



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY19 Result Update@ Dalal&Broacha

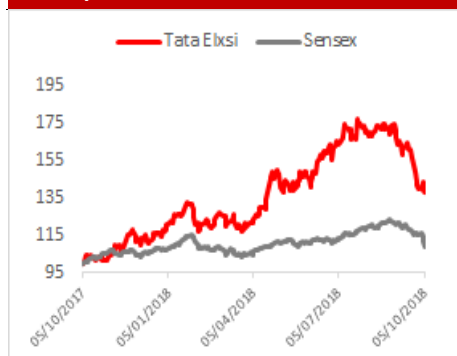
ACCUMULATE

Current Price	988
Target Price	1452
52 Week Range	644/1257
Upside	46%

Key Share Data

Market Cap (Rs.bn)	62.75
Market Cap (US\$ mn)	847.9
No of o/s shares (mn)	62.27
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos	698.2
BSE Code	500408
NSE Code	TATAELXSI
Bloomberg	TELX IN

Price performance



% Shareholding	June-18	Mar-18
Promoters	44.57	44.57
Public	55.43	55.43
Others	0	0
Total	100	100

Q2 FY19 performance in line with our estimates

- Revenue was reported at INR 4,028 Mn, up 0.9% qoq and 8% yoy, and 3% below our estimate of INR 4,154 Mn.
- EBITDA was reported at INR 1,067 Mn, 2.1% below our estimate of INR 1,090 Mn and up 0.2% qoq and 27% yoy. EBITDA margins came in at 26.5%, marginally above our estimate of 26.2% and versus 27.9% in Q1 FY19. EBITDA margins were impacted due to expected wage hikes during Q2.
- Other Income was up by 197% qoq and 163% yoy which we believe is largely on account of Forex Gains (no details given in press release)
- The company reported a PAT of INR 822 Mn, 11.9% above our estimate of INR 734 Mn and up 16.6% qoq and 43.6% yoy. PAT margins came in at 20.4% vs our expectation of 17.7%.
- EPS for the quarter stood at INR 13.2.
- Software Development & Services (97% of revenues) grew by 21% yoy while SI business (3% of revenues) reported at de-growth of 36% yoy.

Valuation & Outlook

Company had maintained (in Q1FY19 conference call) that it can deliver 20% yoy growth over long term based on strong demand and industry growth in Auto, Comms, Media and Medical space. At CMP of INR 988, stock is trading at 17x FY20E EPS of INR 58.1. We upgrade the stock to a BUY rating (from previous recommendation of accumulate on dips in Q2FY19) as we apply a PE multiple of 25x to arrive at a target price of 1,452.

YE March (Rs mn)	Q2 FY19	Q1 FY19	Q-o-Q change %	Q2 FY18	Y-o-Y change %	Q3 FY18 Estimates	Deviation %
Revenues (\$)	57	57	0.9%	53	8.0%	59	(3.0%)
Revenues (INR)	4,028	3,820	5.4%	3,422	17.7%	4,154	(3.0%)
Cost of Raw Material	226	228	(1.2%)	209	8.0%	248	(9.1%)
Gross Profit	3,802	3,592	5.9%	3,213	18.4%	3,905	(2.6%)
Direct Costs	2,735	2,527	8.2%	2,373	15.3%	2,815	(2.9%)
EBITDA	1,067	1,065	0.2%	840	27.0%	1,090	(2.1%)
Depreciation & Amortisation	61	61	(0.3%)	64	(5.6%)	66	(8.3%)
EBIT	1,006	1,004	0.2%	776	29.7%	1,024	(1.7%)
Other Income, net	233	78	197.2%	89	162.6%	104	
PreTax Income	1,240	1,083	14.5%	864	43.4%	1,127	9.9%
Adjusted Pretax Income	1,240	1,083	14.5%	864	43.4%	1,127	
Tax	418	378	10.6%	292	43.0%	393	
Share of Minority Interest							
Net Profit	822	705	16.6%	572	43.6%	734	11.9%
Adjusted Net Profit	822	705	16.6%	572	43.6%	734	11.9%
Diluted EPS (Rs)	13.2	11.3	16.6%	9.2		11.8	
Adjusted Diluted EPS	13.2	11.3	16.6%	9.2		11.8	11.9%
No. of Shares (mn) - Diluted	62	62		62		62	
Margin Analysis (%)			Change in bps		Change in bps		
Gross Profit Margin (%)	94.4%	94.0%	38	93.9%	50	94.0%	38
Operating Profit Margin (%)	25.0%	26.3%	(130)	22.7%	232	24.6%	34
EBITDA Margin (%)	26.5%	27.9%	(139)	24.6%	194	26.2%	25
Net Profit Margin (%)	20.4%	18.5%	195	16.7%	368	17.7%	273
Adjusted NPM (%)	20.4%	18.5%	195	16.7%	368	17.7%	273
Effective Tax rate (%)	33.7%	34.9%	(119)	33.8%	(9)	34.9%	(119)
Cost Analysis (%)			Change in bps		Change in bps		
Direct cost as % of Sales	5.6%	6.0%	(38)	6.1%	(50)	6.0%	(38)
SG&A as % of Sales	67.9%	66.1%	176	69.3%	(144)	67.8%	12

Consolidated Financials (In INR Mn)

