

Persistent Systems (PSL)

Information Technology | 4QFY24 Result Update

SELL

CMP: Rs3,510 | Target Price (TP): Rs2,723 | Downside: 22%

April 22, 2024

Balancing growth and margins could be tricky

Key Points

- PSL reiterated its aspiration of being in the leader's quadrant for growth while aspiring for margin improvement of 200-300bps over the next three years vs FY24 levels (EBIT margin of 14.4%). We believe achieving both could be challenging and current valuation still assumes that it would happen; hence, we have a 'SELL'.
- To be in the leaders' quadrant of growth, it saw a 50bps dip in margin in FY24. The dip could have been larger had it not been for one-off gains from reversal of acquisition-related earn outs in 4QFY24 of ~286bps. Achieving 200-300bps margin improvement will be challenging as delivering industry-leading revenue growth (which is likely PSL's bigger priority) would require it to fight for managed services contracts with Tier-1 players. Taking them on would require extra investments in sales & marketing, higher onsite employees initially, solutioning, hiring subcontractors, rebadging of employees, taking on third-party items like software & hardware on to the P&L and possibly lower pricing. We think there is a clear downside risk to the flat margin guidance for FY25 and the 200-300bps margin improvement in three years. Most of its Tier-2 peers have EBIT margins which are in mid-teens, where PSL already is. We are currently building in flat FY25 margin and only 160bps of improvement by FY27.
- While PSL could be among the top quartile performers in FY25 in terms of revenue and earnings growth, we believe that the current valuation of 42x FY25E is excessive (and this is after a 21% cut from its peak). We reiterate 'SELL' with a lower target price (TP) of Rs2,723 based on a target PE multiple of 26.1x March 2026E EPS, 10% premium to benchmark TCS (lowered the premium from 15% due to perceived risk to margins).

Reversal of earn outs offsets significant margin headwinds in 4QFY24: EBIT margin was flat on QoQ basis in 4QFY24. There was 200bps impact from higher subcon, 110bps (very unlike rest of the sector which has seen QoQ subcon reduction) due to deal ramp-ups, 50bps due to lower utilization and 40bps due to higher travel costs. This was largely offset by reversal of earn outs amounting to 286bps of sales (which is a one-off). There was also an increase in third-party expenses by 60bps QoQ.

TCV and ACV continue to rise: TCV for 4QFY24 came in at US\$447.7mn, with new bookings TCV at US\$302mn (67.5%). ACV component of the TCV for 4QFY24 came in at ~71% (US\$316.8mn), with new bookings at US\$184.5mn. Both the TCV and ACV came in line with our expectations.

Healthcare to drive growth in FY25: PSL sees Healthcare and Life Sciences driving growth in FY25 too. BFSI and Hi-Tech will lag. HCLS vertical saw strong growth due to not only a large deal ramp-up, but also from some mid-sized deals. In the HCLS vertical, PSL deals with companies in Pharma/Biopharma, Scientific Instruments, Medical Devices and Payer & Provider segments.

M&A for PSL: Within Healthcare/Life Sciences, PSL's M&A focus is on the payer-provider ecosystem. In BFSI, the company aims to enhance its business footprint in Western Europe and delivery capabilities in Eastern Europe. M&A activities are primarily geared towards building capabilities in Gen AI, AI and micro verticals besides expanding delivery presence in Eastern Europe. Revenue aggregation will not be the sole driver for these potential acquisitions.

Est Change	No change
TP Change	Lower
Rating Change	No change

Company Data and Valuation Summary

Reuters	PERS.BO
Bloomberg	PSYS IN Equity
Mkt Cap (Rsbn/US\$bn)	540.5 / 6.5
52 Wk H / L (Rs)	4,450 / 2,168
ADTV-3M (mn) (Rs/US\$)	2,537.5 / 30.5
Stock performance (%) 1M/6M/1yr	(12.0) / 18.8 / 63.1
Nifty 50 performance (%) 1M/6M/1yr	0.9 / 3.3 / 25.7

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	31.1	31.1	31.0
DII	28.8	26.3	26.0
FII	21.3	24.4	24.9
Others	18.9	18.3	18.2
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Revenue (Rsmn)	83,506	98,217	1,13,253	1,33,980
YoY Growth (%)	46.2	17.6	15.3	18.3
Gross Margin (%)	33.8	33.6	32.5	32.0
EBIT (Rsmn)	12,472	14,150	16,350	20,490
% of sales	14.9	14.4	14.4	15.3
Adj. PAT (Rsmn)	9,211	10,936	12,923	16,067
PAT Margin (%)	11.0	11.6	11.4	12.0
YoY Growth (%)	33.4	18.7	18.2	24.3
FDEPS (Rs)	60.3	71.1	84.0	104.4
ROE (%)	25.1	24.5	24.2	25.9
Post Tax ROCE (%)	23.7	23.4	22.6	24.4
Post Tax ROIC (%)	40.8	37.2	38.3	46.3
P/E (x)	58.2	49.4	41.8	33.6
EV/EBITDA	34.9	30.2	26.2	21.0

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links: Latest Sector update: [Sector Update](#)

Last results note: [3QFY24 result note](#)

Please refer to the disclaimer towards the end of the document

Exhibit 1: Quarterly Performance

Particulars (Rsmn)	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	FY24	FY25	4Q24E	Var
Net Sales (USD mn)	275	283	292	301	311	320	330	340	353	1,186	1,343	310	0.4
QoQ Change (%)	3.8	3.0	3.1	3.0	3.4	3.0	3.0	3.0	4.0	14.5	13.2	3.0	-
Net Sales	22,545	23,212	24,117	24,982	25,906	26,693	27,745	28,849	29,967	98,217	1,13,253	25,707	0.8
YoY Change (%)	37.6	23.6	17.7	15.2	14.9	15.0	15.0	15.5	15.7	17.6	15.3	14.0	-
Software Expenses	14,894	15,278	16,127	16,539	17,286	17,823	18,784	19,474	20,371	65,231	76,452	17,011	1.6
% of Sales	66.1	65.8	66.9	66.2	66.7	66.8	67.7	67.5	68.0	66.4	67.5	66.2	-
Gross Profit	7,651	7,933	7,990	8,443	8,620	8,870	8,960	9,374	9,597	32,986	36,801	8,696	(0.9)
Margin (%)	33.9	34.2	33.1	33.8	33.3	33.2	32.3	32.5	32.0	33.6	32.5	33.8	-
Operating Expenses	3,488	3,704	3,938	4,025	4,075	4,157	4,325	4,325	4,325	15,742	17,133	4,025	1.3
% of Sales	15.5	16.0	16.3	16.1	15.7	15.6	15.6	15.0	14.4	16.0	15.1	15.7	-
EBIT	3,466	3,466	3,308	3,631	3,745	3,928	3,820	4,205	4,397	14,150	16,350	3,796	(1.3)
YoY Change (%)	50.7	29.0	10.8	9.0	8.1	13.3	15.5	15.8	17.4	13.5	15.5	9.5	-
Margin (%)	15.4	14.9	13.7	14.5	14.5	14.7	13.8	14.6	14.7	14.4	14.4	14.8	-
Exchange Gain/loss	-189	-64	84	81	-16	-	-	-	-	85	-	-	-
Other Income	-60	90	250	262	210	222	265	296	330	728	1,113	183	14.9
PBT	3,406	3,070	3,558	3,893	3,956	4,150	4,085	4,500	4,727	14,477	17,463	3,979	(0.6)
Tax	891	783	925	1,032	802	1,079	1,062	1,170	1,229	3,541	4,540	1,055	(24.0)
ETR (%)	26.2	25.5	26.0	26.5	20.3	26.0	26.0	26.0	26.0	24.5	26.0	26.5	-
Reported PAT	2,515	2,288	2,633	2,861	3,154	3,071	3,023	3,330	3,498	10,936	12,923	2,925	7.8
Adj. PAT	2,515	2,288	2,633	2,861	3,154	3,071	3,023	3,330	3,498	10,936	12,923	2,925	7.8
YoY Change (%)	25.1	8.1	19.7	20.2	25.4	34.3	14.8	16.4	10.9	18.7	18.2	16.3	-
Adj. EPS	16.5	14.9	17.1	18.6	20.5	20.0	19.7	21.6	22.7	71.1	84.0	19.0	7.8

