

## IT SERVICES

18 May 2020

**Vertical deep dive: Retail vertical to bear the brunt – SELL Wipro**

While concerns about the travel & transport vertical (<5% revenue share for tier-I India IT) are at the forefront, we believe retail – the second largest vertical with 14% share – will be the worst hit for India IT services. Retail tech spends could plummet given (1) 13 major US retailer bankruptcies & counting, (2) record store closure forecast, and (3) an unprecedented retail sales slump (-22% YoY in Apr-20). Street is under estimating the retail impact posing 2-14% FY21 EPS cut risk for the top-5 IT players. Wipro is our top SELL due to its high retail exposure (16%).

Ruchi Burde | Seema Nayak  
 research@bobcaps.in

**Retail vertical to be hardest hit:** The street appears most concerned about the impact of a slowdown in tech spends by travel and transportation clients, a relatively small vertical with sub-5% revenue share for top 5 Indian IT services players. Based on our analysis, we believe the retail vertical will bear the brunt of the Covid-19 pandemic. Retail is the second largest vertical accounting for 14% revenue share of the top-5 Indian IT companies. The pandemic has exacerbated challenges for offline retailers already grappling with online competition.

**Trouble for retailers to trigger tech spend cuts:** Covid-19 pandemic has brought in unprecedented issues for retail industry which will trigger significant tech spend cut in our view. As many as 13 retailers with 3,800+ stores have already filed for bankruptcy in 2020 YTD – large companies such as Victoria's Secret, Bath & Body Works and GNC are also potential candidates. Record store closures are predicted in CY20 (15k, up 60% YoY). Moreover, cues from China point to a slow recovery – after the lockdown there was lifted, footfalls at stores have plateaued at just 40-60% of previous levels.

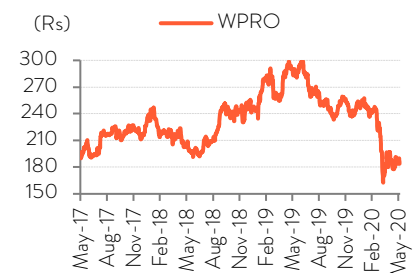
**Expect 2-14% cut in street estimates – SELL Wipro:** Our scenario analysis shows that tier-I Indian IT players will see a 100-600bps drop-off in revenue growth from the retail vertical alone. In our view, the street is underestimating the impact for Indian IT players, putting consensus FY21 EPS for the top-5 companies at risk of 2-14% downgrades.

Among large-caps, Wipro (WPRO) has the highest retail exposure (16.3% of FY20 revenue), followed by Infosys (INFO: 15.4%) and TCS (15.1%). Among mid-caps, Mindtree (MTCL) leads at 20.3%. We cut FY21/FY22 EPS for WPRO by 7%/5% (taking us 13-14% below consensus) and reiterate SELL with a revised Mar'21 TP of Rs 160 (vs. Rs 170). At 13.8x, while the stock trades at 13% discount to its 5Y average, it is at 120%+ premium to the GFC lows.

**RECOMMENDATION SNAPSHOT**

Ticker	Price	Target	Rating
TCS	1,903	1,860	ADD
INFO	652	730	ADD
WPRO	184	160	SELL
HCLT	512	650	BUY
TECHM	512	570	REDUCE
LTI	1,657	2,230	BUY
MPHL	840	740	SELL
MTCL	855	810	REDUCE
HEXW	246	320	ADD
PSYS	521	530	REDUCE
NITEC	1,359	1,330	ADD
ECLX	426	490	SELL

Price & Target in Rupees

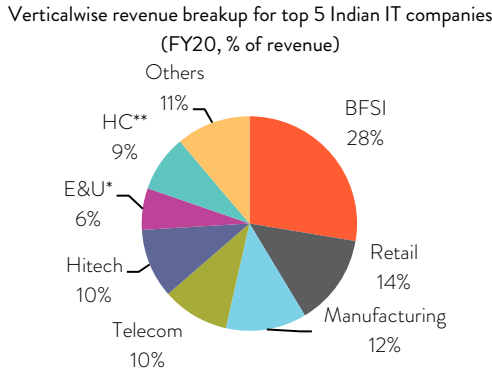
**STOCK PERFORMANCE**

Source: NSE



## Focus charts

**FIG 1 – RETAIL VERTICAL SECOND LARGEST REVENUE CONTRIBUTOR FOR INDIAN IT COMPANIES**



Source: Company, BOBCAPS Research | \*E&U: Energy & Utilities, \*\*HC: Healthcare

**FIG 2 – 13 RETAILERS HAVE FILED FOR BANKRUPTCY; MANY MORE MAY WIND UP**



Source: CB Insights, BOBCAPS Research

**FIG 3 – THESE 13 RETAILERS OPERATED 3,800+ STORES**

Sr. No.	Company	Bankruptcy Timeline	No of locations/stores
1	JC Penny	May-20	850
2	Stage stores	May-20	782
3	J Crew	May-20	500+
4	Neiman Marcus	May-20	69
5	John Varvatos Enterprises Inc	May-20	10+
6	J Hillburn's	May-20	NA
7	True Religion	Apr-20	87
8	Modell's sporting goods	Mar-20	135
9	Earthfare	Feb-20	50+
10	Pier 1 Imports	Feb-20	1,000+
11	SFP Franchise Corp	Jan-20	250+
12	Lucky's Market	Jan-20	~40
13	Must Cure Obesity	Jan-20	NA

