

IT Services - Top Ideas (Sector Note)

IT Outperformed as Stocks re-rates ~35%, time to get Selective

IT Services companies have seen significant run-up in last 3 months with CNX IT rallying 24% and outperforming Nifty by 10% during this period – we called this out in our Thematic note on Digital Acceleration theme ([Detailed report link](#)) wherein we recommended to go Overweight on the sector.

During this period most institutions increased their weightage in the sector by ~180bps on average basis in last three months. Weightage on IT stocks is now just below 150bps compared with BSE500 (12%) as against Underweight of about ~300bps as of 31st May'20. However, with IT Index now at 20% higher than Pre-COVID levels despite average earnings compression of about 7% (for FY22) for our coverage universe implies expansion in earnings multiple by ~35% during this period. This re-rating has taken the valuations of stocks closer/higher than its +2SD of its 3year Median PER. Hence, at these valuations, we see limited room for further material upsides. Rather, we believe that the elevated valuations make them vulnerable to the potential risks of second order impact on the earnings and thus would prefer to wait for better entry points in these names.

View: Given the sharp rally most of our stocks Recommendations have now gone into Reduce/Sell zone and thus we turn incrementally cautious would suggest select names to go Overweight on to cover up for Sector Equal-weight stance and would request cut-down exposure in most other names especially the Mid/small cap names. At this point we just see few names that has some more room for re-rating led by improved financial performance (across growth/OPM/FCF/Pay-out yield basis) expectations over next FY20-22E such as HCLT (improving FCF to drive re rating – TP Rs795, valued at 17x PER on FY22E earnings), OFSS (acceleration in demand in Post COVID environment – DCF based TP Rs4000, implies 19x on FY22E PER basis) and FSOL (US Mortgage revival led growth opportunities – TP Rs 85, valued at 13x PE on FY22E – implies 1x on PEG basis).

Company	TP (Rs)	Rating
TCS	2,070	Reduce
Infosys	900	Reduce
HCLT	795	Accumulate
Wipro	230	Reduce
TechM	720	Reduce
LTI	2,470	Reduce
OFSS	4,000	Buy
Mphasis	1,180	Reduce
Mindtree	830	Sell
Coforge	1,540	Sell
Persistent	840	Sell
FSOL	85	Buy

Source: DART

Exhibit 1: Change in earnings, PER in last 6 months

	1st Mar'20 - EPS		1st Sep Aug'20- EPS		Change		PER on FY22E		Rerating (6M)
	FY21	FY22E	FY21	FY22E	FY21	FY22E	Feb'20	Aug'20	
TCS	99.0	110.8	83.2	94.0	(16)	(15)	18.1	23.8	32
INFY	41.7	45.0	40.9	45.0	(2)	0	16.3	20.8	28
HCLT	43.9	49.0	42.3	46.8	(4)	(4)	10.9	15.1	38
WPRO	17.9	18.9	15.6	16.4	(13)	(13)	11.7	16.6	42
TechM	53.3	58.8	42.3	48.1	(21)	(18)	12.7	15.6	24
LTI	98.4	110.7	93.3	107.5	(5)	(3)	17.3	23.4	36
MPHL	69.9	76.7	62.8	73.8	(10)	(4)	11.4	15.8	39
MTCL	48.5	54.0	43.9	49.0	(9)	(9)	17.5	24.2	38
NITEC	86.6	100.0	69.4	85.6	(20)	(14)	16.9	23.4	38
PSYS	50.4	54.5	45.1	52.6	(11)	(3)	12.8	19.4	52
FSOL	5.7	6.2	5.7	6.5	0	5	6.5	10.0	55

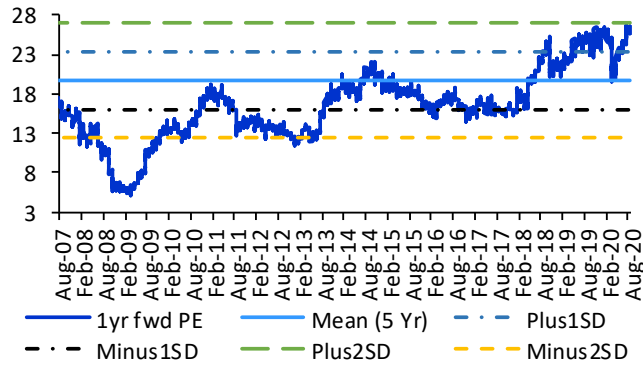
Source: Company, DART

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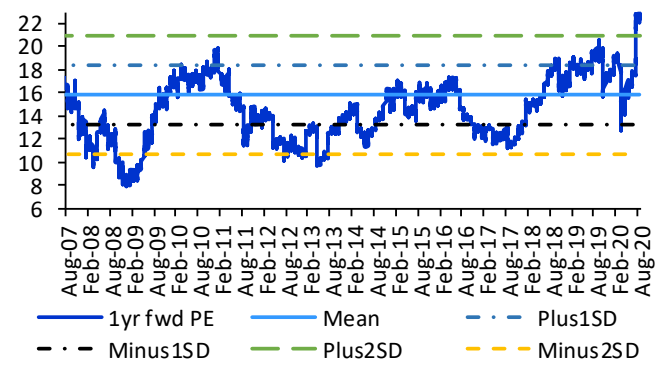
IT Services PE Band Charts