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 2: Change in our estimates

Change in Estimates	New				Old				Change (%)			
	FY24A	FY25E	FY26E	FY27E	FY24E	FY25E	FY26E	FY27E	FY24E	FY25E	FY26E	FY27E
INR/USD	82.8	84.3	85.7	86.8	82.7	84.3	85.7	86.8	0.1	-	-	-
USD Revenue (USD mn)	1,186	1,343	1,564	1,781	1,185	1,337	1,557	1,773	0.1	0.4	0.4	0.4
USD Revenue Growth (%)	14.5	13.2	16.4	13.9	14.4	12.9	16.4	13.9	-	-	-	-
Revenue (Rsmn)	98,217	1,13,253	1,33,980	1,54,542	98,017	1,12,774	1,33,413	1,53,888	0.2	0.4	0.4	0.4
EBIT (Rsmn)	14,150	16,350	20,490	24,717	14,201	17,087	20,999	25,402	(0.4)	(4.3)	(2.4)	(2.7)
EBIT Margin (%)	14.4	14.4	15.3	16.0	14.5	15.2	15.7	16.5	-	-	-	-
PAT (Rsmn)	11,422	12,923	16,067	19,472	11,193	12,992	16,020	19,461	2.1	(0.5)	0.3	0.1
FDEPS (Rs)	71.1	84.0	104.4	126.6	69.6	84.5	104.1	126.5	2.1	(0.5)	0.3	0.1

Source: Company, Nirmal Bang Institutional Equities Research.

Exhibit 3: Geography mix and USD QoQ and YoY revenue growth in 4QFY24

Geographies	Contribution to Revenue	Growth-QoQ(%)	Growth-YoY(%)
North America	80.1	4.0	16.4
Europe	7.8	(9.3)	(14.2)
India	10.1	4.5	14.4
RoW	2.0	47.8	25.8
Total	100.0	3.4	13.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Vertical mix and USD QoQ and YoY revenue growth in 4QFY24

Geographies	Contribution to Revenue	Growth-QoQ(%)	Growth-YoY(%)
BFSI	30.7	1.8	7.6
Healthcare & Life Science	24.2	14.8	39.1
Tech. Cos. & Emerging Verticals	45.1	(0.7)	6.4
Total	100.0	3.4	13.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Geography mix and USD YoY revenue growth in FY24

Geographies	Contribution to Revenue	Growth-YoY(%)
North America	79.6	16.8
Europe	9.0	13.2
India	9.9	0.9
RoW	1.6	5.0
Total	100.0	14.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Vertical mix and USD YoY revenue growth in FY24

Geographies	Contribution to Revenue	Growth-YoY(%)
BFSI	31.8	11.0
Healthcare & Life Science	21.1	22.2
Tech. Cos. & Emerging Verticals	47.1	13.7
Total	100.0	14.5

Source: Company, Nirmal Bang Institutional Equities Research

View on the Indian IT Services sector: We downgraded Indian IT Services to UW through a report on 10th April, 2022 ([Positive surprises likely low in FY23; Tier-2 risky](#)) and continued to remain underweight through our notes on 19th May, 2022 ([Customer stress shows up](#)), 8th July, 2022 ([Negatives not in price](#)), 10th October, 2022 ([Growth expectations too high](#)), 20th March, 2023 ([Sell into delayed landing outperformance](#)), 14th June 2023 ([Too early to be positive](#)), 26th September, 2023 ([Cut FY25 estimates; Slower for longer; Sell into the FOMO rally](#)), 15th December, 2023 ([A No/Soft landing](#)) and 20th March 2024 ([Continued uncertainty to keep a lid on spending](#))

Nifty IT index's TSR from 31st Dec, 2019 till 14th March, 2024 has been 163% with a 70 percentage point outperformance vs the Nifty. But, the outperformance was front-loaded in the first two years of the period (CY2020 and CY2021). Since 31st December 2021, Nifty IT TSR has underperformed Nifty by 29 percentage points.

The massive outperformance of Nifty IT in 2020 and 2021 was on the back of pandemic-driven Digital Transformation (DT) services-based earnings acceleration and significant multiple expansion on unprecedented monetary stimulus in the US and in Europe. While DT services will continue to remain a key theme over the long term, we believe that IT spends will be curtailed by an 'ability-to-spend' problem as enterprise customers battle earnings pressure from wage inflation, reduced end customer spending power, higher interest rates and likely below-trend growth in western developed economies. Customers, we believe, had pulled forward spending into the compressed transformation phase of FY20-FY23 from future years. We believe customers are now evaluating ROIs on those projects and on spending normalization.

Macro environment now has one good and two bad scenarios:

The good scenario is obviously the soft-landing scenario where inflation, economy and employment cool, thereby allowing the Fed to lower Fed funds rate to what is considered a neutral rate – which is widely believed to 2.5% (we are currently at 5.25-5.5%). The two bad scenarios are: (1) some sort of a recession in 2024 or (2) a strong economic growth scenario with higher than 2% inflation, which keeps fed funds rate 'high for longer'.

We persist with our 'UW' stance. This is because:

(1) Valuations for most IT stocks in our coverage universe are expensive in relation to their 5-year or 10-year histories and we see no material upside to FY25/FY26 earnings for our coverage in the next 12 months

(2) As things stand today, while our earlier base case of a shallow recession sometime in 2024 seems to have a low probability (though professional forecasters still give a probability of 40% for a recession in the next 12 months based on Bloomberg consensus), chances of a no landing with hotter inflation with 'higher rates for longer' scenario seems to have a better probability and is also not a positive scenario for customers.

A 'higher for longer' rates scenario could mean tepid growth in both FY25 and FY26; a shallow recession could mean a significant deceleration in demand and consequently in revenue & earnings growth for the sector.

Even if one were to ignore the next 12–18 months' risks around a recession/the 'higher for longer' interest rate regime and take a 5-year view, we believe that starting valuations are expensive and can at best deliver mid to high single-digit total stock returns (including capital return to shareholders) for TCS/Infosys, as we believe that structural revenue/earnings growth is being overestimated by the street. We believe that USD revenue growth over a 5-year period (FY23-FY28) for Tier-1 set in aggregate will at best be at par with the FY15-FY20 period (~7%). We also expect margins for most coverage companies to remain in a narrow band at around FY24 levels and not see a material expansion (except for Tech Mahindra where it starts from a very low base). *Ceteris Paribus*, this has valuation/return implications.

We continue to maintain TCS as our industry valuation benchmark: We are valuing TCS at target 12-month forward PE of 23.7x, which represents 1SD below the 5-year historical mean. This has been raised from the 20x that we had assigned earlier (10-year mean less 0.5SD). Target multiples for others are at a premium/discount to TCS. If one were to look back in history, our Target PE multiples are not overly pessimistic as PE multiples of many Tier-1 IT stocks are in fact at the higher end of the pre-pandemic PE range. We have used a higher target PE multiple not because we think that a material earnings upgrade cycle is on the cards for FY25/FY26, but to acknowledge the higher domestic inflows into equities, which have lifted valuations of the entire Indian market and particularly that of Mid-cap and Small-cap stocks.