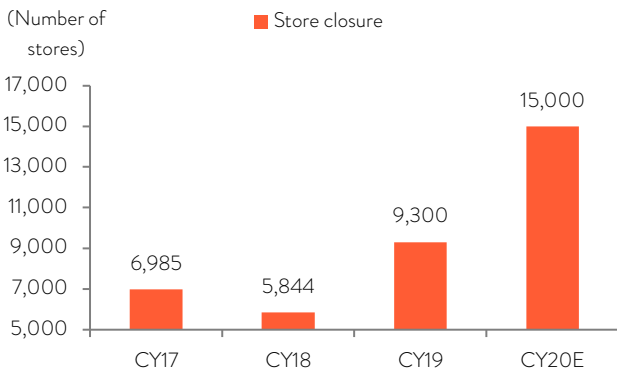
Source: BOBCAPS Research, Company

**FIG 4 – INDUSTRY EXPERTS PREDICT SEVERAL MORE WILL JOIN THE BANKRUPTCY LIST SOON**



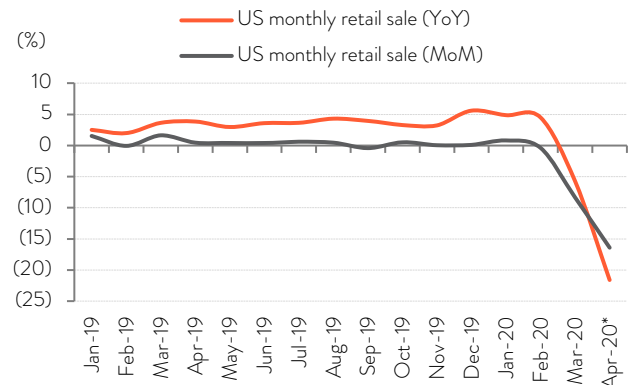
Source: BOBCAPS Research, Company

**FIG 5 – 2020 IS EXPECTED TO WITNESS RECORD RETAIL STORE CLOSURES IN USA**



Source: Coresights, BOBCAPS Research | Note: 2020 retail store closure is forecast by Coresight, a retail industry research and consultancy firm

**FIG 6 – 22% YOY CONTRACTION OF US RETAIL SALES IN APR'20 – 30-YEAR RECORD**



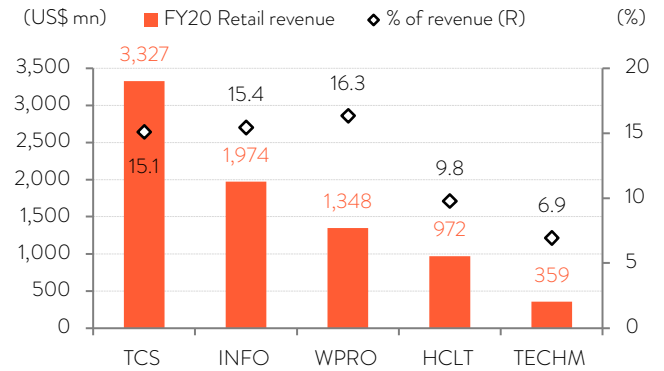
Source: US Commerce Department, BOBCAPS Research | \*Advance estimates

**FIG 7 – APR'20 US RETAIL UNEMPLOYMENT JUMPED TO 18.6%, ~2X THAT DURING GFC**



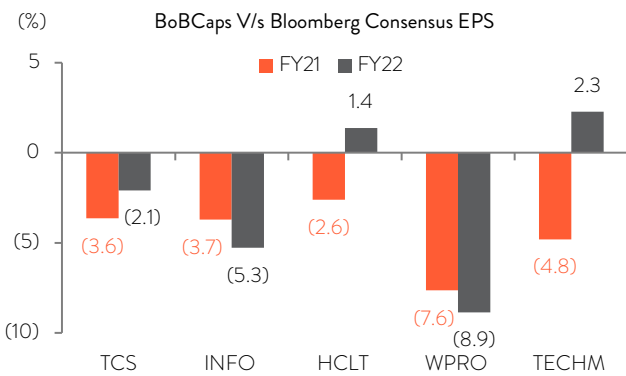
Source: US bureau of Labor Statistics, BOBCAPS Research

**FIG 8 – WIPRO HAS HIGHEST EXPOSURE TO RETAIL VERTICAL AMONGST LARGE CAPS**



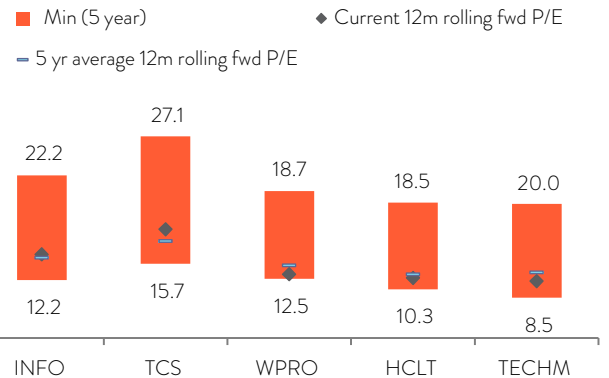
Source: BOBCAPS Research | Note: TECHM makes aggregate disclosure for retail, travel & transportation vertical