Exhibit 2: TCS Band Chart



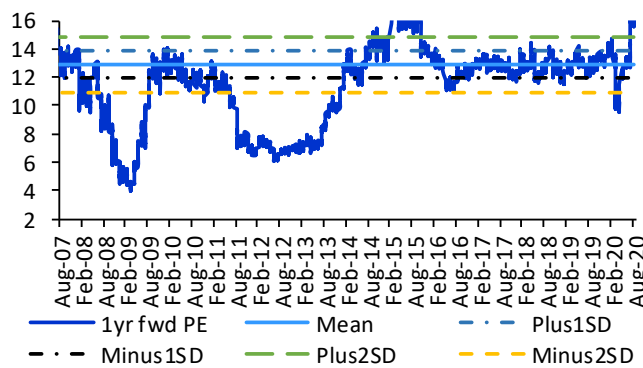
Source: DART, Company

Exhibit 3: INFY Band Chart



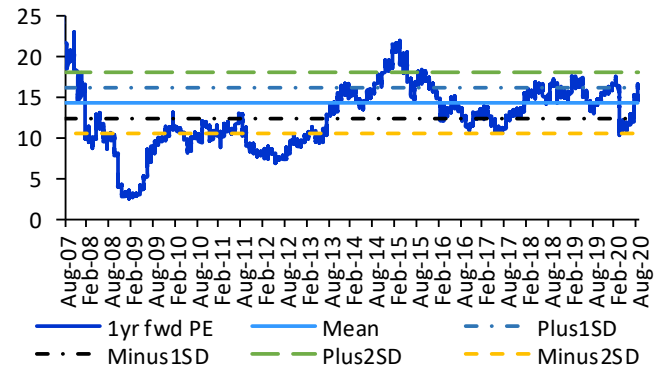
Source: DART, Company

Exhibit 4: HCL Tech Band Chart



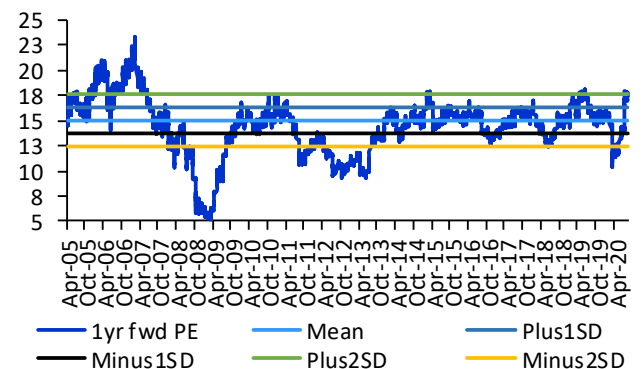
Source: DART, Company

Exhibit 5: Tech Mahindra Band Chart



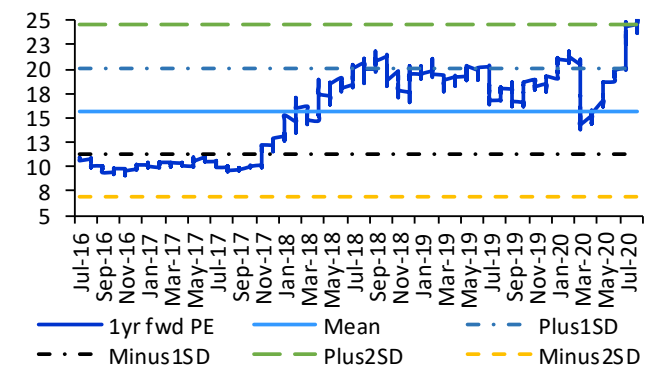
Source: DART, Company

Exhibit 6: Wipro Band Chart



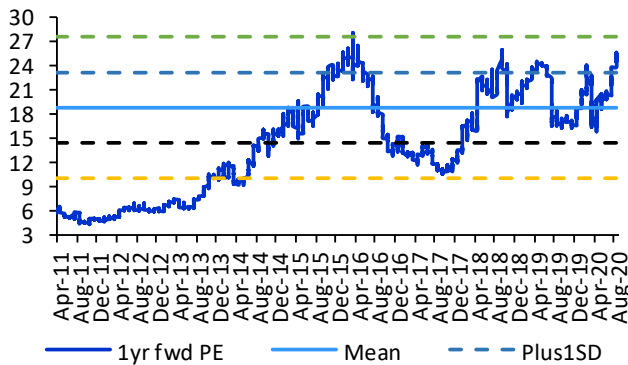
Source: DART, Company

Exhibit 7: LTI Band Chart



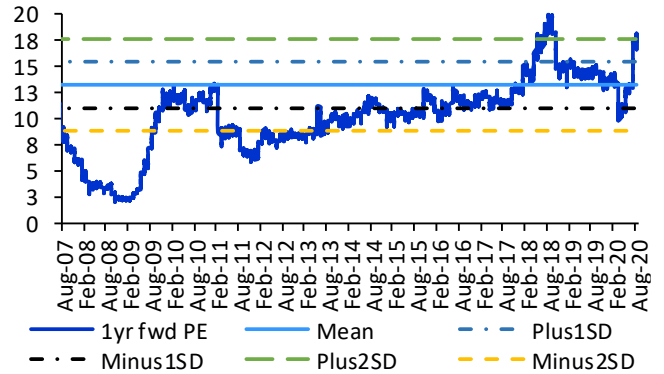
Source: DART, Company

Exhibit 8: Mindtree Band Chart



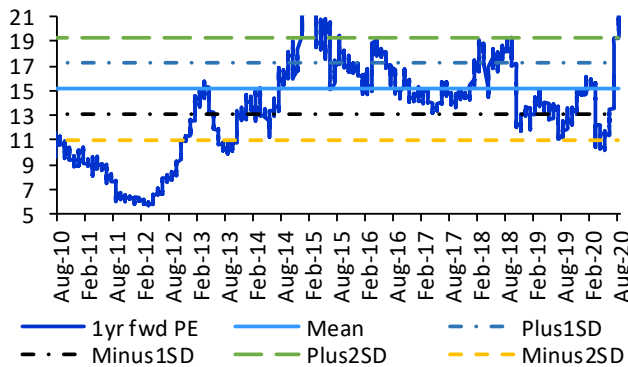
Source: DART, Company

Exhibit 9: Mphasis Band Chart



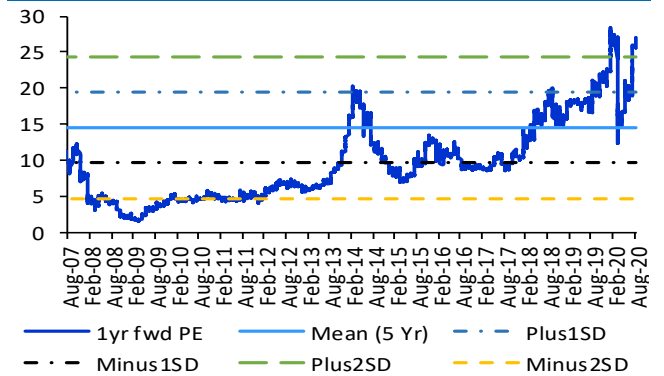
Source: DART, Company

Exhibit 10: Persistent PE Band Chart



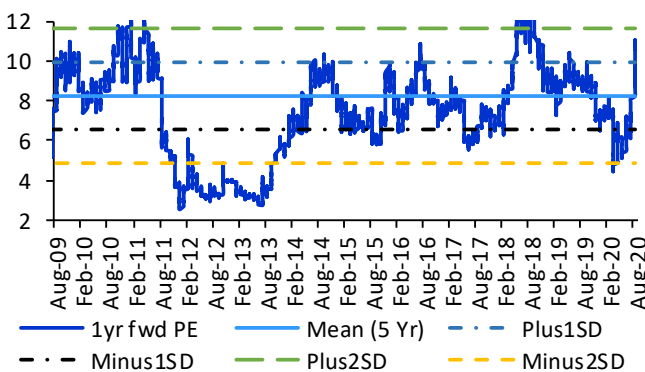
Source: DART, Company

Exhibit 11: Coforge (NIIT Tech) Band Chart



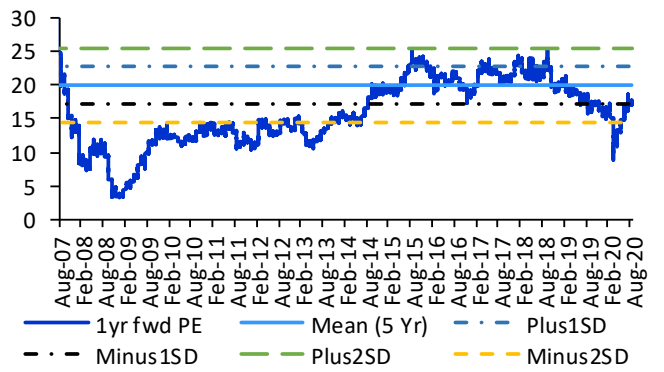
Source: DART, Company

Exhibit 12: FSOL PE Band Chart



Source: DART, Company

Exhibit 13: OFSS PE Band Chart



Source: DART, Company

Valuation Matrix

	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	Reco.	P/E (x)			ROE (%)			EV/EBITDA (x)		
						FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
TCS	8,345	2,239	2,070	(8)	Reduce	25.9	26.9	23.8	36.8	36.9	38.0	19.4	18.9	16.6
Infosys	4,054	935	900	(4)	Reduce	23.9	22.8	20.8	25.5	25.6	26.0	17.1	15.5	14.2
HCL T	1,892	706	795	13	Accumulate	17.2	16.7	15.1	23.8	20.5	19.3	11.1	9.8	8.4
WIPRO	1,576	272	230	(15)	Reduce	16.4	17.4	16.6	11.8	12.4	11.1	10.4	10.2	9.5
Tech M	654	752	720	(4)	Reduce	16.4	17.8	15.6	19.2	16.1	16.5	9.6	9.2	7.5
OFSS	258	3,042	4,000	31	Buy	17.9	15.4	14.4	25.4	21.8	25.0	11.0	12.0	10.7
LTI	418	2,520	2,470	(2)	Reduce	28.9	26.8	23.3	29.5	27.7	26.9	17.8	16.4	13.9
Mphasis	214	1,165	1,180	1	Reduce	18.3	18.6	15.8	20.3	18.2	19.0	11.2	10.3	8.6
Mindtree	172	1,185	830	(30)	SELL	30.9	27.0	24.2	19.5	21.6	21.4	15.5	13.8	12.2
NIIT Tech	112	2,001	1,540	(23)	SELL	28.0	28.8	23.4	19.8	16.8	18.7	14.8	13.5	11.5
Persistent	68	1,018	840	(18)	SELL	22.9	22.6	19.4	14.4	13.3	13.6	9.0	7.7	6.4
Firstsource	32	65	85	30	Buy	13.3	11.4	10.0	12.4	12.3	13.0	6.2	5.7	4.8

Source: DART

Company Section

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Accumulate

Strong momentum across business units; believes worst is behind

HCLT reported better than expected Q1FY21 numbers and also restored confidence on business recovery by reintroducing Guidance of 1.5%-2.5% QoQ growth in CC terms for next three quarters. Added 11 new transformational deals wins with robust increase of 40% YoY in pipeline across key industry verticals. In terms of P&P segment growth, HCLT added over 2000 customer footprints during the first year including 100+ in the June quarter alone led by Bigfix and Appscan. While ER&DS is expected to perform well on account of improvement in supply-side situation Q2 onwards (deal wins have been strong in this segment).

Strong performance in P&P segment to boost OPM and Cash profits.

P&P segment continues to perform on account of renewals and strong demand momentum led by its Digital commerce and security offerings. Some of its products have become a bright spot and supporting revenues - P&P segment declined by just 2.1% QoQ in Q1 with EBIT margins of about 31.6% (Cash Operating Profits at about 50%).

Strong deal momentum to drive up Financial Metrics

Robust jump in pipeline by 40% YoY and healthy order book signings with higher renewals and new deals at the end of quarter provides visibility for the future growth (30% of deal signed in last 15 days of the quarter). Ramp up of 11 transformational deal as well as cost transformation and vendor consolidation deals to further strengthen the confidence on future growth aspects. OPM guidance (guided band of 19.5-20.5%) implies gains in profitability for FY21 on YoY basis.

FCF revival to drive re-rating in the stock

OCF for Q1 stood at US \$ 819 mn, with OCF / NI conversion at 211.9%. FCF after Acquisition payment of \$812mn towards final tranche to IBM was down about \$60mn. With no meaningful investments in sight (organic as well as inorganic), FCF profile would improve materially – growth of about ~120% over FY20-22 (incremental US\$1bn).

Improvement in FCF and revival in business performance; Accumulate

With strong lead indicators and expectations of performance revival starting Q2, we are building in CC \$revenue and EPS CAGR of ~4%/7% over FY20-22E with Accumulate rating with TP of Rs795 valued at 17x PER on FY22E EPS (3yr Median +2SD – higher PE is justified given expected robust improvement in cashflow profile – FCF Yield 6%+).

CMP	Rs 706
Target / Upside	Rs 795 / 13%
BSE Sensex	39,486
NSE Nifty	11,648

Scrip Details

Equity / FV	Rs 5,430mn / Rs 2
Market Cap	Rs 1,918bn
	US\$ 26bn

52-week High/Low	Rs 729/Rs 375
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Avg. Volume (no)	6,004,620
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NSE Symbol	HCLTECH
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Bloomberg Code	HCLT IN
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Shareholding Pattern Jun'20(%)

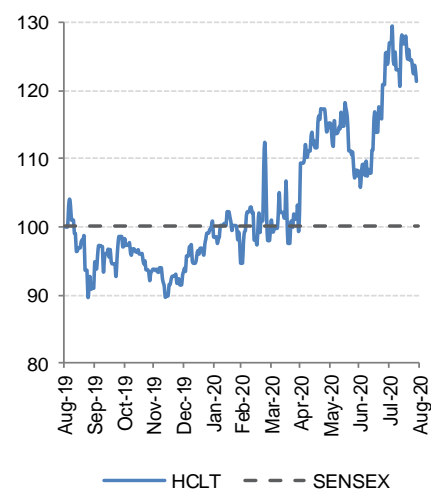
Promoters	60.0
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MF/Banks/FIs	8.4
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FII's	27.7
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Public / Others	4.0
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HCL Tech Relative to Sensex



FINANCIALS (Rs Mn)

Particulars	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	505,700	604,280	706,780	739,489	818,251
Growth(%)	8.2	19.5	17.0	4.6	10.7
EBITDA	114,400	139,690	166,930	183,470	201,802
OPM(%)	22.6	23.1	23.6	24.8	24.7
PAT	87,820	101,450	111,451	114,792	126,966
Growth(%)	3.8	15.5	9.9	3.0	10.6
EPS(Rs.)	31.5	37.4	41.0	42.3	46.8
Growth(%)	5.4	18.7	9.7	3.0	10.6
PER(x)	22.4	18.9	17.2	16.7	15.1
ROANW(%)	25.2	25.7	23.8	20.5	19.3
ROACE(%)	24.5	24.3	21.3	18.2	17.5

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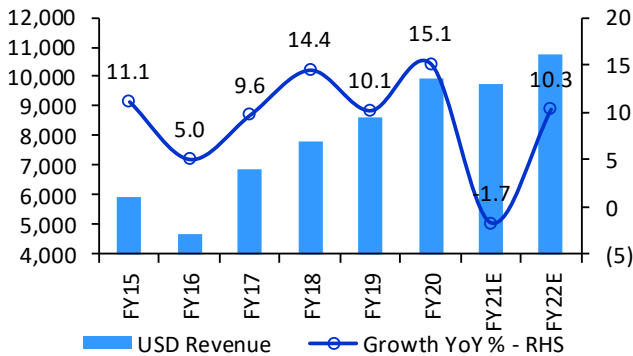
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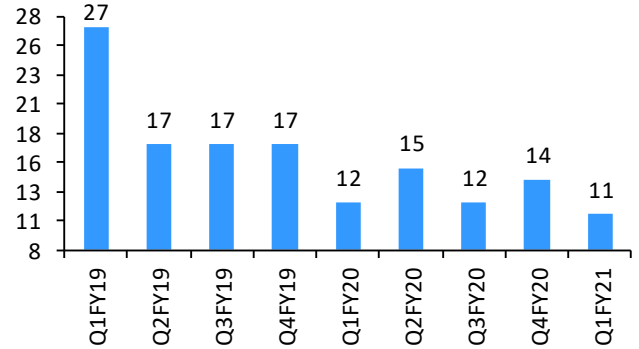
Story in Charts

Exhibit 1: Growth in revenues to revive in FY22E



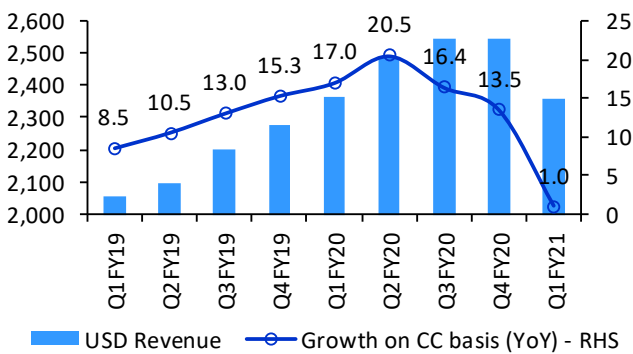
Source: Company, DART

Exhibit 2: Transformational deal momentum intact



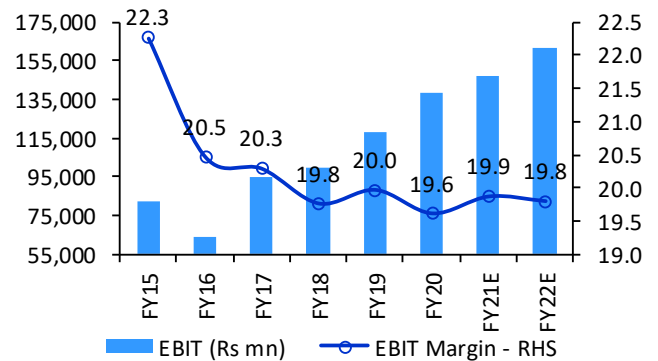
Source: Company, DART

Exhibit 3: USD revenue grew by 1% YoY in Q1FY21



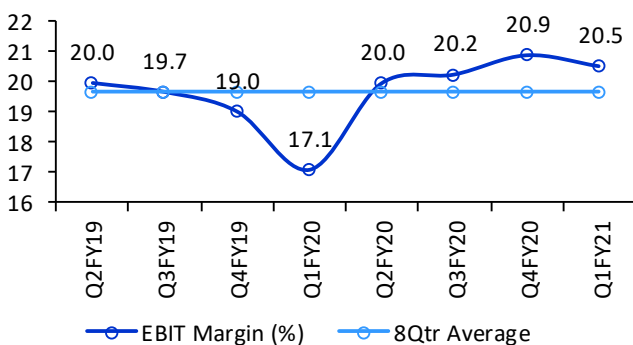
Source: Company, DART

Exhibit 4: OPM guidance suggest uptick hereon



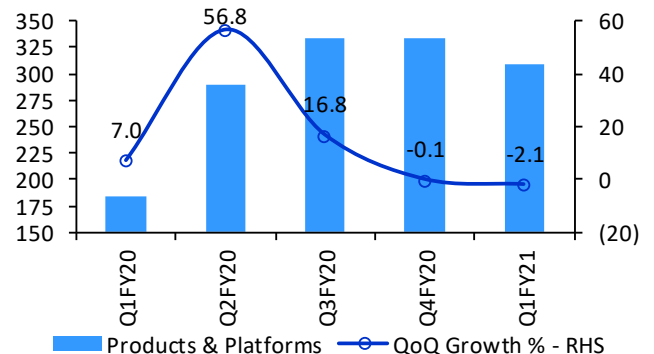
Source: Company, DART

Exhibit 5: EBIT Margin Stood at 20.5% in Q1FY21



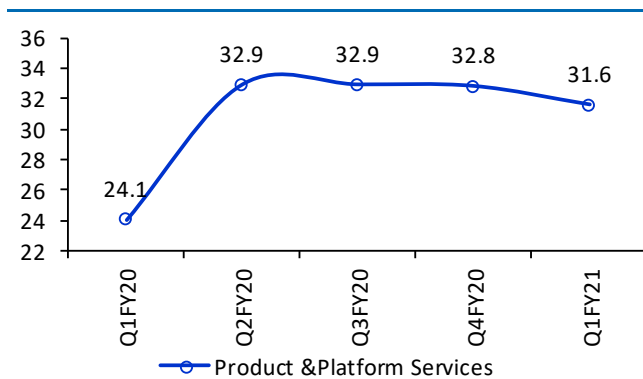
Source: Company, DART

Exhibit 6: P&P rev just declined 2.1% on QoQ basis.