The Tier-2 pack has held out better than anticipated: Growth for well-run Tier-2 IT companies has materially decelerated from their FY22/FY23 levels but has not been as bad as we had expected. That we believe is because the US macro held up better than we/consensus had anticipated. Had we seen a shallow recession (our earlier base case scenario), growth in both Tier-1 and Tier-2 set would have come off a lot more than it eventually did in FY24.

Tier-2 still faces significant risks: Tier-2 set has a less diversified revenue mix (client, service line and vertical), which could throw up negative growth surprises (as has been seen in case of Mphasis in the last 12-18 months), and a larger exposure to non-Global 1000 clientele, whose profits are more vulnerable in a weaker macro environment. Indian Tier-2 IT pack is now at a PE premium of ~27% to Tier-1 compared to a discount of 25% on 1st January 2020. The premium is at the highest ever level, driven by strong flows into SMID stocks by the Indian mutual funds.

This premium reflects expectations of a big positive earnings growth gap between Tier-2 and Tier-1 IT companies over FY21-FY23 and improving return ratios sustaining beyond FY23. We do not agree with that view. We think that the earnings growth gap will compress due to slower revenue growth and next-to-no margin expansion from current levels for most Tier-2 IT companies. The high PE multiples are also a reflection of the market's view that some Tier-2 IT companies will become US\$5-10bn enterprises in the next 10-20 years. Once the 'Digital' high tide recedes, it remains to be seen which of the current Tier-2 set will continue to show promise. In the initial phase of any new tech cycle, customers tend to be open to new vendors, but as the cycle matures (post FY23 in our view), vendors that have scale – Tier-1 – tend to do better. We think customers are looking for revolutionary transformation, which Tier-1 companies with multi-vertical exposure and deeper domain/technology skills are best placed to deliver.

Highlights from 4QFY24 analyst call

Revenue beats estimates

- Revenue came in at US\$310.9mn and was higher than our estimate of US\$309.6mn by 0.4%. It was up by 3.4% and 13.2% on QoQ and YoY basis, respectively.
- FY24 revenue stood at US\$1,186mn, up by 14.5% in CC YoY terms. With Healthcare & Life Sciences leading growth followed by Hi-Tech and BFSI.
- In CC QoQ terms, revenue was up by 3.4% against our estimate of 3%.

Verticals and Geographies. Healthcare and Lifesciences leads.

- On YoY basis in USD terms, North America led with 16% growth followed by RoW, which grew by 26% while India grew by 14%. Europe declined by 14%. On QoQ basis, RoW, North America and India led the growth while Europe declined.
- On YoY basis in USD terms, Healthcare & Life Sciences led the pack, growing by 39.6% followed by BFSI, which grew by 7.6%, and Hi-Tech, which grew by 6.4%. QoQ growth was largely driven by Healthcare & Life Sciences at 14.8%; BFSI turned positive at 1.8% and Hi-tech declined at -0.7%. LS & HC has seen broad-based steady growth and is not dependent on a single project from a large client.
- For FY25, Lifesciences is set to continue to be the fastest growing followed by BFSI and Hi-tech.
- Healthcare & Life Sciences growth was not just on the back of a large deal ramp-up, but also due to mid-sized deals.
- The company highlighted that it has been able to make some inroads with large BFSI clients that are unhappy with existing incumbent vendors (larger peers).
- Top client (IBM) has seen a decrease in revenue contribution as per planned ramp-down of earlier projects. Ex-IBM, the Hi-tech vertical grew QoQ.
- PSL witnessed healthy growth among client buckets, with the top 5 customer revenue up 7.9% QoQ, top 10 up 5.4% QoQ, top 20 up 2.9% QoQ and top 50 up 4.3% QoQ.
- There was no material rescoping of contracts like TCS & Infosys alluded to in their 4QFY24 commentary.

Margins flat QoQ due to one-off reversal.

- EBIT margin for 4QFY24 came in at 14.5% and was flat on QoQ basis. It was 30bps lower than our estimate of 14.8%.
- Headwinds to margins included lateral hires to build capability in the offshore mix (50bps impact) and higher sub-contractor cost, which came in at 14.1% of sales in 4QFY24. Sub-con cost increased due to higher onsite mix (110bps impact) following the initial phase of deal ramp-ups won in 2Q. The higher sub-con costs are likely to continue for a few more quarters. Planning and budgeting exercise for FY25 led to an increase in travel costs, which had a 40bps impact on margins.
- 286bps of sales were due to reversal of earn-outs (one-off), offsetting the 200bps negative impact.
- PSL says that it is committed to increasing EBIT margin by 200-300bps over the next 2-3 years. This will come from various levers, including higher utilisation, SGA compression due to scale and automation. FY25 margin guidance has been indicated in line with FY24 (~14.5%).
- PSL has invested significantly in SG&A, not only in terms of sales, solutions, and customer experience centers, but also in infra labs, Gen AI related investments in training, etc to remain in the leaders' quadrant of growth in FY25.
- Due to increased focus on managed services contracts, the company had to bear higher pass-through software licenses (5.7% of revenue) for FY24 compared to 4% in FY23. We suspect this will only rise in the subsequent years as the company goes after more managed services

contracts. Currently, a major chunk of these contracts are being on-boarded from the PE channel route where there are company carve-outs.

- With sluggish growth in the EU, PSL guided that it has brought in senior hires in the region and in the BFSI vertical to focus along with reinforcing the team in the region.

Strong bookings continue.

- TCV for 4QFY24 came in at US\$447.7mn (US\$521.4mn in 3QFY24). ACV of this TCV stood at US\$316.8mn (US\$392.1mn in 3QFY24). The higher TCV for 2HFY24 is based on the commentary that there was some spillover of deal closures from 1HFY24.
- Net new TCV stood at US\$302mn vs US\$277mn in 3QFY24 while net new ACV component stood at US\$184.5mn in 4QFY24 vs US\$182.9mn in 3QFY24.
- It indicated that ~80% of the business comes from North America and there is higher quantum of renewals in the December quarter, leading to seasonal sequential decline in bookings.

Demand environment is tough.

- PSL indicated that the macro environment continues to remain uncertain and it continues to remain focused on account mining and large deals, which were the key factors aiding healthy order bookings.
- PSL indicated that it continues to give growth importance over delivering enhanced profitability or margin improvement. It is competing fiercely against the incumbent legacy IT Services, whom BFSI clients are unhappy with. This can be seen with higher transport-related expenses and higher selling expenses incurred to win deals against the legacy IT Service providers.

Generative AI

- PSL indicated that its AI business is powered by ~16,000 developers and engineers are trained on code assist and productivity tools such as Microsoft GitHub Copilot, Amazon Code Whisperer, Amazon Q and other modern application development tools.
- It indicated that current Gen AI engagements with customers are modest from a revenue perspective, but this trend is on the cusp of a significant shift.
- PSL focuses on leveraging AI and automation tools across the product development lifecycle to deliver value to customers.
- It addresses the complexities of enterprise software, with over 60-70% of code comprising third-party components and interdependent repositories, through its SASVA digital engineering-powered enterprise AI platform.
- SASVA offers efficiencies, quality enhancements, improved security and cost savings throughout the product development lifecycle, with theme-based releases and a multidimensional knowledge base.
- On the enterprise side, PSL invests in strengthening its Gen-AI hub to accelerate enterprise transformation, offering scalable, efficient, and secure Gen-AI experiences.
- It has secured outcome-linked deals, including sustaining engineering for enterprise software and developing GenAI-based platforms for insurance distribution and analytical instruments corporations, aiming for enhanced customer experiences, optimized processes, and revenue growth.
- PSL has deepened its partnership with IBM by signing the IBM Services Business Partner Agreement. This collaboration enables joint deal participation and co-creation of end-to-end technology assets, with a primary focus on the Watson X data and AI platform.
- Apart from the deals won, PSL is implementing Gen AI within the organization itself, making operations more efficient and enhancing employee experience.