**FIG 9 – WIPRO MOST AT RISK – BOBCAPS 13-14% BELOW CONSENSUS ON FY21E/FY22E EPS**



Source: BOBCAPS Research, Bloomberg

**FIG 10 – WIPRO TRADING AT 13% DISCOUNT TO 5Y AVERAGE BUT 120% PREMIUM TO GFC LOWS**



Source: Company, BOBCAPS Research, Bloomberg

## Contents

<b>Focus charts .....</b>	<b>2</b>
<b>Retail vertical to be the worst hit .....</b>	<b>5</b>
Indian IT firms at risk due to high exposure .....	5
Pandemic to push several retailers into bankruptcy .....	6
Pandemic to trigger record store closures .....	7
US retail sales report steepest decline ever .....	8
Retail unemployment at double GFC levels .....	8
Painful and slow recovery path for surviving retailers.....	9
<b>Street underestimating retail headwinds .....</b>	<b>10</b>
100-600bps revenue headwinds from retail alone in FY21.....	10
Consensus estimates at risk of downgrade; SELL WPRO .....	11
Financials – Wipro .....	13

## Retail vertical to be the worst hit

The Covid-19 pandemic situation is still fluid and markets across the globe are striving to discover the economic cost of this crisis. Our impact analysis for the Indian IT services industry indicates that the retail vertical, rather than travel, will bear the brunt in terms of a slowdown in technology spending.

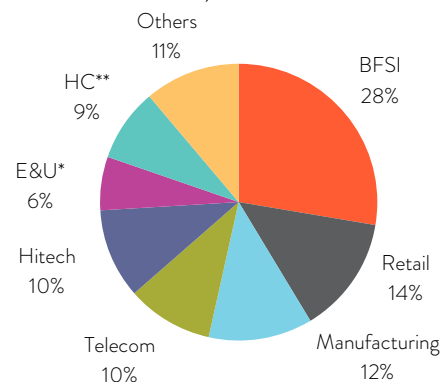
### Indian IT firms at risk due to high exposure

Retail is the second largest revenue generating vertical for Indian IT players, contributing ~14% of revenue for the top 5 companies (TCS, INFO, HCLT, WPRO and TECHEM). Among large-caps, WPRO has the highest retail exposure at 16.3%. INFO and TCS follow at 15.4% and 15.1% respectively. Among mid-caps, MTCL is the most vulnerable at 20.3% retail revenue share.

Sizable exposure to the retail vertical makes this the most vulnerable area for the Indian IT industry. Our view contradicts the street's narrow focus on travel and transportation which is the hardest hit sector globally but accounts for a relatively lower proportion of IT industry revenue – at less than 5% per our estimates.

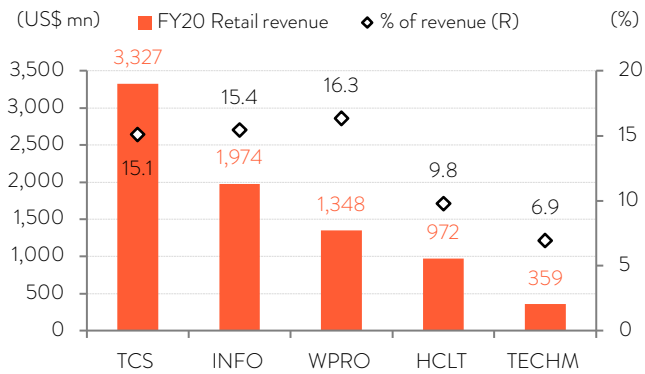
**FIG 11 – RETAIL IS SECOND LARGEST REVENUE CONTRIBUTOR FOR TOP 5 INDIAN IT PLAYERS**

Verticalwise revenue breakup for top 5 Indian IT companies  
(FY20, % of revenue)



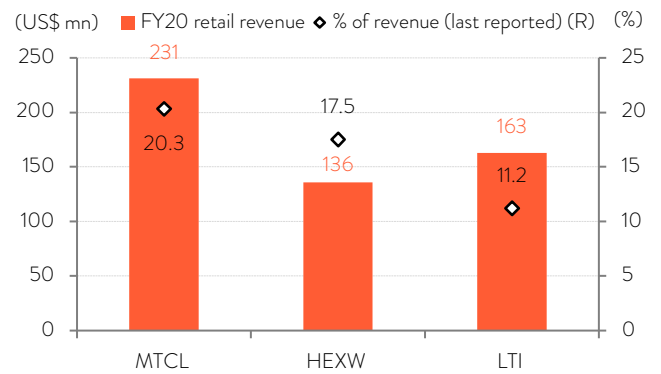
Source: Company, BOBCAPS Research | Note: Above chart represents aggregate for TCS, INFO, WPRO, HCLT and TECHM

**FIG 12 – WPRO HAS HIGHEST RETAIL VERTICAL EXPOSURE AMONG LARGE-CAPS**



Source: BOBCAPS Research | Note: TECHM reports Retail, Transportation and Logistics together

**FIG 13 – MTCL HAS HIGHEST RETAIL VERTICAL EXPOSURE AMONG MID-CAPS**



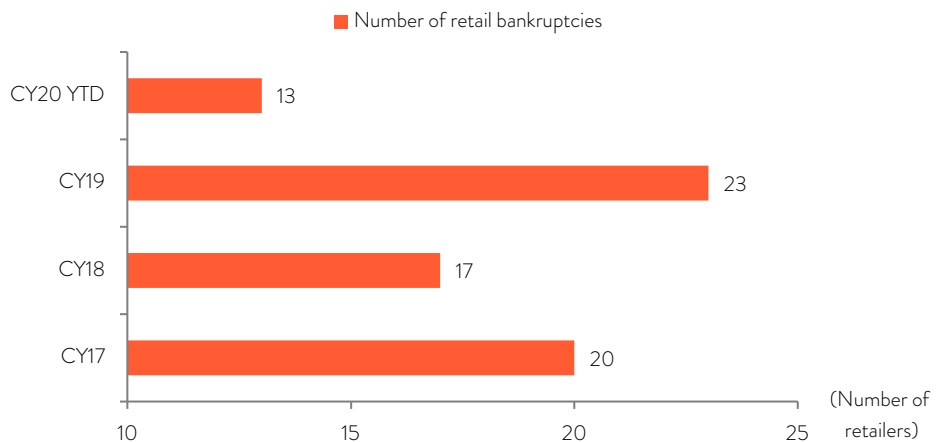
Source: BOBCAPS Research | Note: Above chart plots following: MTCL – Retail and Manufacturing, HEXW – Consumers and Manufacturing, LTI – CPG, Retail and Pharma