INR Mn	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	PE (x)	ROE (%)	ROCE (%)
FY16	10752	26.6%	2471	23.0%	1548	14.4%	49.7	19.9x	43.6%	44.0%
FY17	12330	14.7%	2720	22.1%	1733	14.1%	55.7	17.8x	34.7%	35.5%
FY18	13863	12.4%	3460	25.0%	2400	17.3%	38.5	25.6x	35.4%	38.3%
FY19E	16611	19.8%	4463	26.9%	3118	18.8%	50.1	19.7x	35.0%	37.6%
FY20E	19577	17.9%	5286	27.0%	3618	18.5%	58.1	17.0x	31.5%	33.8%



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YE March (Rs. mn)	Profit & Loss A/c				
	FY16	FY17	FY18	FY19E	FY20E
Net Sales	10752	12330	13863	16611	19577
Sales Growth (Y-o-Y)	26.6%	14.7%	12.4%	19.8%	17.9%
EBIDTA	2471	2720	3460	4463	5286
EBIDTA Growth (Y-o-Y)	39.9%	10.1%	27.2%	29.0%	18.4%
Net Profit	1548	1733	2400	3118	3618
Net Profit Growth (Y-o-Y)	50.4%	11.9%	38.5%	29.9%	16.0%
EPS	49.7	55.7	38.5	50.1	58.1
EPS Growth (Y-o-Y)	50.4%	11.9%	-30.7%	29.9%	16.0%
No of Shares (mn)	31	31	62	62	62
EBIDTA (%)	23.0%	22.1%	25.0%	26.9%	27.0%
Operating Margin %	20.9%	19.9%	23.1%	25.3%	25.0%
NPM (%)	14.4%	14.1%	17.3%	18.8%	18.5%

YE March	Free Cash Flow Statement				
	FY16	FY17	FY18	FY19E	FY20E
EBITDA	2,471	2,720	3,460	4,463	5,286
Add: Depreciation Tax Shield	78	91	86	89	133
Working Capital Changes	-518	-1,019	-91	-380	-412
Less: Inc in FC Investment	-243	-230	-350	-350	-350
Taxes Paid	-824	-902	-1,251	-1,614	-1,864
Total Free Cash Flows	963	661	1855	2209	2794

YE March (Rs. mn)	Key Ratios				
	FY16	FY17	FY18	FY19E	FY20E
Key Operating Ratios					
EBIT Margin (%)	20.9%	19.9%	23.1%	25.3%	25.0%
Tax / PBT (%)	34.5%	33.7%	34.0%	34.1%	34.0%
Net Profit Margin (%)	14.4%	14.1%	17.3%	18.8%	18.5%
RoE (%)	43.6%	34.7%	35.4%	35.0%	31.5%
RoCE (%)	44.0%	35.5%	38.3%	37.6%	33.8%
Current Ratio (x)	2.3x	4.1x	4.8x	5.4x	6.0x
Dividend Payout (%)	26.5%	31.3%	26.2%	26.2%	26.2%
Book Value Per Share (Rs.)	123.9	179.5	118.2	155.2	198.0

Growth Indicators %					
Growth in Gross Block (%)	15.1%	12.4%	16.8%	14.4%	12.6%
Sales Growth (%)	26.6%	14.7%	12.4%	19.8%	17.9%
EBITDA Growth (%)	47.8%	9.2%	30.8%	31.0%	16.5%
Net Profit Growth (%)	50.4%	11.9%	38.5%	29.9%	16.0%
Diluted EPS Growth (%)	50.4%	11.9%	-30.7%	29.9%	16.0%

Turnover Ratios					
Debtors (Days of net sales)	73	72	70	70	70
Creditors (Days of Raw Material)	34	29	29	29	29

YE March (Rs. mn)	Balance Sheet				
	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	311	311	623	623	623
Reserves & Surplus	3546	5278	6739	9040	11710
Equity	3857	5590	7361	9663	12333
Net Worth	3857	5590	7361	9663	12333
Total Loans	182	191	265	342	395
Capital Employed	4039	5781	7626	10005	12728
Assets					
Gross Block	1854	2083	2433	2783	3133
Less: Depreciation	977	1160	1414	1676	2067
Net Block	877	923	1019	1107	1066
Capital WIP	19	10	40	70	100
Investments	358	370	400	430	460
Intangible Assets	193	155	155	155	155
Others - A	13	32	32	32	32
Current Assets					
Sundry Debtors	2152	2448	2659	3186	3755
Cash and Bank Balance	1825	2515	4113	5963	8256
Loans and Advances	228	198	214	250	294
Other Current Assets	333	495	557	667	786
Total Current Assets	4538	5656	7542	10066	13091
Less: Current Liabilities & Provisions					
Sundry Creditors	765	752	827	965	1136
Provisions	707	164	250	323	373
Other Current Liabilities	485	450	487	569	669
Total Current Liabilities & Provisions	1957	1366	1564	1857	2177
Miscellaneous Assets					
Capital Applied	4039	5781	7625	10004	12727

YE March (Rs. mn)	Valuation Ratios				
	FY16	FY17	FY18	FY19E	FY20E
P/E (x)	19.9x	17.8x	25.6x	19.7x	17.0x
P/BV (x)	8.0x	5.5x	8.4x	6.4x	5.0x
EV/EBIDTA (x)	13.0x	11.6x	18.0x	13.3x	11.0x
EV/Sales	2.7x	2.3x	4.2x	3.4x	2.7x
Market Cap./ Sales (x)	2.9x	2.5x	4.4x	3.7x	3.1x
Dividend Yield (%)	1.1%	1.5%	1.0%	1.3%	1.5%



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