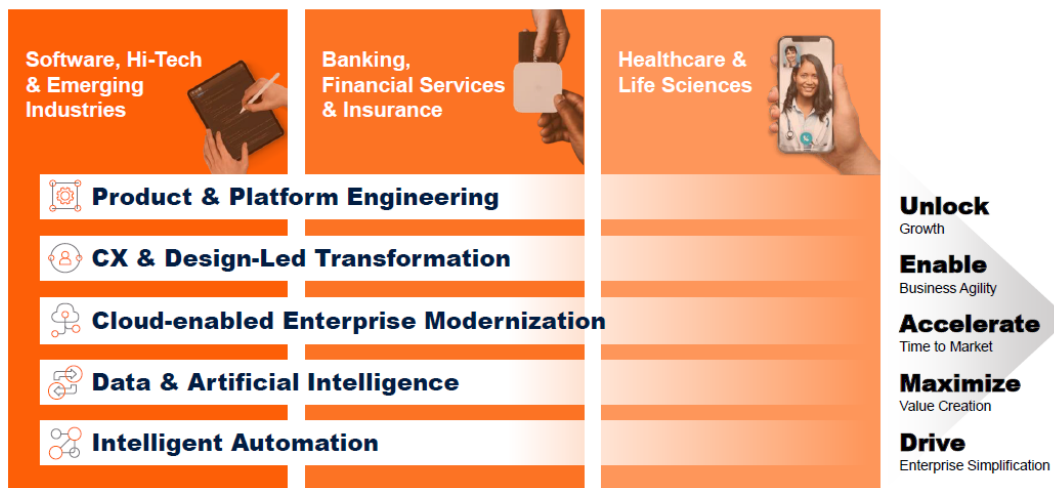
Employee Metrics: Continues to add employees

- Headcount as of end 4QFY24 stood at 23,850 employees. This translates into a net addition of 514 employees.
- Most of the headcount increase was attributable to lateral hiring while the rest came from hiring freshers. Onsite hiring was linked to revenue ramp-ups while offshore hiring was for ramp-ups and building capabilities.
- It is important to note this is different from the larger peers in the industry who have seen a healthy net reduction in 4QFY24 and over the past financial year.
- Attrition for 4QFY24 came in at 11.5% and was lower by 40bps on QoQ basis - broadly in line with the industry trend.

Miscellaneous

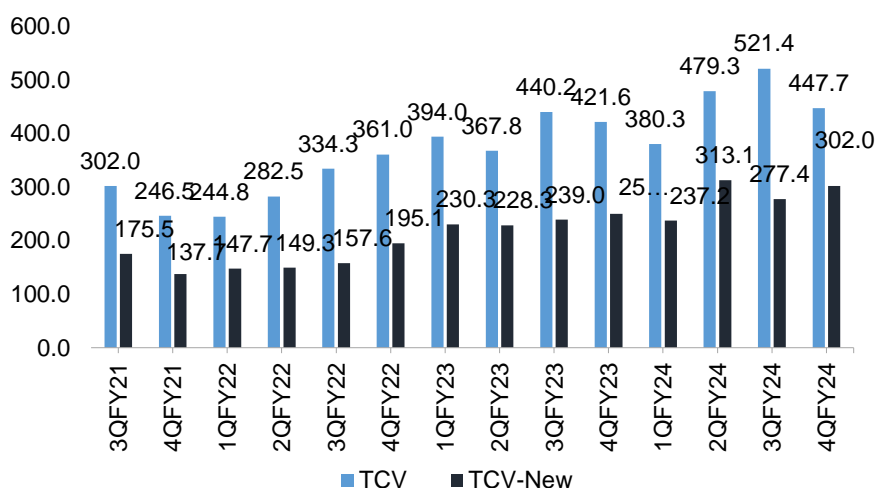
- DSO for 4QFY24 came in at 63 days compared to 66 days in 3QFY24.
- PSL declared a final dividend of Rs10 per share in 4QFY24.

Exhibit 7: Service line menu and verticals addressed



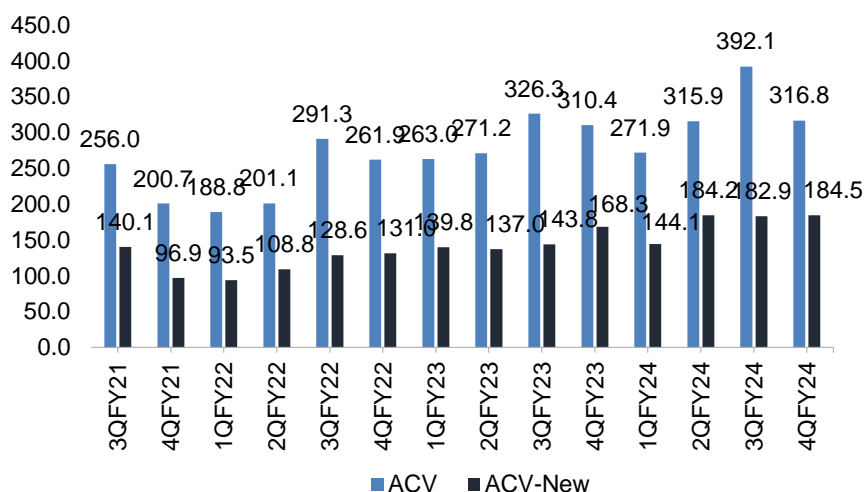
Source: Company

Exhibit 8: The deals booked picture – Total TCV and TCV new



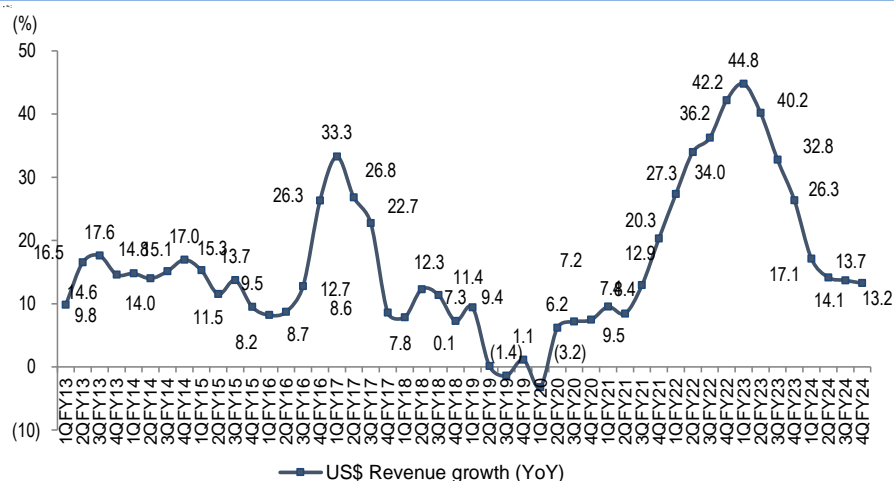
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Total ACV and ACV new