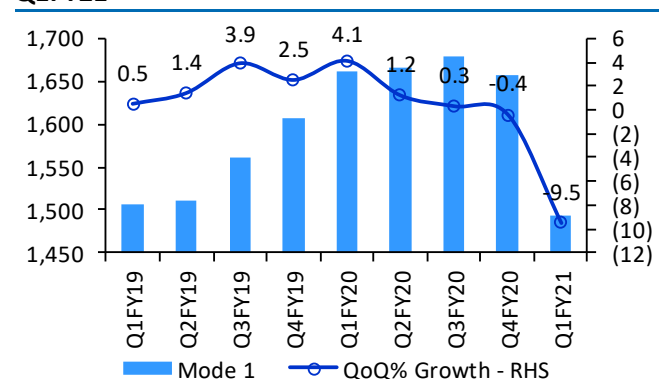
Source: Company, DART

Exhibit 7: Product & Platform OPM stood at 31.6%.



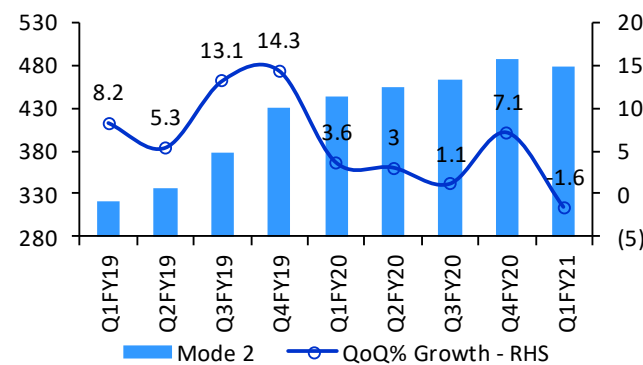
Source: Company, DART

Exhibit 8: Mode 1 Rev decreased 9.5% QoQ in Q1FY21



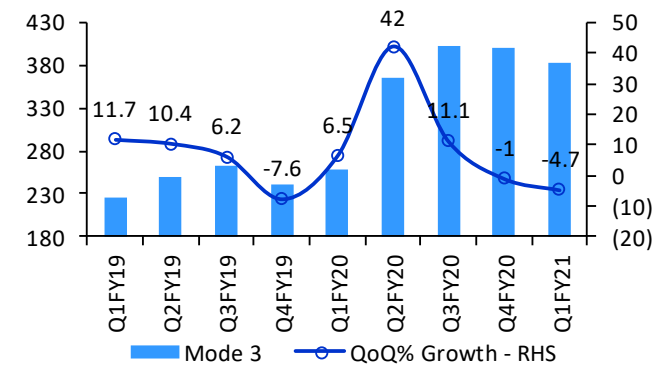
Source: Company, DART

Exhibit 9: Mode 2 Rev declined 1.6% QoQ in Q1FY21



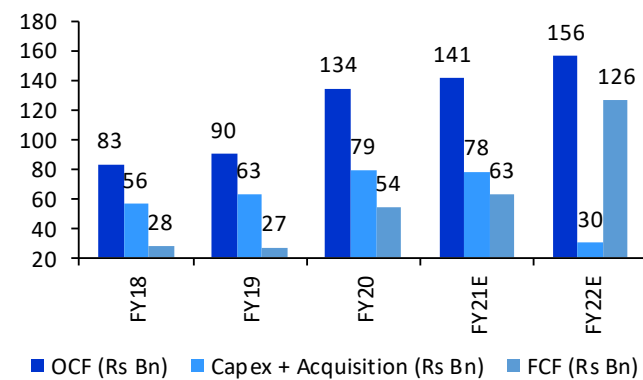
Source: Company, DART

Exhibit 10: Mode 3 Rev declined 4.7% QoQ in Q1FY21



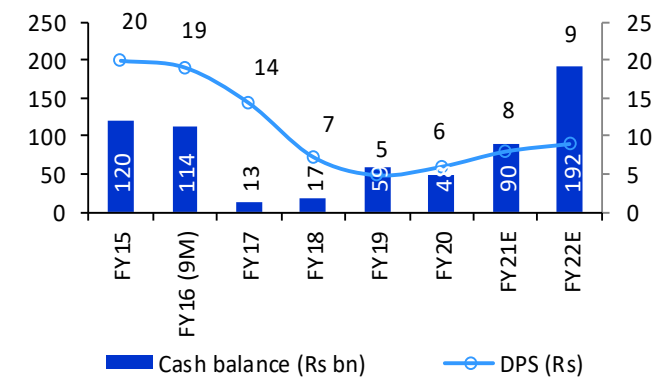
Source: Company, DART

Exhibit 11: OCF growth sustain; FCF conversion to improve as IBM payout done in Jun'20



Source: Company, DART

Exhibit 12: Cash balance stood at INR 48bn in FY20



Source: Company, DART

Exhibit 13: Quarterly and YTD Performance Trends

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	YTD FY20	YTD FY21	YoY (%)
Revenues (US\$ mn)	2,363.6	2,485.4	2,543.0	2,585.3	2,387.2	1.0	(7.7)	2,363.6	2,387.2	1.0
Revenue	164,250	175,280	181,350	185,900	178,410	8.6	(4.0)	164,250	178,410	8.6
Operating Expenditure	130,250	134,250	136,650	138,700	132,750	1.9	(4.3)	130,250	132,750	1.9
Cost of revenues	109,200	113,860	115,100	114,790	110,700	1.4	(3.6)	109,200	110,700	1.4
as % of sales	66.5	65.0	63.5	61.7	62.0			66.5	62.0	
SG&A expenses	21,050	20,390	21,550	23,910	22,050	4.8	(7.8)	21,050	22,050	4.8
as % of sales	12.8	11.6	11.9	12.9	12.4			12.8	12.4	
EBITDA	34,000	41,030	44,700	47,200	45,660	34.3	(3.3)	34,000	45,660	34.3
Depreciation	5,950	6,060	8,000	8,390	9,060			5,950	9,060	52.3
EBIT	28,050	34,970	36,700	38,810	36,600	30.5	(5.7)	28,050	36,600	30.5
Other Income	1,280	(30)	670	(130)	2,050			1,280	2,050	60.2
PBT	29,330	34,940	37,370	38,680	38,650	31.8	(0.1)	29,330	38,650	31.8
Total Tax	7,050	8,350	6,910	7,070	9,290			7,050	9,290	31.8
Adjusted PAT	22,280	26,590	30,460	31,610	29,360	31.8	(7.1)	22,280	29,360	31.8
APAT after MI	22,360	26,670	30,540	31,690	29,490	31.9	(6.9)	22,360	29,490	31.9
Reported EPS	8.2	9.8	11.2	11.6	10.8	31.7	(7.3)	8.2	10.8	31.7
Margins (%)						(bps)	(bps)			
EBIDTA	20.7	23.4	24.6	25.4	25.6	489	20	20.7	25.6	489
EBIT	17.1	20.0	20.2	20.9	20.5	344	(36)	17.1	20.5	344
EBT	17.9	19.9	20.6	20.8	21.7	381	86	17.9	21.7	381
PAT	13.6	15.2	16.8	17.0	16.5	292	(52)	13.6	16.5	292
Effective Tax rate	24.0	23.9	18.5	18.3	24.0	(0)	576	24.0	24.0	(0)

Source: DART, Company

Exhibit 14: What to expect next Quarter

(₹ Mn)	Q2FY21E	Q1FY21	Q2FY20	YoY	QoQ
Sales (US\$ mn)	2,424	2,356	2,485	(2.5)	2.9
Sales	183,581	178,410	175,280	4.7	2.9
EBIT	36,961	36,600	34,970	5.7	1.0
PAT	28,533	29,230	26,510	7.6	(2.4)
EPS	10.5	10.8	9.8	7.6	(2.4)
EBIT margin (%)	20.1	20.5	20.0	18 bps	(38 bps)

Source: DART, Company

Exhibit 15: Key Revenue growth matrix (% YoY)

YoY Growth	FY20	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
CC Growth	16.7	17.0	20.5	16.4	13.5	1.0
USD Growth	15.1	15.0	18.4	15.5	11.7	0.3
INR Growth	17.0	18.4	17.9	15.5	16.3	8.6

Source: Company, DART

Exhibit 16: Operating Metrics

Operating Metrics	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
CC Revenue (US\$ mn)	2,044	2,130	2,246	2,350	2,404	2,529	2,563	2,585	2,387
Growth in CC (QoQ)	2.7	3.0	5.6	3.3	4.2	6.0	2.1	0.8	-7.2
Growth in CC (YoY)	9	11	13	15	17	21	16	14	1
OPM Margin (%)	20	20	20	19	17	20	20	21	21
Service Offerings Amount (\$ mn)									
IT and Business Services	na	na	na	na	1,779	1,775	1,785	1,796	1,663
Eng and R&D Services	na	na	na	na	400	421	425	415	384
Products & Platforms	na	na	na	na	184	290	333	333	309
Service Offerings CC QoQ (%)									
IT and Business Services	na	na	na	na	4	1	0	2	(8)
Engineering and R&D Services	na	na	na	na	6	5	1	(2)	(9)
Products & Platforms	na	na	na	na	7	57	17	(0)	(2)
Segmental Amount (\$ mn)									
Mode 1	1,506	1,511	1,562	1,606	1,662	1,665	1,679	1,656	1,494
Mode 2	321	336	377	431	444	455	462	488	479
Mode 3	226	250	263	241	258	365	402	400	382
Segmental Growth QoQ (%)									
Mode 1	1	1	4	3	4	1	0	(0)	(10)
Mode 2	8	5	13	14	4	3	1	7	(2)
Mode 3	12	10	6	(8)	7	42	11	(1)	(5)
Vertical Amount (\$ mn)									
BFSI	489	483	476	481	480	557	549	537	528
Manufacturing	376	378	390	399	470	492	531	527	426
Telecom	150	151	203	196	189	209	229	211	179
Retail & CPG	187	210	225	228	225	249	262	259	236
Hi-Tech	374	382	412	426	447	383	384	412	405
Healthcare	263	271	286	296	303	321	310	318	323
Energy-Utilities-Travel-Govt	216	225	214	253	248	273	277	280	259
Vertical Growth YoY (%)									
BFSI	4	0	(3)	(6)	(2)	15	16	12	10
Manufacturing	(4)	(6)	(2)	2	25	30	36	32	(9)
Telecom	1	(1)	38	30	26	38	13	8	(5)
Retail & CPG	4	17	18	16	20	18	17	14	5
Hi-Tech	40	37	24	24	19	0	(7)	(3)	(9)
Healthcare	18	20	23	26	15	18	8	7	7
Energy-Utilities-Travel-Govt	3	10	5	17	15	22	30	11	4
Geography Amount (\$ mn)									
Americas	1,325	1,381	1,418	1,433	1,600	1,601	1,597	1,613	1,500
Europe	577	562	621	677	612	701	743	730	667
ROW	154	155	161	169	149	184	203	198	188
Geography Growth YoY (%)									
Americas	12	15	12	14	21	16	13	13	(6)
Europe	12	0	9	11	6	25	20	8	9
ROW	(17)	(5)	2	(3)	(3)	18	27	18	27
Segmental OPM (%)									
IT and Business Services	na	na	na	na	17	18	18	19	19
Engineering and R&D Services	na	na	na	na	16	21	21	19	19
Products & Platforms	na	na	na	na	24	33	33	33	32

Operating Metrics	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Client Amount (\$ mn)									
Top 5 Clients	349	363	383	387	392	388	387	384	327
Top 6-10 Clients	156	157	163	162	173	186	183	176	165
Top 11-20 Clients	197	197	205	212	243	263	270	257	233
Non-Top 20 Clients	1,351	1,381	1,451	1,515	1,555	1,648	1,704	1,727	1,630
Client Growth YoY (%)									
Top 5 Clients	29	25	22	17	12	7	1	(1)	(17)
Top 6-10 Clients	4	5	6	6	11	18	12	9	(4)
Top 11-20 Clients	(1)	(1)	3	5	23	34	32	21	(4)
Non-Top 20 Clients	7	7	10	12	15	19	17	14	5
Client Data									
1mn \$ +	571	575	597	623	633	667	712	791	848
5mn \$ +	267	269	276	283	293	299	302	308	320
10mn \$ +	162	165	164	166	172	171	167	171	173
20mn \$ +	87	90	95	95	93	93	94	96	93
50mn \$ +	32	31	29	29	29	30	32	30	29
100mn \$ +	9	9	10	10	12	13	15	15	15
Total Employees	124,121	127,875	132,328	137,965	143,900	147,123	149,173	150,423	150,287
Gross Additions	12,558	11,683	13,191	14,249	16,332	13,430	11,502	10,278	7,005
Net Addition	4,040	3,754	4,453	5,637	5,935	3,223	2,050	1,250	(136)
Attrition (LTM) (%)	16	17	18	18	17	17	17	16	15