### Pandemic to push several retailers into bankruptcy

Retailers across the globe have struggled with the move to online retail and changing customer tastes. But the coronavirus and government-mandated closures will now push many of the already struggling retailers over the edge to bankruptcy. In CY20 so far, 13 US retailers with ~3,800 stores have filed for bankruptcy.

JC Penny, who skipped two interest payments during the pandemic, is the latest and largest (revenue-wise) to join the list. We highlight that 6 out of 13 (or 45%+) US retail bankruptcies this year were in the month of May alone. Industry experts forecast a further surge in CY20.

**FIG 14 – BANKRUPTCIES FORECASTED TO BALLOON; SO FAR 13 RETAILERS HAVE FILED FOR BANKRUPTCY IN CY20 YTD**



Source: CB Insights, BOBCAPS Research

**FIG 15 – THESE 13 RETAILERS OPERATED 3,800+ STORES**

Sr. No.	Company	Bankruptcy Timeline	No of locations/stores
1	JC Penny	May-20	850
2	Stage stores	May-20	782
3	J Crew	May-20	500+
4	Neiman Marcus	May-20	69
5	John Varvatos Enterprises Inc	May-20	10+
6	J Hillburn's	May-20	NA
7	True Religion	Apr-20	87
8	Modell's sporting goods	Mar-20	135
9	Earthfare	Feb-20	50+
10	Pier 1 Imports	Feb-20	1,000+
11	SFP Franchise Corp	Jan-20	250+
12	Lucky's Market	Jan-20	~40
13	Must Cure Obesity	Jan-20	NA

Source: BOBCAPS Research, Company

**FIG 16 – INDUSTRY EXPERTS PREDICT SEVERAL NAMES WILL JOIN THE BANKRUPTCY LIST SOON**



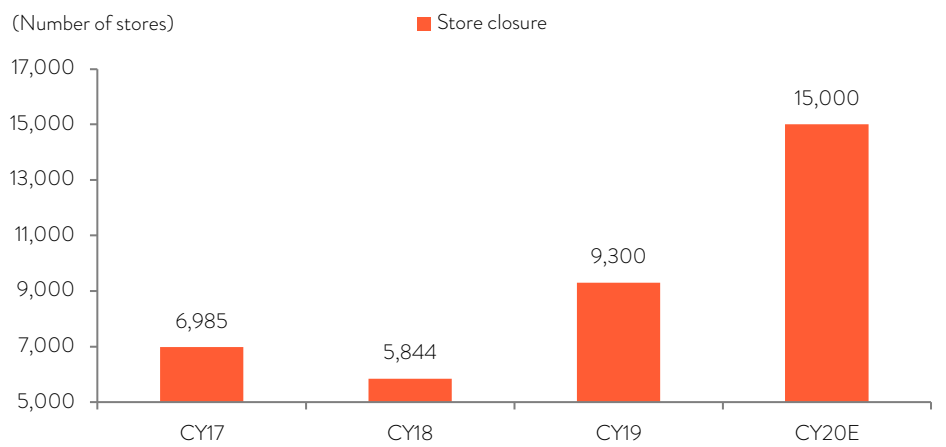
Source: BOBCAPS Research.

### Pandemic to trigger record store closures

The retail industry in the US was already facing a lull, struggling with competition from online retailers. In CY19, ~9,300 retail stores closed, an increase of 59% YoY. The US lockdown to contain the pandemic forced non-essential retailers to shut shop in mid-Mar'20. Many of these temporary store closures are likely to become permanent. For instance, Nordstrom, a US luxury department store chain, has announced permanent closure of 16 of its 116 stores.

Industry experts forecast record store closures in CY20. Core Insights, a retail research and consultancy firm, estimates a colossal 15,000 more closures in CY20 – a spike of 61% YoY (Fig 17).

**FIG 17 – 15,000+ STORE CLOSURES FORECAST FOR 2020 VS. 9,300 IN 2019**



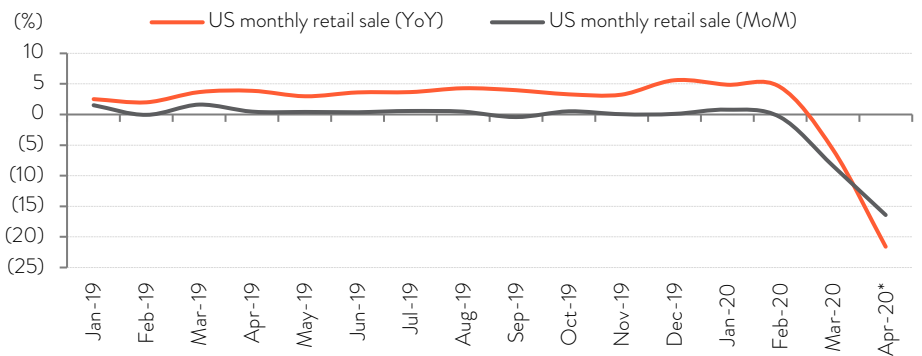
Source: Coresight, BOBCAPS Research

### US retail sales report steepest decline ever

The US government declared a national pandemic emergency on 13 March, leading to temporary closure of all non-essential retail stores. Consequently, US retail sales for Mar'20 posted the steepest decline in three decades at 8.3% MoM and 5.7% YoY.