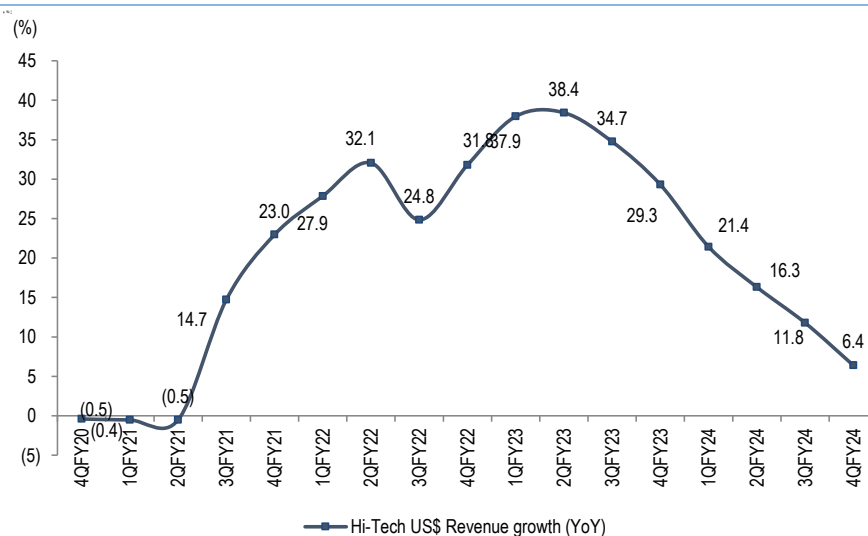
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: YoY USD revenue growth of the company.



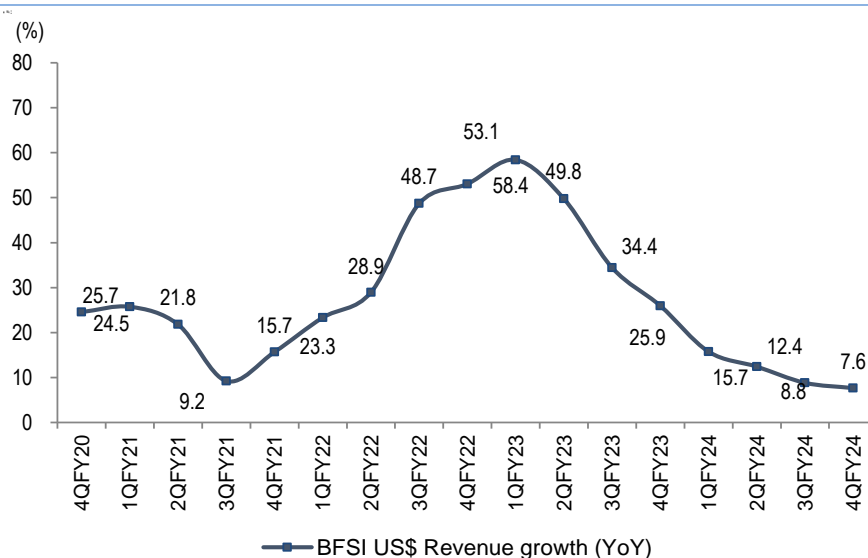
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: YoY USD revenue growth of the Hitech Vertical



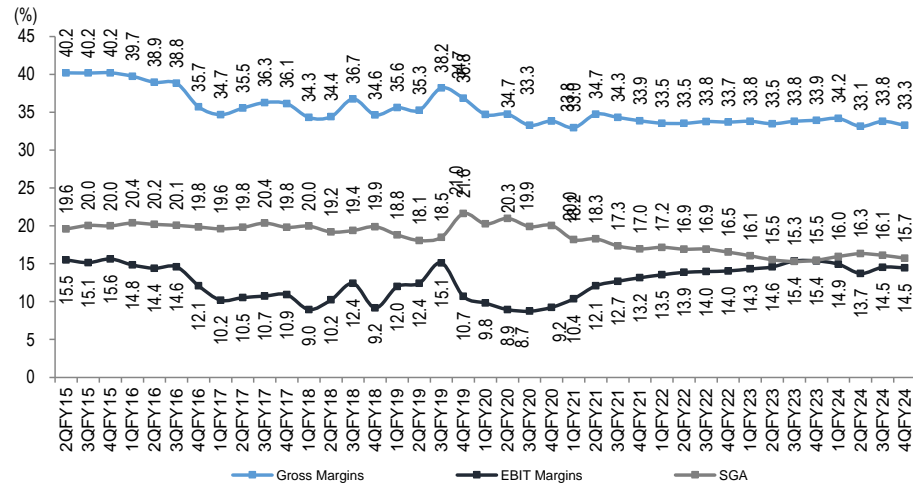
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: YoY USD revenue growth of the BFSI Vertical



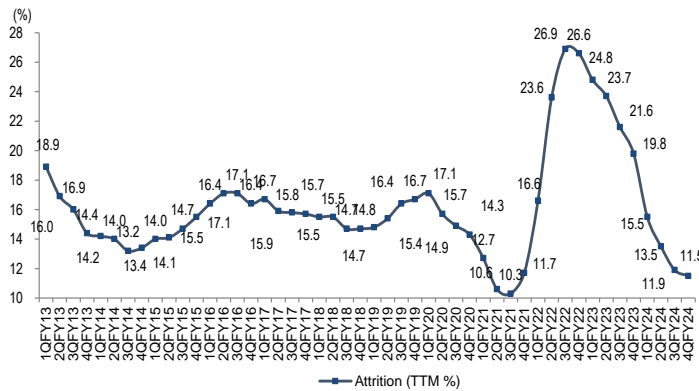
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: EBIT margin on a QoQ basis



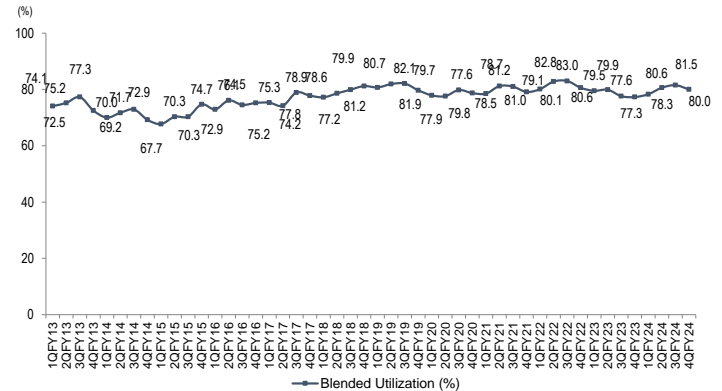
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: LTM Attrition rate QoQ trend



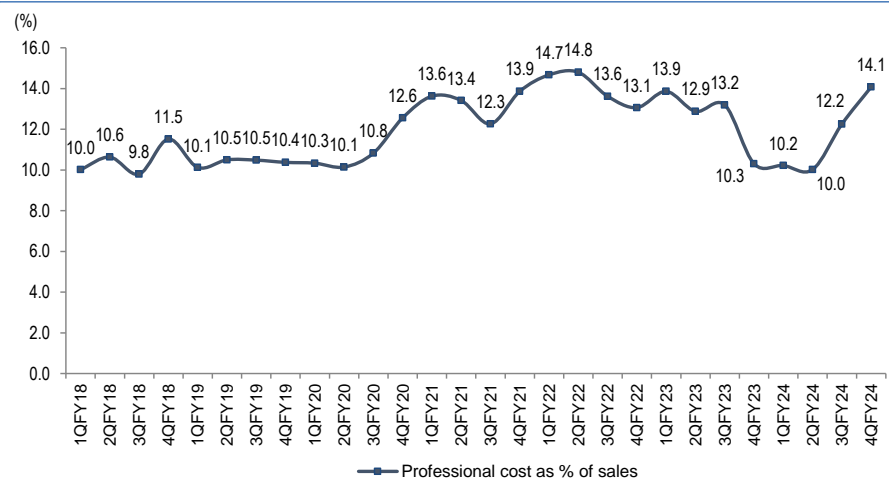
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Employee utilization QoQ trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Subcontractor cost in 4QFY24