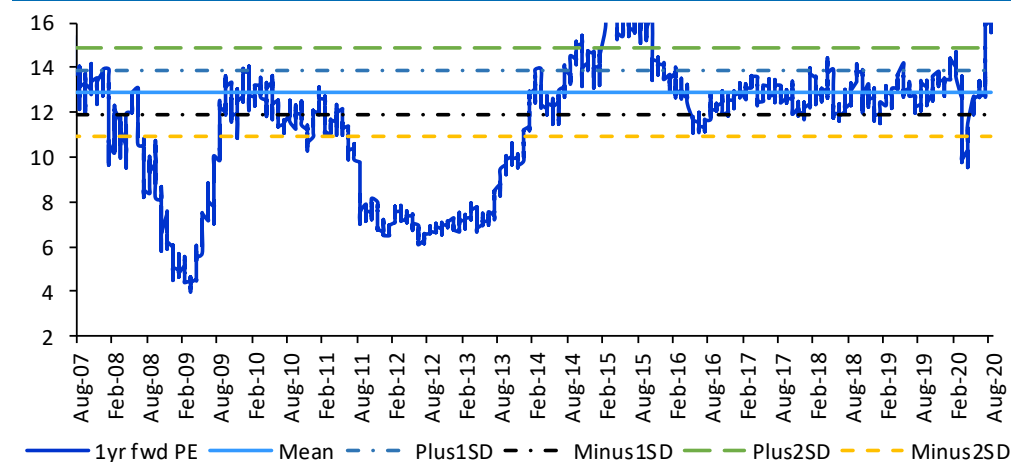
Source: DART, Company

Exhibit 17: Key assumptions in our estimates

Metrics	FY20	FY21E	FY22E
USD revenue growth (%)	15.1	(1.7)	10.3
INR revenue growth (%)	17.0	4.6	10.7
EBIT margins (% of sales)	19.6	19.9	19.8
EPS growth (%)	10.8	3.0	10.6
USD/INR	71.1	75.7	76.0

Source: Company, DART

Exhibit 18: PE now beyond 2SD but still attractive on absolute basis.



Source: DART, Bloomberg

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	604,280	706,780	739,489	818,251
Total Expense	464,590	539,850	556,019	616,448
COGS	392,680	452,950	462,711	515,116
Employees Cost	0	0	0	0
Other expenses	71,910	86,900	93,308	101,333
EBIDTA	139,690	166,930	183,470	201,802
Depreciation	21,480	28,400	36,616	39,897
EBIT	118,210	138,530	146,854	161,905
Interest	0	0	0	0
Other Income	8,050	2,301	4,224	5,155
Exc. / E.O. items	0	0	0	0
EBT	126,260	140,831	151,078	167,061
Tax	24,810	29,380	36,286	40,095
RPAT	101,450	111,451	114,792	126,966
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	101,450	111,451	114,792	126,966

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	2,710	5,430	5,430	5,430
Minority Interest	0	0	0	0
Reserves & Surplus	419,530	508,780	601,852	704,383
Net Worth	422,240	514,210	607,283	709,814
Total Debt	39,860	68,720	68,720	68,720
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	462,100	582,930	676,003	778,534

Applications of Funds

Net Block	58,010	85,420	126,804	116,907
CWIP	0	0	0	0
Investments	88,900	67,240	67,240	67,240
Current Assets, Loans & Advances	442,050	676,400	740,588	861,266
Inventories	0	910	910	910
Receivables	117,060	141,310	163,810	182,710
Cash and Bank Balances	59,290	48,480	90,168	191,946
Loans and Advances	22,200	69,890	69,890	69,890
Other Current Assets	243,500	415,810	415,810	415,810
Less: Current Liabilities & Provisions	126,860	246,130	258,630	266,880
Payables	111,480	235,650	248,150	256,400
Other Current Liabilities	15,380	10,480	10,480	10,480
<i>sub total</i>				
Net Current Assets	315,190	430,270	481,958	594,386
Total Assets	462,100	582,930	676,003	778,534

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	35.0	35.9	37.4	37.0
EBIDTA Margin	23.1	23.6	24.8	24.7
EBIT Margin	19.6	19.6	19.9	19.8
Tax rate	19.6	20.9	24.0	24.0
Net Profit Margin	16.8	15.8	15.5	15.5
(B) As Percentage of Net Sales (%)				
COGS	65.0	64.1	62.6	63.0
Employee	0.0	0.0	0.0	0.0
Other	11.9	12.3	12.6	12.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	71	73	81	82
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	67	122	122	114
Working Capital days	190	222	238	265
FA T/O	10.4	8.3	5.8	7.0
(D) Measures of Investment				
AEPS (Rs)	37.4	41.0	42.3	46.8
CEPS (Rs)	45.4	51.5	55.8	61.5
DPS (Rs)	4.9	6.0	8.0	9.0
Dividend Payout (%)	13.0	14.6	18.9	19.2
BVPS (Rs)	155.8	189.4	223.7	261.4
RoANW (%)	25.7	23.8	20.5	19.3
RoACE (%)	24.3	21.3	18.2	17.5
RoAIC (%)	31.2	29.6	26.2	27.6
(E) Valuation Ratios				
CMP (Rs)	706	706	706	706
P/E	18.9	17.2	16.7	15.1
Mcap (Rs Mn)	1,918,012	1,918,012	1,918,012	1,918,012
MCap/ Sales	3.2	2.7	2.6	2.3
EV	1,898,582	1,938,252	1,896,564	1,794,786
EV/Sales	3.1	2.7	2.6	2.2
EV/EBITDA	13.6	11.6	10.3	8.9
P/BV	4.5	3.7	3.2	2.7
Dividend Yield (%)	0.7	0.8	1.1	1.3
(F) Growth Rate (%)				
Revenue	19.5	17.0	4.6	10.7
EBITDA	22.1	19.5	9.9	10.0
EBIT	18.4	17.2	6.0	10.2
PBT	13.8	11.5	7.3	10.6
APAT	15.5	9.9	3.0	10.6
EPS	18.7	9.7	3.0	10.6

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	89,710	133,590	141,408	156,213
CFI	(30,730)	(123,740)	(78,000)	(30,000)
CFF	(16,540)	(31,260)	(21,720)	(24,435)
FCFF	27,050	54,370	63,408	126,213
Opening Cash	16,570	59,010	26,720	46,648
Closing Cash	59,010	37,600	68,408	148,426

E – Estimates

Buy

Digital Acceleration theme to drive revenue growth potential

Digital Acceleration theme drives growth momentum

Despite the travel restrictions and typical in-person behavior in many markets; OFSS signed new Licences worth US\$29.5mn (highest over last 14 quarter) that included 15 new deals including 8 in developed markets and also witnessed 22 go-lives during the quarter. Improved deal momentum led by Digital acceleration theme - Banks investing both on creating digital channels as well as towards innovative credit initiatives across globe post COVID could trigger multi-year growth momentum. Bank's priority on investments are expected to move to Core-banking modernization as in current environment it make sense to invest in Technology or Digital channel only (not in branch or people).

Strong traction in Annuities revenue stream driving profitability

AMC revenues in Q1FY21 were up 16% YoY and contributed 29% of revenues. The strong traction in AMC revenues helped in OPM gains as evident from all-time-best Product margins for Q1 (improved 450bps YoY) at 56%. The Licence revenues were marginally up for the quarter on YoY basis.

Clocked best ever profitability at 49.6% in Q1

OFSS reported EBIT margins at 49.6% in Q1 led by improved growth momentum (Product margins stood at 56%) and significant savings on SG&A specifically towards Travel and Other Expenses (cumulatively saved about Rs490mn). We expect half of these gains to sustain in near term due to remote operations and thus could extend the overall earnings momentum significantly hereon.

Business momentum expected to improve, valuation attractive

Global leadership in underpenetrated CBS business, unmatched access, superior technology, integrated & reliable offering would ensure that OFSS emerge as most preferred vendor in the segment. Generous dividend (implies 6% yield), improving profitability (up 150bps in FY20), potential acceleration in digital transformation and compelling valuations at 14.5x makes a strong case for re-rating of the stock. Encouraged by the large prospects of Core modernization theme, relative stability in BFS spends and its high FCF yields of 6%, we continue to maintain our Buy rating on the stock with a DCF based TP of Rs 4,000 per share (implies 19x on FY22E PER basis).

FINANCIALS (Rs Mn)

Particulars	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	45,275	49,589	48,613	52,618	57,865
Growth(%)	2.3	9.5	(2.0)	8.2	10.0
EBITDA	18,113	21,447	22,287	24,731	26,449
OPM(%)	40.0	43.2	45.8	47.0	45.7
PAT	12,371	13,859	14,622	17,009	18,163
Growth(%)	4.3	12.0	5.5	16.3	6.8
EPS(Rs.)	144.9	161.0	170.3	198.1	211.5
Growth(%)	3.8	11.0	5.8	16.3	6.8
PER(x)	21.0	18.9	17.9	15.4	14.4
ROANW(%)	31.0	28.7	25.4	25.9	27.5
ROACE(%)	30.0	28.0	24.1	24.1	25.5

CMP	Rs 3,042
Target / Upside	Rs 4,000 / 31%
BSE Sensex	39,486
NSE Nifty	11,648

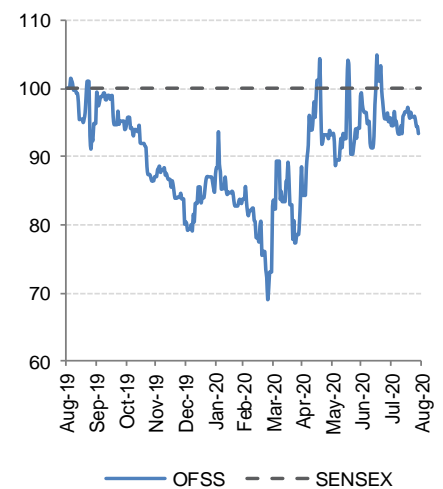
Scrip Details

Equity / FV	Rs 429mn / Rs 5
Market Cap	Rs 262bn
	US\$ 4bn
52-week High/Low	Rs 3,263/Rs
Avg. Volume (no)	57,081
NSE Symbol	OFSS
Bloomberg Code	OFSS IN

Shareholding Pattern Jun'20(%)

Promoters	73.4
MF/Banks/FIs	5.5
FII's	13.9
Public / Others	7.2

OFSS Relative to Sensex



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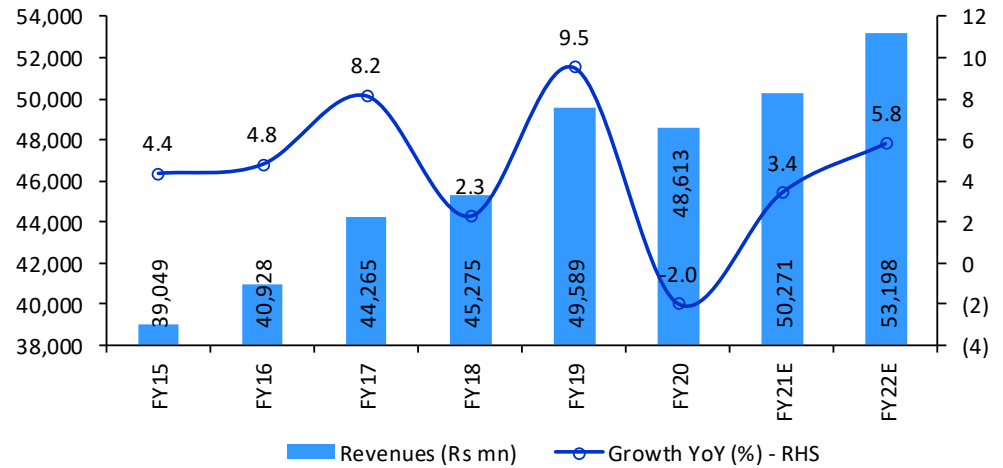
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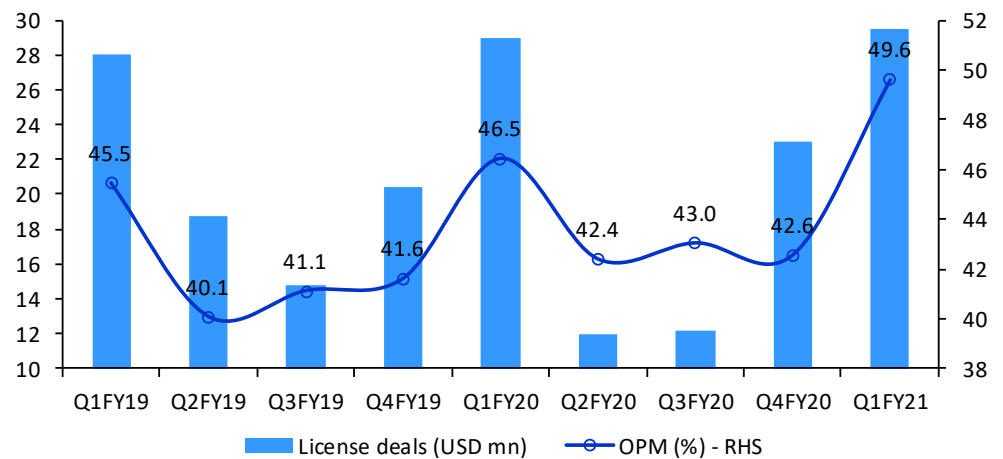
Story in Charts

Exhibit 1: Revenues momentum to improve FY22E onwards.