Apr'20 US retail sales fell a record 16.4% MoM and 21.6% YoY, eclipsing the March slump. Sales were weak across a range of categories, but non-essential businesses were particularly affected. Sales at furniture stores dropped 67% and electronics fell 65%. Clothing sales plummeted 89% from Apr'19.

**FIG 18 – US RETAIL SALES POSTED STEEPEST DECLINE IN THREE DECADES IN APRIL**

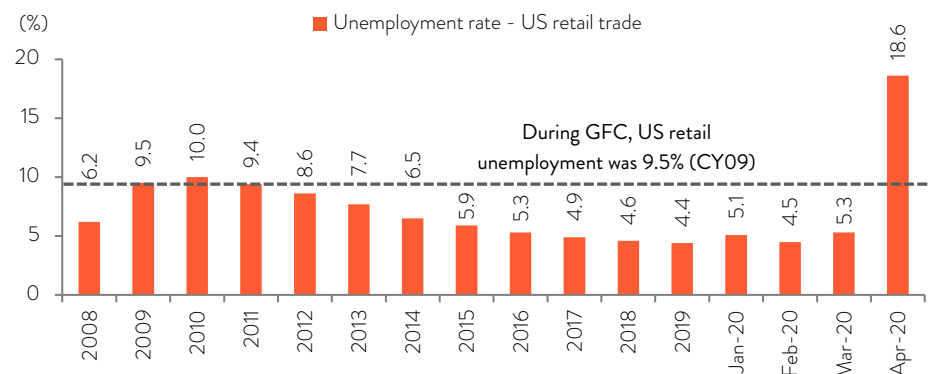


Source: US commerce department, BOBCAPS Research. | \*Apr'20 is advance estimate

### Retail unemployment at double GFC levels

Unprecedented store closures have led to forced furloughs and shedding of workforce that does not support online business or is unable to work from home. US retail unemployment data further reinforces our view on the scale of the impact (Fig 19). In Apr'20, 2.1mn retail employees were out of a job and filed for unemployment claims in the US, pushing the retail unemployment rate to 18.6% (vs. 14.7% overall) – nearly double that during the GFC.

**FIG 19 – US UNEMPLOYMENT RATE SHOT UP TO 18.6% IN APR'20, ~2X THAT DURING GFC**



Source: US bureau of Labor Statistics, BOBCAPS Research.

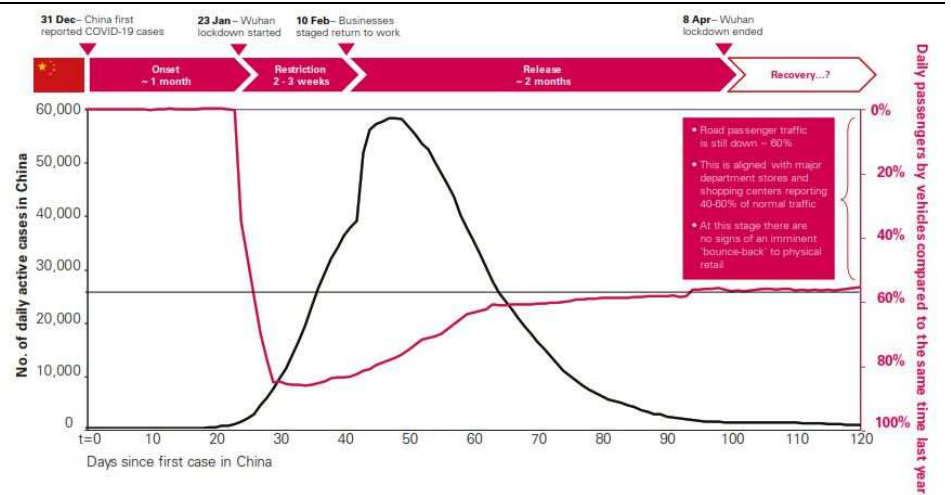


### Painful and slow recovery path for surviving retailers

Recovery for surviving retailers will be painful and challenging, hinging on an effective end to the pandemic and a rebound in consumer confidence. As retailers prepare to open stores, the near-term challenges include costs of sanitisation and social distancing, outdated inventories especially for fashion retailers, liquidity crunch, broken supply chains, and partial or selective store operations with subpar footfalls. Changes in consumer behaviour will determine the fate of many retailers over the medium-to-long term.

Cues from China point to a slow recovery – after the lockdown there was lifted, footfalls at stores have plateaued at just 40-60% of previous levels. A new survey of 98 US-based retail executives by McKinsey in a variety of subsectors indicates that most executives expect store traffic to return to pre-crisis levels, but not for at least several months after stores reopen.