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Quarterly snapshot

Year to 31 March (Rsmn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
INR/USD	74.92	75.37	77.76	80.16	82.06	82.12	82.05	82.67	83.12	83.33
USD Revenue (USD mn)	199	217	242	256	264	275	283	292	301	311
INR Revenue	14,917	16,379	18,781	20,486	21,694	22,545	23,212	24,117	24,982	25,906
Gross Margin	5,037	5,519	6,348	6,858	7,334	7,651	7,933	7,990	8,443	8,620
SGA	2,526	2,707	3,015	3,178	3,318	3,488	3,704	3,938	4,025	4,075
EBITDA	2,511	2,812	3,333	3,680	4,016	4,163	4,229	4,052	4,418	4,545
Dep& Amortization	428	511	645	693	684	697	763	744	787	799
EBIT	2,083	2,300	2,688	2,987	3,332	3,466	3,466	3,308	3,631	3,745
Other income (net)	281	371	131	(31)	(104)	(60)	90	250	262	210
PBT	2,364	2,672	2,819	2,956	3,228	3,406	3,070	3,558	3,893	3,956
Tax	600	662	703	756	848	891	783	925	1,032	802
PAT	1,764	2,010	2,116	2,200	2,380	2,515	2,288	2,633	2,861	3,154
YoY Growth (%)										
USD Revenue	36.2	42.2	44.8	40.2	32.8	26.3	17.1	14.1	13.7	13.2
INR Revenue	38.7	47.1	52.7	51.6	45.4	37.6	23.6	17.7	15.2	14.9
Gross Profit	36.5	46.4	53.8	51.4	45.6	38.6	25.0	16.5	15.1	12.7
EBIT	52.7	57.1	61.4	59.4	60.0	50.7	29.0	10.8	9.0	8.1
Net Profit	45.9	45.9	39.9	36.0	34.9	25.1	8.1	19.7	20.2	25.4
QoQ Growth (%)										
USD Revenue	9.2	9.1	11.1	5.8	3.4	3.85	3.0	3.1	3.0	3.4
INR Revenue	10.4	9.8	14.7	9.1	5.9	3.9	3.0	3.9	3.6	3.7
EBIT	11.2	10.4	16.8	11.1	11.6	4.0	0.0	(4.6)	9.8	3.2
Net Profit	9.1	13.9	5.3	4.0	8.2	5.7	(9.0)	15.1	8.7	10.2
Margins (%)										
Gross Margin	33.8	33.7	33.8	33.5	33.8	33.9	34.2	33.1	33.8	33.3
SGA	16.9	16.5	16.1	15.5	15.3	15.5	16.0	16.3	16.1	15.7
EBITDA	16.8	17.2	17.7	18.0	18.5	18.5	18.2	16.8	17.7	17.5
EBIT	14.0	14.0	14.3	14.6	15.4	15.4	14.9	13.7	14.5	14.5
PBT	15.8	16.3	15.0	14.4	14.9	15.1	13.2	14.8	15.6	15.3
PAT	11.8	12.3	11.3	10.7	11.0	11.2	9.9	10.9	11.5	12.2
Revenue Mix (US\$m)										
IP Led revenues	26.5	19.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Linear Revenues	172.6	197.6	239.7	255.6	264.4	275.9	282.9	291.7	300.6	310.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key metrics

Key Metrics	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
P and L (USD mn)											
Revenue	182	199	217	242	256	264	275	283	292	301	311
EBIT	25	28	31	35	37	41	42	42	40	44	45
PAT	22	24	27	27	27	29	31	28	32	34	38
P and L (Rs mn)											
Revenue	13,512	14,917	16,379	18,781	20,486	21,694	22,545	23,212	24,117	24,982	25,906
EBITDA	2,244	2,511	2,812	3,333	3,680	4,016	4,163	4,229	4,052	4,418	4,545
PAT	1,618	1,764	2,010	2,116	2,200	2,380	2,515	2,288	2,633	2,861	3,154
Geographical Mix (%)											
North Americas	78.7	79.2	78.6	78.4	78.6	77.1	77.9	79.2	79.2	79.7	80.1
Europe	8.8	8.3	8.4	8.5	8.3	9	10.3	9.7	9.5	8.9	7.8
India	10.5	10.9	11.0	11.3	11.5	12.3	10.0	9.9	9.7	10.0	10.1
ROW	2	1.6	2	1.8	1.6	1.6	1.8	1.2	1.6	1.4	2
Project Type (%)											
Services	87.5	86.7	91.1	93.0	92.2	91.8	93.2	0.0	0.0	0.0	0.0
IP driven	12.5	13.3	8.9	7.0	7.8	8.2	6.8	0.0	0.0	0.0	0.0
Utilization (%) (including Trainees)	82.8	83.0	80.6	79.5	79.9	77.6	77.3	78.3	80.6	81.5	80.0
Revenue Mix (Delivery of IT services)											
Revenue mix-Onsite	30.4	31.4	34.5	14.7	14.4	14.3	13.1	13.1	12.7	13.8	14.8
Revenue mix-Offshore	57.1	55.3	56.6	85.3	85.6	85.7	86.9	86.9	87.3	86.2	85.2
Clients Concentration (%)											
Top client	16.9	17.5	14.0	11.7	8.7	7.4	9.3	10.2	10.2	9.3	8.0
Top 5 clients	35.8	36.1	32.5	30.8	26.9	24.7	26.5	27.9	28.3	28.0	29.2
Top 10 clients	45.4	45.0	42.1	40.7	36.7	35.0	37.4	39.6	39.5	39.3	40.0
Top 20 clients	-	-	52.1	51.2	48.4	47.8	47.9	50.4	50.6	51.4	51.1
Business Mix (%)											
BFSI	30.7	32.2	32.4	33.7	32.8	32.6	32.3	33.3	32.3	31.2	30.7
Healthcare & Life Science	21.2	20.7	20.7	19.9	19.7	19.6	19.7	18.6	19.3	21.8	24.2
Tech. Cos. & Emerging Verticals	48.1	47.1	46.9	46.4	47.5	47.8	48.0	48.1	48.4	47.0	45.1
Employee Metrics											
Employees	15,879	16,989	18,599	21,638	22,476	22,598	22,889	23,130	22,842	23,336	23,850
Net addition of employees (QoQ)	975	1,110	1,610	3,039	838	122	291	241	-288	494	514
Attrition LTM (%)	23.6	26.9	26.6	24.8	23.7	21.6	19.8	15.5	13.5	11.9	11.5
Productivity Metrics											
Per Capita (Annualised) - (USD)											
Revenue	45,930	46,879	46,736	44,649	45,483	46,794	47,977	48,923	51,085	51,518	52,140
EBIT	6,367	6,546	6,564	6,390	6,631	7,187	7,376	7,306	7,006	7,488	7,538
PAT	5,498	5,543	5,735	5,031	4,885	5,133	5,352	4,822	5,577	5,901	6,348
Direct and opex cost per capita	39,563	40,333	40,171	38,259	38,852	39,607	40,601	41,617	44,079	44,030	44,602