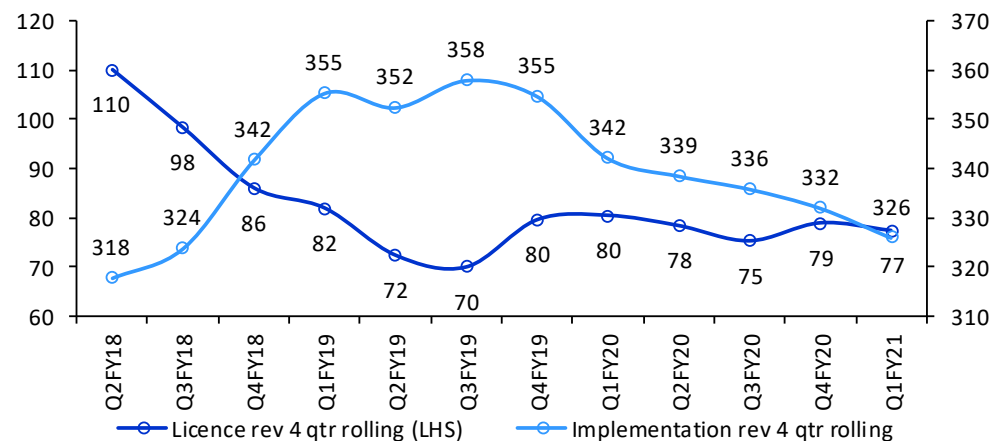
Source: , DART

Exhibit 2: Qtlly License sales and OPM trends



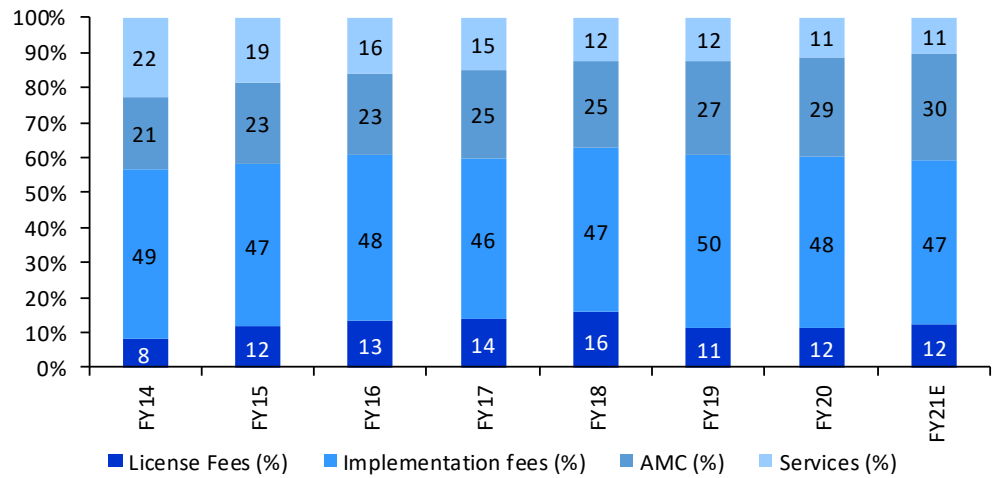
Source: DART

Exhibit 3: 4 Quarter rolling - License revenue as well as Implementation revenue trends



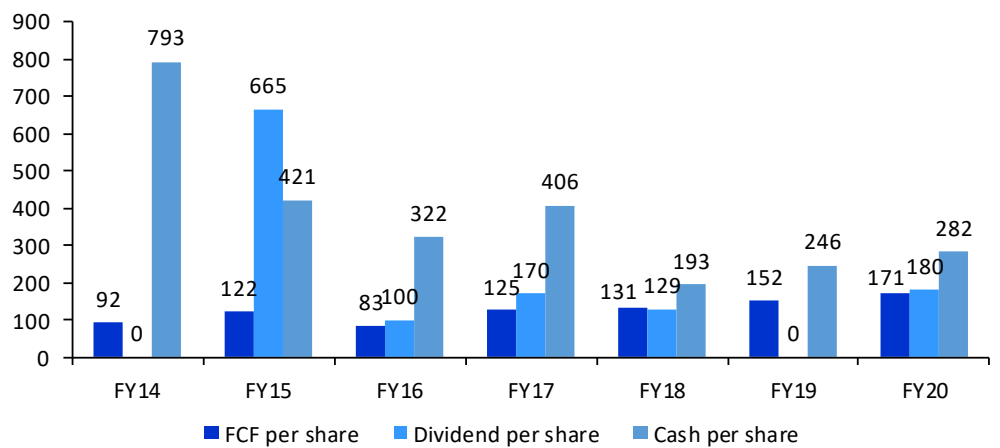
Source: DART

Exhibit 4: Annual Segmental Revenue Contribution Mix



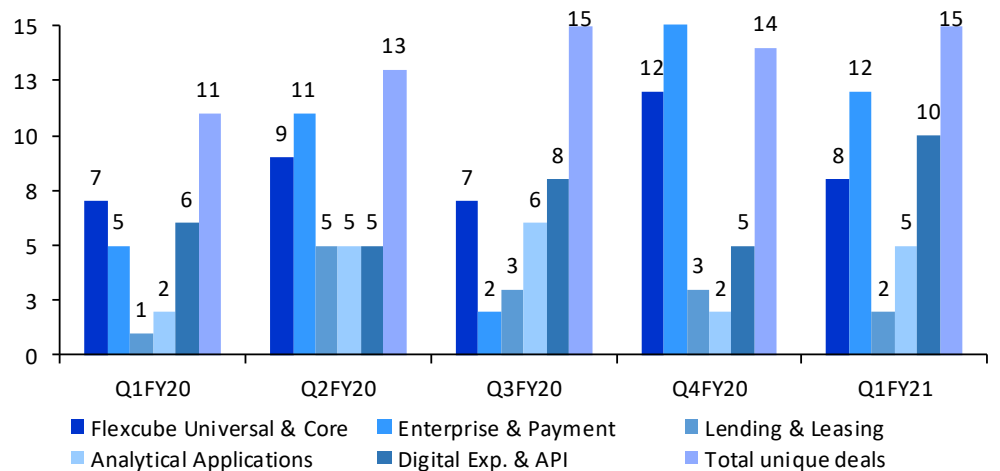
Source: Company, DART

Exhibit 5: Dividend payouts to get revived as robust FCF generations continues



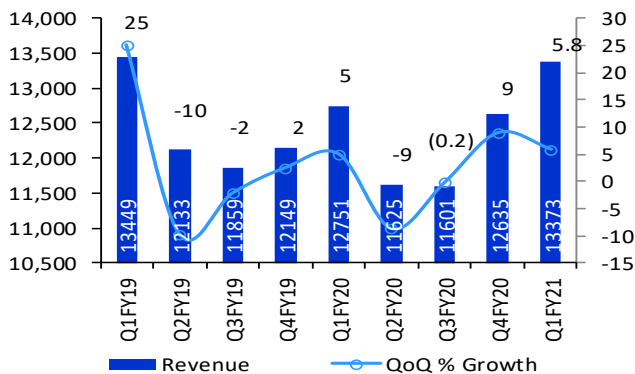
Source: Company, DART

Exhibit 6: Product and module sales quarterly



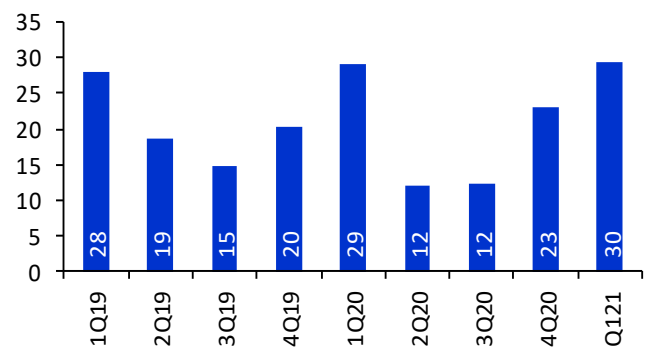
Source: DART, Company, *Product count differs because some deals are for multi products

Exhibit 7: Quarterly Revenue grew 5.8% QoQ in Q1FY21



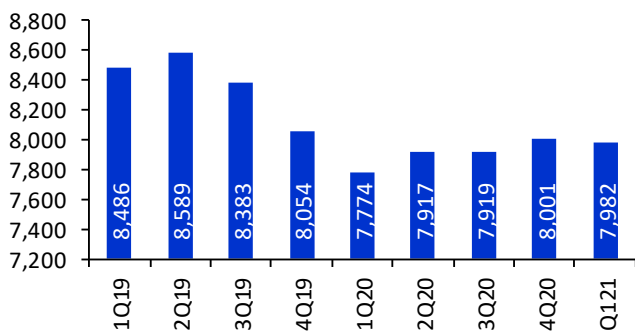
Source: Company, DART

Exhibit 8: License signings stood at \$29.5mn in Q1FY21



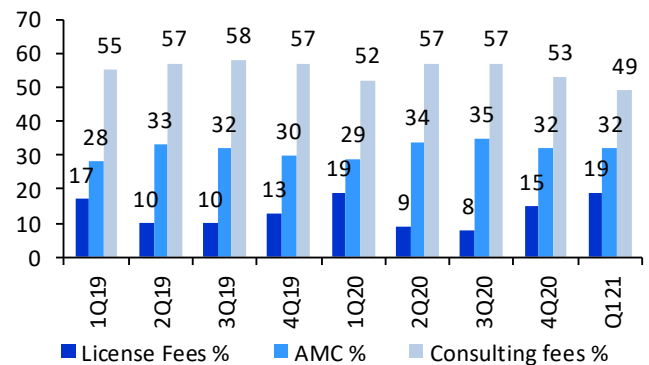
Source: Company, DART

Exhibit 9: Staff Count stood at 7,982 in Q1FY21



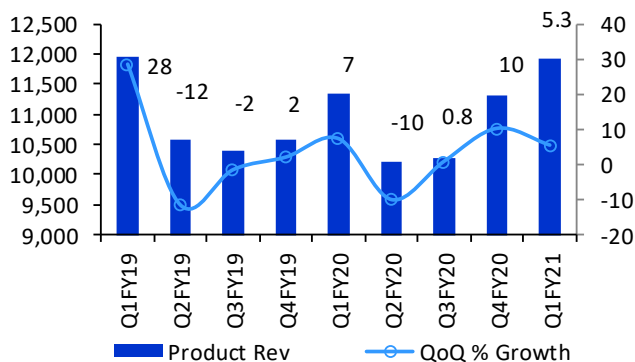
Source: Company, DART

Exhibit 10: Quarterly Revenue Mix of License Fees, Consulting Fees and AMC Fees



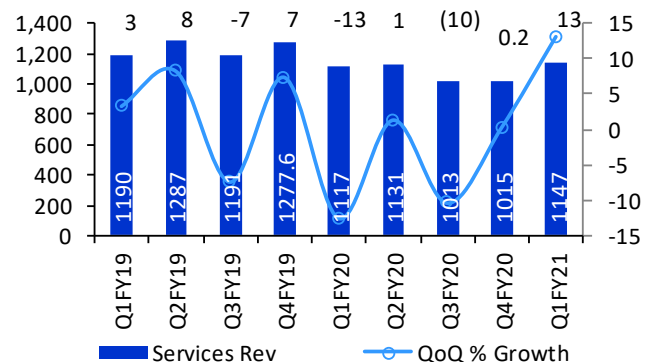
Source: Company, DART

Exhibit 11: Quarterly Revenue of Product Segment grew 5.3% QoQ basis.



Source: Company, DART

Exhibit 12: Quarterly Revenue of Services segment grew 13% QoQ basis.



