top management

| Name | Designation |
|--------------|-------------------------|
| S B Pandit | Chairman & Group CEO |
| Kishor Patil | Managing Director & CEO |
| Sneha Padve | Company Secretary |

Source: Capitaline

Exhibit 5: Directors

| Name | Name |
|---------------------------------|------------------|
| B V R Subbu | Anant Talaulicar |
| Klaus Hermann Blicke | Lila Poonawalla |
| Adi Engineer | Sachin Tikekar |
| Alberto Sangiovanni Vincentelli | Anjan Lahiri |
| | Alka Bharucha |
| | Nikhil Jakatdar |

*Independent

Exhibit 6: Auditors

| Name | Type |
|----------------|-------------------|
| K R Chandratre | Secretarial Audit |
| B S R & Co LLP | Statutory |

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

| EPS (INR) | MOSL forecast | Consensus forecast | Variation (%) |
|-----------|---------------|--------------------|---------------|
| FY19 | 14.8 | 16.9 | -12.5 |
| FY20 | 21.0 | 20.1 | 4.4 |
| FY21 | 26.0 | 23.2 | 12.0 |

Source: Bloomberg

Explanation of Investment Rating

Investment Rating

| | |
|--------------|--|
| BUY | Expected return (over 12-month) >=15% |
| SELL | < - 10% |
| NEUTRAL | > - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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