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: QoQ and YoY data on various parameters

QoQ Growth (%)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Company	9.2	9.3	9.2	9.1	11.1	5.8	3.4	3.8	3.0	3.1	3.0	3.4
Goegraphy												
North Americas	8.7	9.0	9.9	8.3	10.9	6.1	1.5	4.9	4.8	3.1	3.7	4.0
Europe	3.7	1.2	3.0	10.5	12.5	3.3	12.2	18.8	(3.0)	1.0	(3.5)	(9.3)
India	20.2	17.1	13.4	10.1	14.2	7.7	10.6	(15.6)	2.0	1.0	6.2	4.5
ROW	3.4	21.4	(12.6)	36.4	0.0	(5.9)	3.4	16.8	(31.3)	37.5	(9.9)	47.8
Project Type												
Services	11.5	10.1	8.2	14.7	13.5	4.9	3.0	5.4		-	-	-
IP driven	(4.0)	4.3	16.2	(27.0)	(12.6)	17.9	8.7	(13.9)		-	-	-
Client Concentration												
Top 1	3.7	8.7	13.1	(12.7)	(7.1)	(21.3)	(12.0)	30.5	13.0	3.1	(6.1)	(11.0)
Top 5	9.5	7.2	10.1	(1.7)	5.3	(7.6)	(5.0)	11.4	8.5	4.6	1.9	7.9
Top 10	10.1	6.3	8.2	2.1	7.4	(4.6)	(1.4)	11.0	9.1	2.9	2.5	5.3
Top 20				0.0	9.2	0.0	2.2	4.1	8.4	3.5	4.7	2.8
Vertical Mix												
BFSI	11.7	8.9	14.5	9.8	15.6	3.0	2.8	2.9	6.2	0.0	(0.5)	1.8
Healthcare & Life Science	15.9	13.0	6.6	9.1	6.8	4.8	2.9	4.4	(2.7)	7.0	16.4	14.8
Tech. Cos. & Emerging Verticals	5.1	8.0	6.9	8.7	10.0	8.3	4.1	4.3	3.3	3.8	0.0	(0.7)
YoY Growth (%)												
Company	27.3	34.0	36.2	42.2	44.8	40.2	32.8	26.3	17.1	14.1	13.7	13.2
Goegraphy												
North Americas	25.0	27.2	33.0	41.1	43.9	40.0	29.3	25.2	18.3	15.0	17.5	16.4
Europe	18.6	55.1	28.5	19.4	29.5	32.2	44.0	54.9	33.7	30.6	12.4	(14.2)
India	57.9	73.7	72.7	75.7	66.9	53.5	49.8	14.8	2.6	(3.7)	(7.6)	14.4
ROW	52.8	91.4	45.3	49.7	44.8	12.1	32.8	13.7	(21.9)	14.1	(0.5)	25.8
Project Type												
Services	34.0	39.9	44.2	52.2	55.0	47.7	40.6	29.2	-	-	-	-
IP driven	(4.1)	3.4	0.1	(15.1)	(22.6)	(12.5)	(18.1)	(3.5)	-	-	-	-
Client Concentration												
Top 1	22.3	16.7	28.9	11.2	(0.4)	(27.8)	(43.9)	(16.1)	2.1	33.8	42.9	(2.6)
Top 5	13.9	15.3	30.1	27.0	22.2	5.3	(9.2)	3.0	6.1	20.1	28.9	24.8
Top 10	21.3	20.4	30.4	29.3	26.2	13.3	3.3	12.2	14.0	22.9	27.7	21.1
Top 20	-	-	-	-	-	-	-	16.1	15.3	19.3	22.3	20.8
Vertical Mix												
BFSI	23.3	28.9	48.7	53.1	58.4	49.8	34.4	25.9	15.7	12.4	8.8	7.6
Healthcare & Life Science	32.5	47.2	47.6	52.5	40.5	30.3	25.7	20.2	9.5	11.8	26.5	39.1
Tech. Cos. & Emerging Verticals	27.9	32.1	24.8	31.8	37.9	38.4	34.7	29.3	21.4	16.3	11.8	6.4

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 20: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Average INR/USD	80.5	82.8	84.3	85.7	86.8
Net Sales (USD mn)	1,036	1,186	1,343	1,564	1,781
YoY Growth (%)	35.3	14.5	13.2	16.4	13.9
Net Sales	83,506	98,217	1,13,253	1,33,980	1,54,542
YoY Growth (%)	46.2	17.6	15.3	18.3	15.3
Cost of Sales & Services	55,315	65,231	76,452	91,061	1,05,310
% of sales	66.2	66.4	67.5	68.0	68.1
Gross Margin	28,191	32,986	36,801	42,919	49,232
% of sales	33.8	33.6	32.5	32.0	31.9
SG&A	12,999	15,742	17,133	18,631	20,236
% of sales	15.6	16.0	15.1	13.9	13.1
EBITDA	15,191	17,244	19,669	24,289	28,996
% of sales	18.2	17.6	17.4	18.1	18.8
Depreciation and Amortization	2,719	3,094	3,319	3,799	4,279
EBIT	12,472	14,150	16,350	20,490	24,717
% of sales	14.9%	14.4%	14.4%	15.3%	16.0%
Other income (net)	(64)	813	1,113	1,222	1,597
PBT	12,409	14,963	17,463	21,712	26,314
-PBT margin (%)	14.9	15.2	15.4	16.2	17.0
Provision for tax	3,198	3,541	4,540	5,645	6,842
Effective tax rate (%)	25.8	23.7	26.0	26.0	26.0
Net profit	9,211	11,422	12,923	16,067	19,472
-Growth (%)	33.4	18.7	18.2	24.3	21.2
-Net profit margin (%)	11.0	11.6	11.4	12.0	12.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: Balance sheet

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	764	770	770	770	770
Reserves & surplus	38,887	48,807	56,560	66,201	77,884
Net worth	39,651	49,577	57,331	66,971	78,654
Deferred tax liability	-	-	-	-	-
Other liabilities	4,902	2,218	2,218	2,218	2,218
Total loans	2,058	99	99	99	99
Total liabilities	46,610	51,894	59,648	69,288	80,972
Goodwill	12,044	15,333	15,333	15,333	15,333
Net block (incl CWIP)	11,531	7,217	7,899	8,100	7,821
Investments	6,396	8,266	10,266	12,266	14,266
Deferred tax asset	1,129	1,360	1,360	1,360	1,360
Other non-current assets	1,667	1,938	1,938	1,938	1,938
Other current assets	8,562	11,902	13,800	16,306	18,590
Debtors	15,830	17,491	20,233	23,908	27,257
Cash & bank balance	9,033	10,229	15,191	21,239	29,933
Total current assets	33,425	39,623	49,224	61,453	75,780
Total current liabilities	19,581	21,842	26,371	31,160	35,526
Net current assets	13,844	17,781	22,853	30,292	40,254
Total assets	46,610	51,894	59,648	69,288	80,972