**FIG 20 – TRAFFIC IN CHINA PLATUED AT 40-60% POST LOCKDOWN LIFTING**



Note: Above data is as of 1 May 2020; road vehicles are the main form of transport in China  
Source: WHO; National Health Commission of China; KPMG Economics; CCAGM; Ministry of Transport; Haver Analytics)

Source: WHO; National Health Commission of China; KPMG Economics; CCAGM; Ministry of Transport; Haver Analytics, BOBCAPS Research. Note: Above data is as of 1 May 2020; road vehicles are the main form of transport in China

**FIG 21 – UNDER ARMOUR TARGETS TO CUT OPEX AND CAPEX**

Company	Key initiatives to fight coronavirus
 <b>UNDER ARMOUR</b>	<ul style="list-style-type: none"> <li>Reported 23% YoY revenue decline for Q1CY20 (US\$ 930mn)</li> </ul>
	<ul style="list-style-type: none"> <li>Furloughed 6,600 employees (40%+ workforce)</li> </ul>
	<ul style="list-style-type: none"> <li>Expects Q2CY20 revenue to drop by 60%</li> </ul>
	<ul style="list-style-type: none"> <li>Plans to cut operating costs by US\$ 325mn and capex by US\$ 100mn</li> </ul>
	<ul style="list-style-type: none"> <li>Curtailed incentive pay</li> </ul>
	<ul style="list-style-type: none"> <li>Scaled back contracted services</li> </ul>

Source: Company, BOBCAPS Research

## Street underestimating retail headwinds

Our scenario analysis shows that tier-I Indian IT players will see a 100-600bps drop-off in revenue growth in FY21 from the retail vertical alone. We believe the street is underestimating the severe pandemic-led stress on retail sector technology spends – consequently, FY21 consensus EPS estimates for the top-5 Indian IT service companies run the risk of downgrades by 2-14%.

### 100-600bps revenue headwinds from retail alone in FY21

Our bull/base/bear case scenarios point to retail revenue declines of 15%/25%/38% YoY for tier-I Indian IT players in FY21. This implies that the retail vertical alone can trigger 100-600bps of topline headwinds for large-cap IT services players (Fig 22). WPRO fares the worst with downsides of 240bps/620bps in our bull/bear case scenarios given its highest exposure of 16.3% to retail.

We highlight that retail subsegment exposure, services mix and client portfolio will be the key determinants of retail vertical performance for individual companies. Our scenario assumptions take cues from consensus expectations for US economic growth, wherein a 30%+ YoY decline is expected for the Jun'20 quarter followed by growth recovery in the Sep'20 quarter. We assume a 20-40% QoQ decline in retail revenue for the Jun'20 quarter followed by a growth rebound (fig 23).

**FIG 22 – RETAIL VERTICAL ALONE CAN TRIGGER 100-600BPS REVENUE HEADWINDS AS PER OUR SCENARIO ANALYSIS**

(bps)	Bull case	Base Case	Bear Case
TCS	(220)	(380)	(580)
INFO	(230)	(390)	(590)
WPRO	(240)	(410)	(620)
HCLT	(140)	(250)	(370)
TECHM	(100)	(170)	(270)

Source: BOBCAPS Research

**FIG 23 – OUR ASSUMPTIONS TAKE CUES FROM CONSENSUS US GDP FORECAST OF 30%+ YOY DECLINE IN JUN'20 QTR**

Assumptions (QoQ change, %)	Q1	Q2	Q3	Q4
Bull case	(20)	5	5	2
Base case	(30)	5	5	2
Bear case	(40)	0	5	2

Source: BOBCAPS Research

## Consensus estimates at risk of downgrade; SELL WPRO

In our view, the street remains narrowly focused on challenges emerging from the travel and transportation vertical for Indian IT companies during the current pandemic. In contrast, we believe the retail vertical will cause substantially larger damage. Consequently, we expect FY21 consensus EPS estimates for the top 5 players to be cut by 2-14%.

With the highest retail exposure, WPRO is at highest risk. We trim our already below-consensus earnings estimates for the company by a further 7%/5% for FY21/FY22 and revise our Mar'21 TP to Rs 160 (Rs 170 earlier), set at an unchanged target P/E multiple of 11x. Our revised EPS estimates for WPRO now stand 14%/13% below consensus for FY21/FY22. Reiterate SELL.

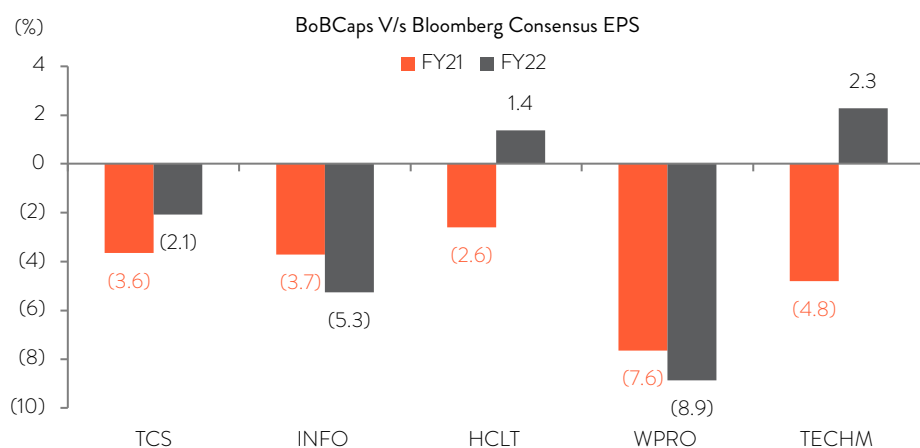
We keep earnings estimates for the rest of our coverage unchanged. For other large-caps under our coverage, our FY21 estimates are 2-5% below the Bloomberg consensus.