Source: Company, DART

Exhibit 13: Segmental growth & profitability

Segmental Reporting	Q1FY21	Q4FY20	QoQ %	Q1FY20	YoY %
Revenues (Rs Mn)					
Products	11,922	11,317	5.3	11,353	5.0
Services	1,147	1,015	13.0	1,117	2.7
BPO	304	304	0.0	281	8.2
EBIT (Rs Mn)					
Products	6647	5719	16.2	5821	14.2
Services	237	161	47.2	286	-17.2
BPO	106	86	23.3	87	22.2
EBIT Margin (%)					
Products	55.8%	50.5%		51.3%	
Services	20.7%	15.9%		25.6%	
BPO	34.9%	28.3%		30.9%	
Revenue Contribution					
Products	89%	90%		87%	
Services	9%	8%		11%	
BPO	2%	2%		2%	

Source: DART, Company

Exhibit 14: Quarterly Financial Performance trends

Rs mn	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Revenues(US\$ mn)	199	173	167	173	183	165	163	174	181	(1.5)	4.1
Revenue	13,449	12,133	11,859	12,149	12,751	11,625	11,601	12,635	13,373	4.9	5.8
Operating Exp.	7,204	7,145	6,864	6,931	6,563	6,441	6,339	6,983	6,472	(1.4)	(7.3)
Cost of revenues	5,511	5,662	5,457	5,328	5,130	5,298	5,214	5,535	5,455	6.3	(1.4)
as % of sales	41	47	46	44	40	46	45	44	41		
SG&A expenses	1,692	1,483	1,406	1,603	1,433	1,142	1,125	1,448	1,017	(29.0)	(29.8)
as % of sales	13	12	12	13	11	10	10	11	8		
EBITDA	6,245	4,988	4,995	5,219	6,188	5,184	5,262	5,652	6,901	11.5	22.1
Depreciation	131	125	119	162	265	256	268	274	266		
EBIT	6,114	4,863	4,876	5,056	5,923	4,928	4,994	5,378	6,635	12.0	23.4
Other Income	481	497	170	613	293	435	596	-25	435	48.5	(1,872.5)
PBT	6,595	5,360	5,046	5,670	6,216	5,363	5,589	5,354	7,070	13.7	32.1
Total Tax	2,576	1,839	1,986	2,410	2,442	1,775	1,022	2,661	2,272	(7.0)	(14.6)
Adjusted PAT	4,019	3,520	3,060	3,260	3,774	3,588	4,567	2,692	4,798	27.1	78.2
APAT after MI	4,019	3,520	3,060	3,260	3,774	3,588	4,567	2,692	4,798	27.1	78.2
Reported EPS	47	41	36	38	44	42	53	31	53	21.0	69.1
Margins (%)										(bps)	(bps)
EBIDTA	46	41	42	43	49	45	45	45	52	(307)	687
EBIT	45	40	41	42	46	42	43	43	50	(316)	705
EBT	49	44	43	47	49	46	48	42	53	(412)	1,050
PAT	30	29	26	27	30	31	39	21	36	(628)	1,457
Effective Tax rate	39	34	39	42	39	33	18	50	32	715	(1,758)

Source: DART, Company

Exhibit 15: What to expect next quarter?

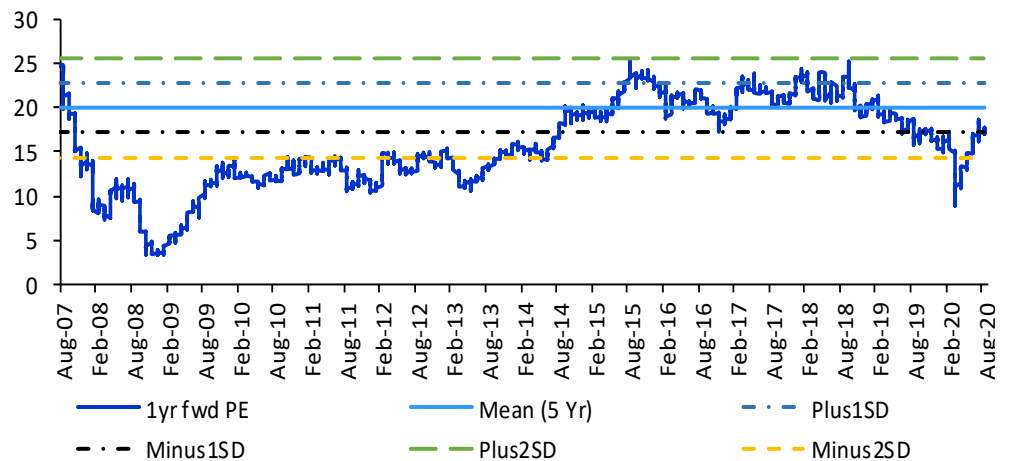
(Rs Mn)	Q2FY21E	Q1FY21	Q2FY20	QoQ (%)	YoY (%)
Sales (US\$ mn)	169.8	180.7	164.9	(6.0)	3.0
Sales	12,567	13,373	11,625	(6.0)	8.1
EBIT	5,365	6,635	4,928	(19.1)	8.9
PAT	3,858	4,798	3,588	(19.6)	7.5
EPS (₹)	44.8	53.0	41.7	(15.6)	7.5
EBIT Margin (%)	42.7	49.6	42.4	(692 bps)	30 bps

Source: DART, Company

Exhibit 16: Key assumptions table

(Rs mn)	FY20	FY21E	FY22E
Licence revenue signed (US\$ mn)	76.2	88.0	101.5
INR revenue growth (%)	(2.0)	8.2	10.0
EBIT, margin	43.7%	45.0%	43.8%
EPS growth (%)	5.5	16.3	6.7
USD/INR	71.0	74.0	76.0

Source: DART, Company

Exhibit 17: Valuation compelling - stock to re-rate as growth revives


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	49,589	48,613	52,618	57,865
Total Expense	28,143	26,326	27,887	31,416
COGS	21,958	21,178	23,348	26,346
Employees Cost	0	0	0	0
Other expenses	6,185	5,148	4,540	5,070
EBIDTA	21,447	22,287	24,731	26,449
Depreciation	537	1,064	1,071	1,110
EBIT	20,909	21,223	23,660	25,339
Interest	0	0	0	0
Other Income	1,761	1,299	1,635	1,770
Exc. / E.O. items	0	0	0	0
EBT	22,670	22,522	25,295	27,109
Tax	8,811	7,901	8,286	8,946
RPAT	13,859	14,622	17,009	18,163
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	13,859	14,622	17,009	18,163

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	429	429	429	430
Minority Interest	0	0	0	0
Reserves & Surplus	48,937	65,266	65,044	66,175
Net Worth	49,365	65,696	65,473	66,605
Total Debt	1,335	5,058	5,145	5,238
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	50,700	70,753	70,618	71,843

Applications of Funds

Net Block	8,537	18,909	18,887	18,882
CWIP	5	0	0	0
Investments	9,567	1,549	1,549	1,549
Current Assets, Loans & Advances	43,206	59,755	60,162	61,909
Inventories	0	0	0	0
Receivables	9,475	9,254	10,016	11,015
Cash and Bank Balances	11,563	13,316	12,961	13,709
Loans and Advances	0	0	0	0
Other Current Assets	22,168	5,533	5,533	5,533
Less: Current Liabilities & Provisions	10,614	9,460	9,981	10,498
Payables	568	355	448	505
Other Current Liabilities	10,047	9,105	9,533	9,993
		<i>sub total</i>		
Net Current Assets	32,592	50,295	50,182	51,411
Total Assets	50,700	70,753	70,618	71,843

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	55.7	56.4	55.6	54.5
EBIDTA Margin	43.2	45.8	47.0	45.7
EBIT Margin	42.2	43.7	45.0	43.8
Tax rate	38.9	35.1	32.8	33.0
Net Profit Margin	27.9	30.1	32.3	31.4
(B) As Percentage of Net Sales (%)				
COGS	44.3	43.6	44.4	45.5
Employee	0.0	0.0	0.0	0.0
Other	12.5	10.6	8.6	8.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.1	0.1	0.1
Interest Coverage				
Inventory days	0	0	0	0
Debtors days	70	69	69	69
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	4	3	3	3
Working Capital days	240	378	348	324
FA T/O	5.8	2.6	2.8	3.1
(D) Measures of Investment				
AEPS (Rs)	161.0	170.3	198.1	211.5
CEPS (Rs)	167.2	182.7	210.6	224.5
DPS (Rs)	0.0	180.0	200.1	200.3
Dividend Payout (%)	0.0	105.7	101.0	94.7
BVPS (Rs)	573.3	765.2	762.6	775.8
RoANW (%)	28.7	25.4	25.9	27.5
RoACE (%)	28.0	24.1	24.1	25.5
RoAIC (%)	52.6	44.0	41.1	43.8
(E) Valuation Ratios				
CMP (Rs)	3042	3042	3042	3042
P/E	18.9	17.9	15.4	14.4
Mcap (Rs Mn)	261,952	261,952	261,952	261,952
MCap/ Sales	5.3	5.4	5.0	4.5
EV	251,724	222,041	222,484	221,829
EV/Sales	5.1	4.6	4.2	3.8
EV/EBITDA	11.7	10.0	9.0	8.4
P/BV	5.3	4.0	4.0	3.9
Dividend Yield (%)	0.0	5.9	6.6	6.6
(F) Growth Rate (%)				
Revenue	9.5	(2.0)	8.2	10.0
EBITDA	18.4	3.9	11.0	6.9
EBIT	19.5	1.5	11.5	7.1
PBT	23.2	(0.7)	12.3	7.2
APAT	12.0	5.5	16.3	6.8
EPS	11.0	5.8	16.3	6.8

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	13,796	15,218	15,996	16,644
CFI	2,208	(13,841)	880	1,135
CFF	(12,497)	(474)	(17,231)	(17,031)
FCFF	13,057	14,683	15,396	16,009
Opening Cash	8,061	11,563	13,316	12,961
Closing Cash	11,563	13,316	12,961	13,709

E – Estimates

Mortgage boom drive sector leading growth

Guidance implies top-quartile growth

FirstSource re-introduced guidance for FY21 at 6%-10% implying a CQGR of 5.1%-7.6% over Q2FY21-Q4FY21. The confidence for guidance is driven by multiple tailwinds: a) Demand boom in BFSI Vertical led by New home sales in US at Pre-GFC levels for Mortgage biz and expected increase in defaults that should boost demand for Collections biz. b) Along with continued deal win momentum - added 10 New logo wins in Q1 (6 of these in Mortgage) and c) Expected recovery in other verticals (Provider within Healthcare, Top-client) starting Q2FY21 onwards.

Revived operating structure & added bandwidth to capture opportunities

FirstSource re-vamped the operating structure by inducting new unit-heads within verticals and in adjacent areas to capture opportunities (Exhibit 15). The growth strategy is also re-vamp to focus on building new solutions on adjacencies and industry specific solutions. Existing Verticals have new teams (Payer and Provider) and a parallel team have been set-up for Cross-Selling and Product Development.

Margins likely to remain resilient, given the growth traction

FirstSource has guided FY21 margins to remain in 11.0% to 11.5%. Q1FY21 margin stood at 11.0%, which should see some more push given stronger growth in high margin BFSI vertical (off-shore led) and overall operating leverage at company level (Mid-point Rev guidance at 8%) and can fund all necessary investments towards renewed team/incentive mechanism. Our Margins for FY21 (11.0%) and FY22 (11.1%) hold up-side potential.

Generous payouts imply attractive yield

With declining Capex requirement and booming earnings, we expect payout ratio to increase furthermore hereon. Even assuming similar payout of 50% in FY22, the dividend yields stand at ~6%.

Valuation: Strong growth guidance (6-10% for FY21), boom in BFSI segment (up 56% YoY, accounts for 50% of rev), robust client additions, improved profitability, widened bandwidth & market opportunities, reducing client concentration (Top client 13% of revenues), generous payouts (imply 6% yield) and attractive valuations (sub 10x on FY22E earnings). Factoring the same, we maintain our Buy rating on the stock with TP of Rs85 (valued at 13x PE on FY22E – implies 1x on PEG basis).