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Cash flow

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
EBIT	12,472	14,150	16,350	20,490	24,717
(Inc.)/dec. in working capital	675	(5,617)	(110)	(1,391)	(1,268)
Cash flow from operations	13,148	8,533	16,240	19,098	23,449
Other income	(64)	813	1,113	1,222	1,597
Depreciation & amortisation	2,719	3,094	3,319	3,799	4,279
Tax paid	(3,198)	(3,541)	(4,540)	(5,645)	(6,842)
Dividends paid	(3,821)	(3,933)	(5,169)	(6,427)	(7,789)
Net cash from operations	8,784	4,965	10,962	12,047	14,694
Capital expenditure	2,711	(1,329)	4,000	4,000	4,000
Net cash after capex	6,073	6,294	6,962	8,047	10,694
Inc./dec. in debt	(743)	(1,958)	-	-	-
(Inc.)/dec. in investments	1,155	(2,179)	(2,000)	(2,000)	(2,000)
Equity issue/(buyback)	-	6	-	-	-
Cash from financial activities	412	(4,132)	(2,000)	(2,000)	(2,000)
Others	(6,597)	(967)	-	-	-
Opening cash	9,145	9,033	10,229	15,191	21,239
Closing cash	9,033	10,228	15,191	21,239	29,933
Change in cash	(112)	1,196	4,962	6,047	8,694

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 23: Key ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Per Share (Rs)					
EPS	60.3	72.5	85.4	106.2	128.7
FDEPS	60.3	71.1	84.0	104.4	126.6
Dividend Per Share	25.0	26.0	34.2	42.5	51.5
Book Value	259	322	373	435	511
Dividend Payout Ratio (%) (incl DDT)	41	36	40	40	40
Return ratios (%)					
RoE	25.1	24.5	24.2	25.9	26.7
Post Tax RoCE	23.7	23.4	22.6	24.4	25.1
Post Tax ROIC	40.8	37.2	38.3	46.3	53.7
Turnover Ratios					
Asset Turnover Ratio	2.0	2.0	2.0	2.0	2.0
Debtor Days (incl. unbilled Rev)	69	65	65	65	64
Working Capital Cycle Days	3	11	19	18	19
Valuation ratios (x)					
PER	58.2	49.4	41.8	33.6	27.7
P/BV	13.5	10.9	9.4	8.1	6.9
EV/EBTDA	34.9	30.2	26.2	21.0	17.3
EV/Sales	6.3	5.3	4.6	3.8	3.2
Net Debt/Equity	-0.2	-0.2	-0.3	-0.3	-0.4
M-cap/Sales	6.4	5.4	4.7	4.0	3.4
Dividend Yield	0.7%	0.7%	1.0%	1.2%	1.5%

Source: Company, Nirmal Bang Institutional Equities Research

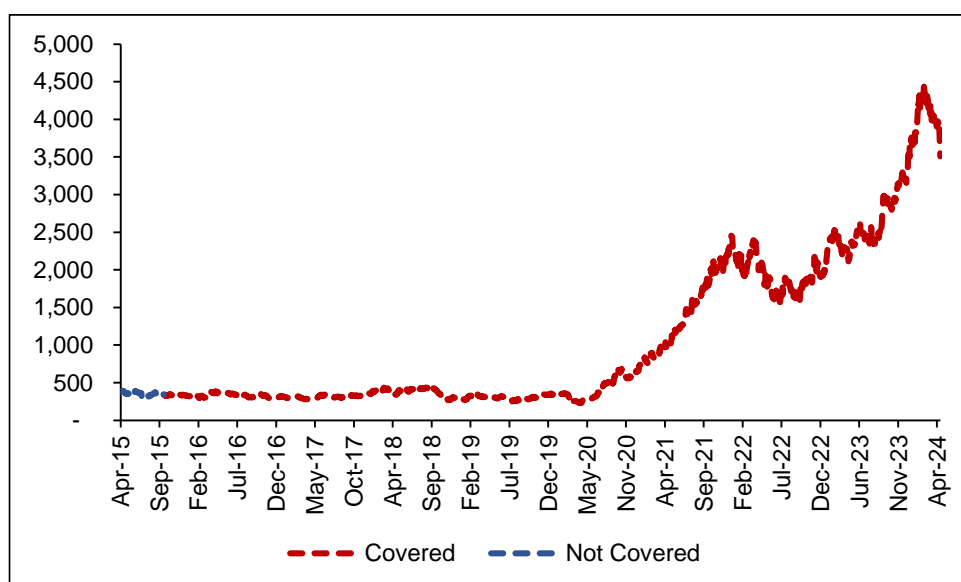
Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
21 September 2015	Sell	685	562
27 October 2015	Sell	669	553
7 December 2015	Sell	663	544
8 January 2016	Under Review	630	-
27 January 2016	Under Review	609	-
14 March 2016	Sell	599	522
22 March 2016	Sell	741	555
26 April 2016	Sell	719	558
22 June 2016	Sell	697	558
26 July 2016	Sell	665	562
26 October 2016	Sell	660	573
19 December 2016	Sell	613	573
10 January 2017	Sell	636	557
24 January 2017	Sell	612	548
14 February 2017	Sell	624	574
27 April 2017	Sell	568	534
21 June 2017	Sell	681	516
24 July 2017	Sell	659	526
28 September 2017	Sell	651	540
17 October 2017	Sell	663	566
4 December 2017	Sell	654	566
26 December 2017	Under Review	650	-
30 January 2018	Under Review	788	-
17 March 2018	Sell	816	698
25 April 2018	Accumulate	726	717
3 July 2018	Accumulate	811	847
31 July 2018	Accumulate	828	867
5 October 2018	Buy	718	909
23 October 2018	Accumulate	560	622
12 December 2018	Accumulate	611	622
27 December 2018	Sell	630	504
7 January 2019	Sell	577	455
29 January 2019	Sell	567	481
19 March 2019	Sell	658	489
2 May 2019	Sell	642	558
14 June 2019	Accumulate	622	604
29 July 2019	Accumulate	561	602
23 September 2019	Sell	610	525
8 November 2019	Sell	612	554
2 January 2020	Under Review	706	-
31 January 2020	Under Review	689	-
31 March 2020	Sell	544	502
7 May 2020	Accumulate	505	522
9 July 2020	Under Review	743	-
28 July 2020	Under Review	856	-
6 September 2020	Accumulate	986	1,081
28 September 2020	Accumulate	1,220	1,178
1 October 2020	Under Review	1,341	-
27 October 2020	Buy	1,184	1,377
22 December 2020	Accumulate	1,310	1,377
29 December 2020	Buy	1,577	1,690
31 January 2021	Buy	1,524	1,957
3 May 2021	Accumulate	2,038	2,088
5 July 2021	Accumulate	2,930	2,854
25 July 2021	Accumulate	3,039	2,911
22 September 2021	Accumulate	3,580	3,418
1 October 2021	Accumulate	3,716	3,792
28 October 2021	Accumulate	4,036	3,857
20 December 2021	Accumulate	4,640	4,489
23 January 2022	Accumulate	4,285	4,504
16 March 2022	Under Review	4,327	-
8 April 2022	Sell	4,706	3,458
29 April 2022	Sell	4,309	3,442
19 May 2022	Sell	3,858	2,776
8 July 2022	Sell	3,390	2,443

23 July 2022	Sell	3,633	2,427
10 October 2022	Sell	3,489	2,673
21 October 2022	Sell	3,707	2,705
20 January 2023	Sell	4,258	3,041
20 March 2023	Sell	4,652	2,912
26 April 2023	Sell	4,472	3,020
14 June 2023	Sell	4,982	2,985
24 July 2023	Sell	4,740	3,090
26 September 2023	Sell	5,839	3,276
20 October 2023	Sell	5,845	3,293
15 December 2023	Sell	6,859	3,469
22 January 2024	Sell	7,922	3,547
19 March 2024	Sell	8,179	5,677
22 April 2024**	Sell	3,510	2,723

** Post 2:1 stock split

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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