**FIG 24 – WPRO: REVISED ESTIMATES**

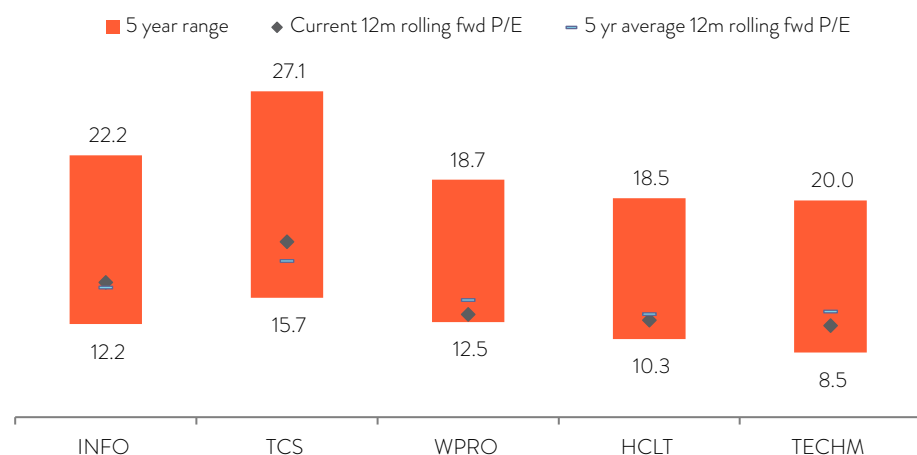
(Rs mn)	FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)
IT Services revenues (excluding ISRE, in US\$ mn)	7,955	7,752	(2.6)	8,353	8,059	(3.5)
IT Services revenues (excluding ISRE, in US\$ mn), YoY growth (%)	(3.7)	(6.1)	-	5.0	4.0	-
Company Wide Revenues	6,15,956	6,00,707	(2.5)	6,45,651	6,23,603	(3.4)
EBIT	95,576	88,411	(7.5)	1,05,986	1,00,796	(4.9)
EBIT margins (%)	15.5	14.7	-	16.4	16.2	-
Net profits	85,396	79,735	(6.6)	92,160	87,995	(4.5)
EPS (Rs)	14.4	13.4	(6.6)	15.5	14.8	(4.5)

Source: BOBCAPS Research

**FIG 25 – OUR REVISED FY21/FY22 EPS FOR WPRO IS 14%/13% BELOW CONSENSUS**



Source: Bloomberg, BOBCAPS Research

**FIG 26 – WPRO TRADING AT DISCOUNT TO 5-YEAR AVERAGE BUT 120% PREMIUM TO GFC LOWS**


Source: Bloomberg, Company, BOBCAPS Research

**FIG 27 – VALUATION SUMMARY: SELL WPRO**

Company	CMP (Rs)	Mkt Cap (US\$ bn)	Rating	Target Price (Rs)	US\$ revenue CAGR FY20-22E (%)	EBIT CAGR (%) FY20-22E	EPS (Rs)			P/E (x)			ROE (%)		
							FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
TCS	1,903	92.9	ADD	1,860	1.1	5.0	86.2	80.9	93.0	22.1	23.5	20.5	37.0	32.8	31.8
INFO	652	36.9	ADD	730	1.7	5.9	39.0	36.3	40.3	16.7	17.9	16.2	26.5	22.6	22.9
WPRO	184	13.6	SELL	160	(1.2)	(1.8)	16.7	13.4	14.8	11.0	13.7	12.4	16.9	13.4	13.2
HCLT	512	18.1	BUY	650	4.2	7.1	40.9	39.3	46.0	12.5	13.0	11.1	23.7	19.6	20.6
TECHM	512	5.8	REDUCE	570	2.0	13.6	48.3	40.5	51.9	10.6	12.6	9.9	19.8	15.4	18.0
LTI	1,657	3.8	BUY	2,230	13.1	14.9	83.5	81.6	90.7	19.8	20.3	18.3	27.5	23.2	22.6
MPHL	840	2.0	SELL	740	3.7	7.3	63.7	52.8	67.8	13.2	15.9	12.4	21.4	16.2	19.2
MTCL	855	1.8	REDUCE	810	6.1	22.6	38.0	45.9	52.8	22.5	18.6	16.2	19.4	22.4	22.6
HEXW*	246	1.0	ADD	320	5.3	2.2	22.3	19.6	21.8	11.0	12.5	11.2	26.2	19.9	19.4
PSYS	521	0.5	REDUCE	530	5.3	20.3	42.7	37.3	47.2	12.2	14.0	11.0	14.1	11.5	13.5
NITEC	1,359	1.1	ADD	1,330	5.7	12.1	76.5	80.8	98.7	17.8	16.8	13.8	19.4	17.7	19.1
ECLX	426	0.2	SELL	490	12.3	8.4	56.8	60.3	66.6	7.5	7.1	6.4	19.6	19.2	19.7

Source: Bloomberg, Company, BOBCAPS Research | Prices as on 15 May 2020 | \*FY20 refers to CY19 for Hexaware and so on.