FINANCIALS (Rs Mn)

Particulars	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	35,353	38,263	40,986	46,523	52,716
Growth(%)	(0.6)	8.2	7.1	13.5	13.3
EBITDA	4,590	5,354	6,289	7,276	8,223
OPM(%)	13.0	14.0	15.3	15.6	15.6
PAT	3,267	3,777	3,397	3,922	4,527
Growth(%)	17.1	15.6	(10.1)	15.5	15.4
EPS(Rs.)	4.8	5.5	4.9	5.7	6.5
Growth(%)	15.1	15.2	(10.8)	15.6	15.4
PER(x)	13.7	11.9	13.3	11.5	10.0
ROANW(%)	14.9	14.9	12.4	13.7	14.6
ROACE(%)	13.0	13.6	12.1	12.5	13.2

CMP	Rs 65
Target / Upside	Rs 85 / 30%
BSE Sensex	39,486
NSE Nifty	11,648

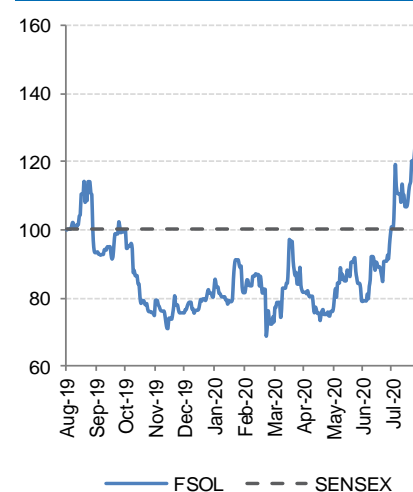
Script Details

Equity / FV	Rs 6,938mn / Rs 10
Market Cap	Rs 45bn
	US\$ 617mn
52-week High/Low	Rs 68/Rs 20
Avg. Volume (no)	4,728,850
NSE Symbol	FSL
Bloomberg Code	FSOL IN

Shareholding Pattern Jun'20(%)

Promoters	54.0
MF/Banks/FIs	10.9
FIIIs	9.8
Public / Others	25.4

FSOL Relative to Sensex



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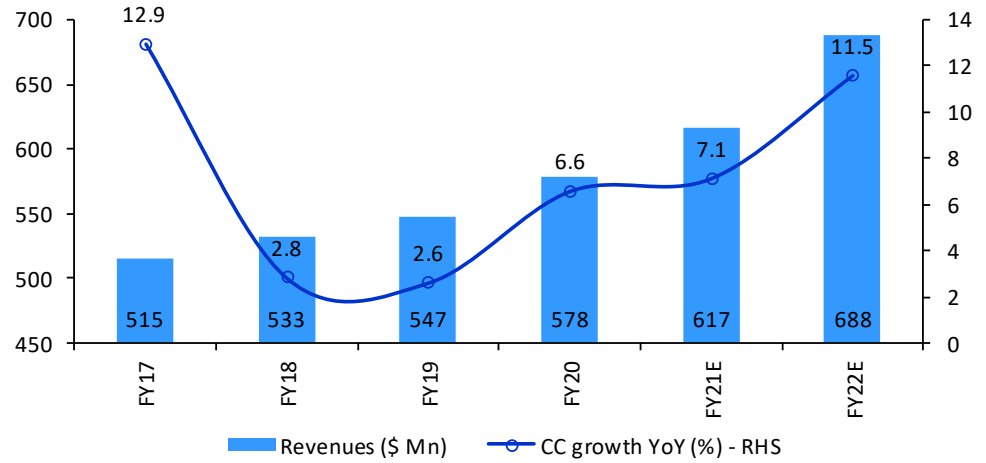
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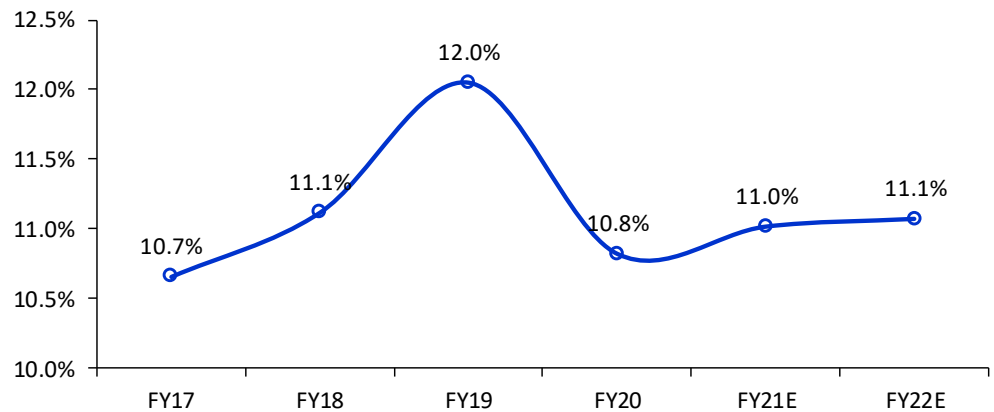
Story in Charts

Exhibit 1: Expect industry leading CC Revenue growth of 10% CAGR over FY20-22E



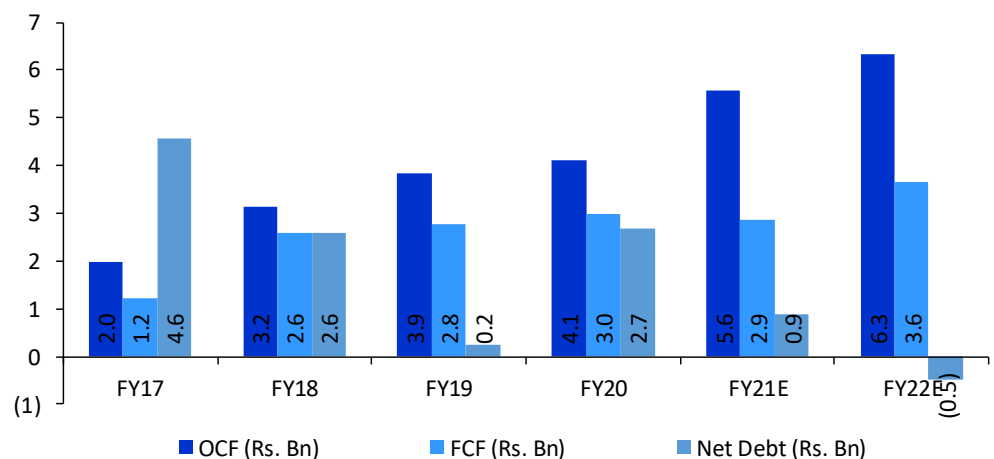
Source: DART, Company

Exhibit 2: EBIT Margins are likely to remain resilient over FY21 and FY22



Source: DART, Company

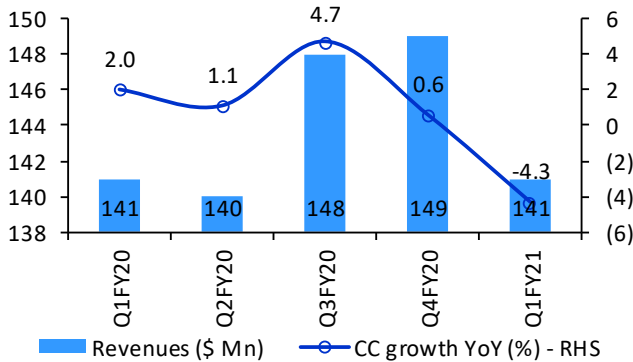
Exhibit 3: FCF Yield at 6% and is likely to improve as payout goes up over FY22



Source: DART, Company

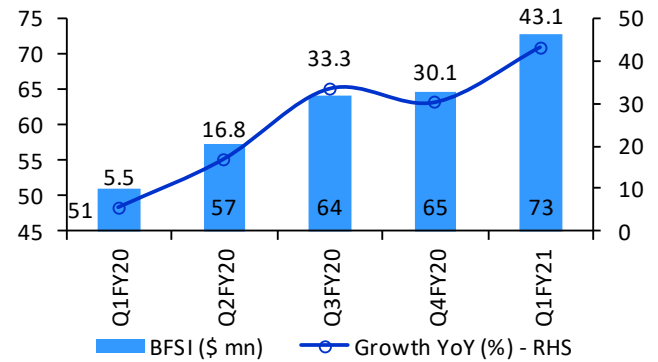
Quarterly Charts

Exhibit 4: Revenue de-grew by 4.3% QoQ in Q1FY21 (above our expectations of 6% QoQ decline)



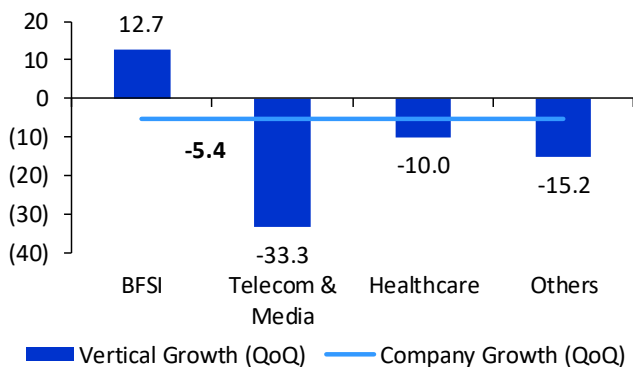
Source: Company, DART

Exhibit 5: Revenue growth was driven by BFSI vertical out-performance with 12.7% QoQ growth



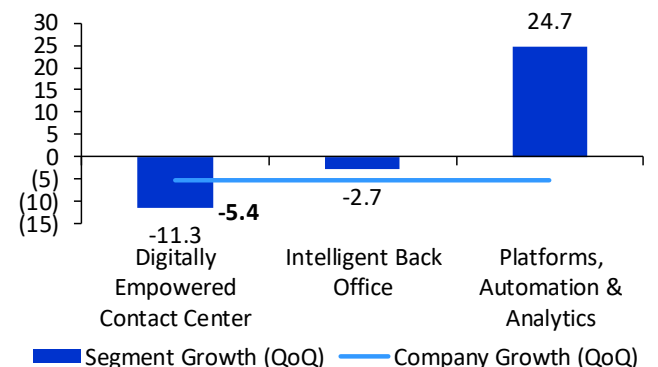
Source: Company, DART

Exhibit 6: Vertical and Company QoQ growth in \$ terms



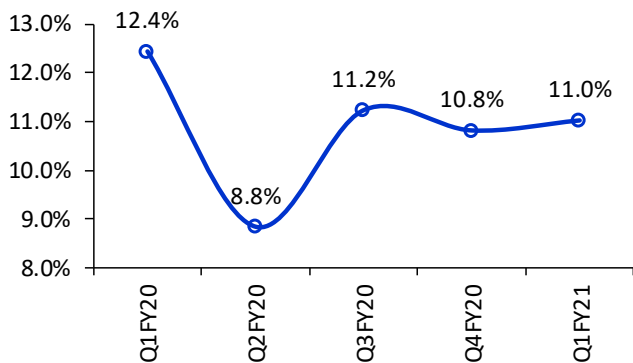
Source: Company, DART

Exhibit 7: Business Segment and Company QoQ growth in \$ terms



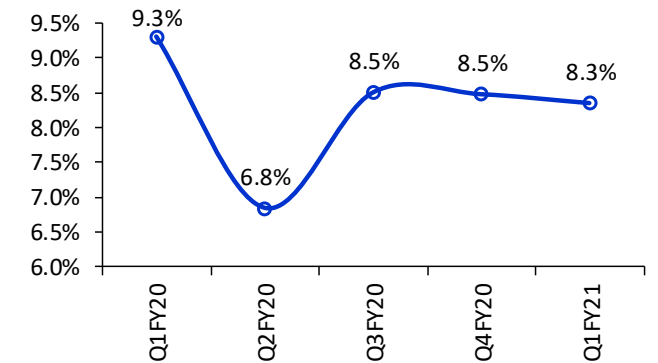
Source: Company, DART

Exhibit 8: EBIT Margin improved 20bps QoQ to 11.0% driven by high margin BFSI vertical growth



Source: Company, DART

Exhibit 9: PAT Margin declined 20bps QoQ to 8.0% driven by slightly higher ETR on QoQ basis