## Financials – Wipro

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
<b>Total revenue</b>	<b>5,46,359</b>	<b>5,89,060</b>	<b>6,13,401</b>	<b>6,00,707</b>	<b>6,23,603</b>
EBITDA	1,05,418	1,21,661	1,24,867	1,08,235	1,21,374
Depreciation	21,124	19,474	20,281	19,823	20,579
EBIT	84,294	1,02,187	1,04,586	88,411	1,00,796
Net interest income/(expenses)	18,169	15,548	16,752	12,809	12,313
Other income/(expenses)	0	0	0	0	0
Exceptional items	0	0	0	0	0
EBT	1,02,463	1,15,458	1,20,589	1,01,220	1,13,109
Income taxes	22,390	25,242	24,799	21,285	24,914
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	27	142	495	200	200
<b>Reported net profit</b>	<b>80,046</b>	<b>90,074</b>	<b>95,295</b>	<b>79,735</b>	<b>87,995</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>80,046</b>	<b>90,074</b>	<b>95,295</b>	<b>79,735</b>	<b>87,995</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	0	0	0	0	0
Other current liabilities	1,33,177	1,58,894	1,56,761	1,33,307	1,38,389
Provisions	799	640	612	1,481	1,538
Debt funds	1,38,259	99,467	78,042	78,042	78,042
Other liabilities	3,059	3,417	2,825	2,825	2,825
Equity capital	9,048	12,068	11,427	11,427	11,427
Reserves & surplus	4,76,298	5,58,685	5,47,906	6,18,245	6,95,850
Shareholders' fund	4,85,346	5,70,753	5,59,333	6,29,672	7,07,277
<b>Total liabilities and equities</b>	<b>7,60,640</b>	<b>8,33,171</b>	<b>7,97,573</b>	<b>8,45,328</b>	<b>9,28,070</b>
Cash and cash eq.	44,925	1,58,529	1,44,499	1,49,681	2,25,208
Accounts receivables	1,00,990	1,00,489	1,04,474	1,23,433	1,12,761
Inventories	3,370	3,951	1,865	4,937	5,126
Other current assets	1,45,107	1,29,457	1,08,891	1,24,256	1,37,534
Investments	2,59,200	2,33,798	2,03,345	2,03,345	2,03,345
Net fixed assets	64,443	70,601	81,120	86,297	90,718
CWIP	15,166	0	0	0	0
Intangible assets	1,35,697	1,30,742	1,47,374	1,47,374	1,47,374
Deferred tax assets, net	6,908	5,604	6,005	6,005	6,005
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>7,60,640</b>	<b>8,33,171</b>	<b>7,97,573</b>	<b>8,45,328</b>	<b>9,28,071</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	73,043	1,09,690	1,16,071	99,759	1,08,774
Interest expenses	0	(15,548)	(16,752)	(12,809)	(12,313)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(877)	41,128	16,506	(59,980)	2,343
Other operating cash flows	12,067	14,424	14,919	0	0
<b>Cash flow from operations</b>	<b>84,233</b>	<b>1,49,694</b>	<b>1,30,744</b>	<b>26,970</b>	<b>98,803</b>
Capital expenditures	(20,699)	(40,798)	(45,057)	(25,000)	(25,000)
Change in investments	47,973	0	0	0	0
Other investing cash flows	8,679	15,548	16,752	12,809	12,313
<b>Cash flow from investing</b>	<b>35,953</b>	<b>(25,250)</b>	<b>(28,305)</b>	<b>(12,191)</b>	<b>(12,687)</b>
Equities issued/Others	(1,21,435)	0	(1,05,000)	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(3,123)	0	0	0	0
Dividends paid	(5,420)	(10,840)	(11,469)	(9,596)	(10,590)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(1,29,978)</b>	<b>(10,840)</b>	<b>(1,16,469)</b>	<b>(9,596)</b>	<b>(10,590)</b>
<b>Changes in cash and cash eq.</b>	<b>(9,792)</b>	<b>1,13,604</b>	<b>(14,029)</b>	<b>5,182</b>	<b>75,526</b>
<b>Closing cash and cash eq.</b>	<b>44,925</b>	<b>1,58,529</b>	<b>1,44,499</b>	<b>1,49,681</b>	<b>2,25,208</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	13.3	14.9	16.7	13.4	14.8
Adjusted EPS	13.3	14.9	16.7	13.4	14.8
Dividend per share	1.0	1.5	1.7	1.3	1.5
Book value per share	80.7	94.7	97.9	105.8	118.9

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	2.0	1.9	1.7	1.6	1.6
EV/EBITDA	10.5	9.4	8.5	9.1	8.1
Adjusted P/E	13.8	12.3	11.0	13.7	12.4
P/BV	2.3	1.9	1.9	1.7	1.5

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	78.1	78.0	79.0	78.8	77.8
Interest burden (PBT/EBIT)	121.6	113.0	115.3	114.5	112.2
EBIT margin (EBIT/Revenue)	15.4	17.3	17.1	14.7	16.2
Asset turnover (Revenue/Avg TA)	70.3	73.9	75.2	73.1	70.3
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.3
Adjusted ROAE	15.9	17.1	16.9	13.4	13.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	(1.4)	7.8	4.1	(2.1)	3.8
EBITDA	(6.6)	15.4	2.6	(13.3)	12.1
Adjusted EPS	4.0	12.3	11.6	(19.6)	10.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	19.3	20.7	20.4	18.0	19.5
EBIT margin	15.4	17.3	17.1	14.7	16.2
Adjusted profit margin	14.7	15.3	15.5	13.3	14.1
Adjusted ROAE	15.9	17.1	16.9	13.4	13.2
ROCE	14.0	18.6	20.7	16.7	17.9
<b>Working capital days (days)</b>					
Receivables	67	62	61	69	69
Inventory	3	3	2	2	4
Payables	100	109	113	103	95
<b>Ratios (x)</b>					
Gross asset turnover	8.1	8.7	8.1	7.2	7.0
Current ratio	2.2	2.5	2.3	3.0	3.4
Net interest coverage ratio	4.6	6.6	6.2	6.9	8.2
Adjusted debt/equity	0.2	(0.1)	(0.1)	(0.1)	(0.2)

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

### Rating distribution

As of 30 April 2020, out of 91 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 57 have BUY ratings, 17 have ADD ratings, 9 are rated REDUCE, 7 are rated SELL and 1 is UNDER REVIEW. None of these companies have been investment banking clients in the last 12 months.

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.



For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

#### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.