Source: Company, DART

Exhibit 10: Operating Metrics

Operating Metrics	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
\$ Revenue	137.0	136.0	137.0	137.0	141.0	140.0	148.0	149.0	141.0
CC growth (%) (YoY)	(0.1)	3.2	3.5	3.8	5.2	4.5	8.3	8.2	1.6
CC growth (%) (QoQ)	1.1	1.8	0.9	0.7	2.0	1.1	4.7	0.6	(4.3)
Geographical Segment Amount									
US& Canada	75.2	75.8	76.6	76.0	81.4	87.4	94.5	95.3	98.2
UK	62.1	60.2	60.8	59.9	59.4	52.4	52.7	53.2	42.2
Rest of world	1.7	1.5	1.4	1.5	2.0	2.1	2.1	2.3	1.7
Geographical Segment YoY Growth									
US& Canada	5.0	6.9	3.3	(2.0)	8.3	15.4	23.3	25.4	20.6
UK	10.8	(1.8)	(1.6)	(0.6)	(4.3)	(13.0)	(13.3)	(11.1)	(29.0)
Rest of world	(80.2)	(57.1)	1.1	(9.7)	19.9	40.7	50.5	49.7	(14.7)
Vertical Segment Amount									
BFSI	48.2	49.1	48.0	49.6	50.9	57.3	64.0	64.6	72.8
Telecom & Media	39.6	38.0	39.6	37.8	38.9	31.2	32.7	34.5	23.0
Healthcare	49.1	47.9	47.3	45.6	47.9	49.0	48.4	47.2	42.5
Others	2.1	2.6	3.9	4.4	5.3	4.4	4.2	4.5	3.8
Vertical Segment YoY Growth									
BFSI	30.8	23.8	19.4	13.3	5.5	16.8	33.3	30.1	43.1
Telecom & Media	(20.5)	(19.4)	(13.5)	(12.6)	(1.9)	(17.7)	(17.4)	(8.6)	(40.8)
Healthcare	(0.4)	(2.1)	(7.8)	(13.0)	(2.4)	2.3	2.2	3.5	(11.2)
Others	665.9	1824.5	0.0	0.0	153.6	68.4	7.5	2.9	(27.4)
Business Segment Amount									
DECC					77.8	72.5	73.7	76.3	67.7
Intelligent Back Office					55.8	59.6	66.6	63.3	61.6
Platforms, Auto. & Analytics					7.3	7.8	7.7	9.4	11.7
Business Segment YoY Growth									
DECC									(13.0)
Intelligent Back Office									10.4
Platforms, Auto. & Analytics									59.6
Delivery Type Amount									
Off-Shore	32.1	27.4	25.1	25.4	32.1	32.4	37.6	38.6	35.2
On-Shore	106.9	110.2	113.7	112.0	110.7	109.6	111.6	112.2	106.9
Delivery Type YoY Growth									
Off-Shore	14.0	(5.4)	(16.5)	(16.0)	0.1	18.3	49.7	51.9	9.6
On-Shore	7.4	6.6	7.4	4.2	3.6	(0.5)	(1.8)	0.2	(3.5)
Top Client Amount									
Top client	34.3	32.7	34.6	33.8	35.6	28.1	29.1	30.6	19.5
Top 2-5 client	25.0	24.5	22.6	24.3	23.3	28.0	33.7	33.0	37.2
Top 5 client	59.3	57.2	57.2	58.1	58.9	56.1	62.8	63.7	56.7
Non-Top 5 clients	79.6	80.3	81.6	79.3	84.0	85.9	86.4	87.2	85.4
Top Client YoY Growth									
Top client	(9.3)	(17.2)	(13.8)	(10.2)	3.6	(14.1)	(15.8)	(9.4)	(45.3)
Top 2-5 client	(3.8)	(0.9)	(10.0)	(3.6)	(6.9)	14.2	49.1	35.8	59.9
Top 5 client	(7.0)	(10.9)	(12.3)	(7.6)	(0.8)	(2.0)	9.9	9.5	(3.7)
Non-Top 5 clients	10.2	12.2	13.2	3.6	5.5	6.9	5.9	10.0	1.7

Source: DART, Company

Exhibit 11: Operating Metrics 2

Employee Data	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Total Employees	18,759	19,615	18,595	18,712	18,550	20,001	20,482	21,203	21,831
Breakup									
India	8,664	9,040	8,621	8,968	9,305	10,493	10,982	11,450	11,684
Outside India	10,095	10,575	9,974	9,744	9,245	9,508	9,500	9,753	10,147
Seats	16,287	16,617	16,449	15,964	15,956	16,594	17,261	17,559	17,537
Seat fill factor	74.0	71.0	78.0	82.0	74.0	75.0	87.0	79.0	NA
Attrition									
Offshore (India and Phillipines)	51.7	44.8	39.3	41.5	45.3	40.0	36.0	33.5	15.1
Onshore (US and Europe)	48.7	54.9	45.8	42.9	46.8	54.6	45.8	41.9	30.2

Source: DART, Company

Exhibit 12: Quarterly performance trends

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	QoQ	YoY
Revenues(US\$ mn)	141.0	140.0	148.0	149.0	141.0	(5.4)	0.0
Revenue	9,798	9,849	10,535	10,804	10,622	(1.7)	8.4
Operating Expenses	8,141	8,525	8,868	9,163	8,954	(2.3)	10.0
Employee Expenses	6,611	6,722	7,053	7,350	7,128	(3.0)	7.8
as % of sales	67.5	68.2	66.9	68.0	67.1		
Other Expenses	1,530	1,803	1,816	1,813	1,826	0.7	19.3
as % of sales	15.6	18.3	17.2	16.8	17.2		
EBITDA	1,657	1,325	1,666	1,641	1,668	1.6	0.7
Depreciation	439	455	484	474	498	5.2	13.5
EBIT	1,217	870	1,182	1,168	1,170	0.2	(3.9)
Net interest	(115)	(129)	(159)	(142)	(134)	(6.3)	16.3
Other Income	(34)	65	12	6	(1)		
PBT	1,069	806	1,036	1,031	1,035	0.4	(3.2)
Total Tax	157	132	140	115	148	28.5	(5.9)
APAT after MI	912	674	895	916	887	(3.2)	(2.7)
Reported PAT	912	674	895	916	887	(3.2)	(2.7)
Reported EPS	1.3	1.0	1.3	1.3	1.3	(3.2)	(2.8)
Margins (%)						(bps)	(bps)
EBIDTA	16.9	13.4	15.8	15.2	15.7	51	(121)
EBIT	12.4	8.8	11.2	10.8	11.0	21	(141)
PBT	10.9	8.2	9.8	9.5	9.7	20	(117)
PAT	9.3	6.8	8.5	8.5	8.3	(13)	(96)
Effective Tax rate	14.7	16.4	13.6	11.2	14.3	313	(40)

Source: DART, Company

Exhibit 1: What to expect in next quarter?

(Rs mn)	Q2FY21E	Q1FY20	Q2FY20	QoQ (%)	YoY (%)
Sales (US \$ mn)	149.5	141.0	140.0	6.0	6.8
Sales	11,280	10,622	9,849	6.2	14.5
EBIT	1,241	1,170	870	6.1	42.6
PAT	951	887	674	7.2	41.1
EPS (Rs)	1.4	1.3	1.0	7.2	41.1
EBIT Margin (%)	11.0	11.0	8.8	(1 bps)	217 bps

Source: DART, Company

Exhibit 2: Key assumption table

Key Assumptions	FY20	FY21E	FY22E
USD revenue growth (%)	5.7	6.7	11.5
INR revenue growth (%)	7.1	13.5	13.1
EBIT margin (%)	10.8	11.1	11.2
EPS growth (%)	233.2	260.4	15.3
USD/INR	70.1	74.9	76.0

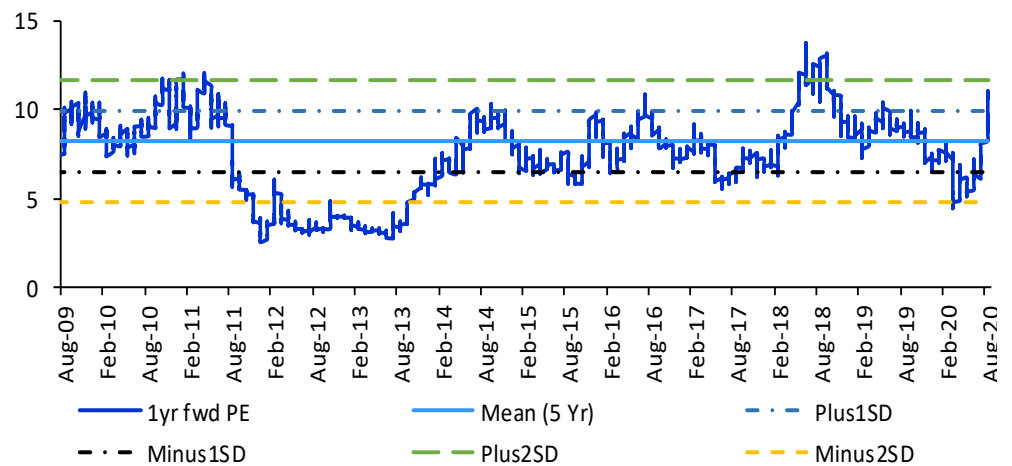
Source: DART, Company

Exhibit 3: Key Leadership Team

Name	Joined / Elevated to Current Position	Position
Prashanth Nandella*	20-Jun	Global Chief Operating Officer
Venkatgiri (Giri) Vandali*	20-Feb	President - Healthcare Payer
Venkat Raman	20-Apr	President - Healthcare Provider
Anshul Verma*	20-Apr	President - Communications, Media and Technology
Sundara Sukavanam*	20-Feb	Chief Digital Officer
Arjun Mitra	NA	President - Collections
Auvese Pasha	NA	Chief Operating Officer - Mortgage
Vipul Khanna	NA	MD & Chief Executive Officer
Dinesh Jain	NA	President & Chief Financial Officer
Siddharth Parashar	NA	Chief Revenue Officer - Customer Management

Source: DART, Company, * are New Joinee, NA highlights same position held prior to 2020

Exhibit 4: Valuation approaching Mean+2SD but still attractive in absolute terms (re-rating on cards)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	38,263	40,986	46,523	52,716
Total Expense	32,909	34,697	39,247	44,493
COGS	25,573	27,735	31,284	35,425
Employees Cost	0	0	0	0
Other expenses	7,336	6,962	7,963	9,068
EBIDTA	5,354	6,289	7,276	8,223
Depreciation	744	1,852	2,150	2,385
EBIT	4,610	4,437	5,126	5,838
Interest	255	545	511	461
Other Income	4	50	20	45
Exc. / E.O. items	0	0	0	0
EBT	4,359	3,942	4,636	5,422
Tax	581	545	713	895
RPAT	3,777	3,397	3,922	4,527
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,777	3,397	3,922	4,527

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	6,911	6,938	6,938	6,938
Minority Interest	6	6	6	6
Reserves & Surplus	20,297	20,716	22,873	25,363
Net Worth	27,207	27,654	29,811	32,301
Total Debt	5,459	8,369	8,369	8,369
Net Deferred Tax Liability	(1,854)	(1,776)	(1,776)	(1,776)
Total Capital Employed	30,819	34,252	36,410	38,900

Applications of Funds

Net Block	22,227	28,709	29,558	30,173
CWIP	20	0	0	0
Investments	122	122	122	122
Current Assets, Loans & Advances	12,074	14,528	16,270	18,663
Inventories	0	0	0	0
Receivables	3,872	5,567	6,373	7,221
Cash and Bank Balances	474	1,907	2,206	3,190
Loans and Advances	0	0	0	0
Other Current Assets	6,511	7,054	7,691	8,251
Less: Current Liabilities & Provisions	3,624	9,107	9,541	10,058
Payables	902	953	1,075	1,219
Other Current Liabilities	2,723	8,154	8,465	8,839
		<i>sub total</i>		
Net Current Assets	8,450	5,422	6,729	8,604
Total Assets	30,819	34,253	36,410	38,900

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	33.2	32.3	32.8	32.8
EBIDTA Margin	14.0	15.3	15.6	15.6
EBIT Margin	12.0	10.8	11.0	11.1
Tax rate	13.3	13.8	15.4	16.5
Net Profit Margin	9.9	8.3	8.4	8.6
(B) As Percentage of Net Sales (%)				
COGS	66.8	67.7	67.2	67.2
Employee	0.0	0.0	0.0	0.0
Other	19.2	17.0	17.1	17.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.3	0.3	0.3
Interest Coverage	18.1	8.1	10.0	12.7
Inventory days	0	0	0	0
Debtors days	37	50	50	50
Average Cost of Debt	4.2	7.9	6.1	5.5
Payable days	9	8	8	8
Working Capital days	81	48	53	60
FA T/O	1.7	1.4	1.6	1.7
(D) Measures of Investment				
AEPS (Rs)	5.5	4.9	5.7	6.5
CEPS (Rs)	6.6	7.6	8.7	10.0
DPS (Rs)	2.0	1.8	2.1	2.4
Dividend Payout (%)	36.5	37.3	37.3	37.3
BVPS (Rs)	39.5	39.8	43.0	46.5
RoANW (%)	14.9	12.4	13.7	14.6
RoACE (%)	13.6	12.1	12.5	13.2
RoAIC (%)	16.0	14.2	15.4	16.7
(E) Valuation Ratios				
CMP (Rs)	65	65	65	65
P/E	11.9	13.3	11.5	10.0
Mcap (Rs Mn)	45,249	45,249	45,249	45,249
MCap/ Sales	1.2	1.1	1.0	0.9
EV	49,017	51,711	51,413	50,429
EV/Sales	1.3	1.3	1.1	1.0
EV/EBITDA	9.2	8.2	7.1	6.1
P/BV	1.7	1.6	1.5	1.4
Dividend Yield (%)	3.1	2.8	3.2	3.7
(F) Growth Rate (%)				
Revenue	8.2	7.1	13.5	13.3
EBITDA	16.6	17.5	15.7	13.0
EBIT	17.3	(3.8)	15.5	13.9
PBT	21.7	(9.6)	17.6	17.0
APAT	15.6	(10.1)	15.5	15.4
EPS	15.2	(10.8)	15.6	15.4

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	3,851	4,104	5,574	6,483
CFI	(2,041)	143	(3,510)	(3,461)
CFF	(2,576)	(2,768)	(1,765)	(2,037)
FCFF	2,770	2,972	2,574	3,483
Opening Cash	1,230	474	1,907	2,206
Closing Cash	474	1,907	2,206	3,190

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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