

# CRISIL IER Independent Equity Research

**Hinduja Global  
Solutions Ltd**

**Initiating Coverage**

Enhancing investment decisions

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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**Last updated: May, 2013**

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Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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# Hinduja Global Solutions Ltd

Mid-sized outsourcing player, competes in a fragmented market

**Fundamental Grade** 3/5 (Good fundamentals)

**Valuation Grade** 4/5 (CMP has upside)

**Industry** IT Services

Hinduja Group-promoted Hinduja Global Solutions Ltd (Hinduja Global) is a mid-sized outsourcing player catering to diverse sectors. Organic growth coupled with successful integration of acquisitions has enabled the company post a PAT CAGR of 21% over FY07-13. Diverse regional presence helps the company meet client-specific needs. However, integrated players providing IT and business process management (BPM) services are an apparent threat to pure-play BPM players (such as Hinduja Global) as clients may opt for bundled service offerings from a single vendor. However, given BPM is a non-core offering for integrated players, the risk is not significant. We assign Hinduja Global a fundamental grade of **3/5**, indicating that its fundamentals are 'good' relative to other listed securities in India.

## Acquisition-driven diverse sectoral presence, scale and reach

Post 2003, Hinduja Global focused on inorganic growth and acquired many companies over 2003-12, which (i) drove up revenues 7x during FY07-13 to ₹20 bn, (ii) expanded service offerings to diverse sectors such as telecom, healthcare, insurance and consumer, and (iii) widened its geographic presence. PAT was up at a CAGR of 21% over FY07-13, which reflects that the company has successfully integrated the acquisitions.

## Round-the-clock region-wide service

It is present in 55 locations across 11 countries with different time zones which helps it cater to client needs round-the-clock and also help manage cost. Offshore and onshore presence in various destinations helps meet client-specific needs for delivery of service.

## Key negatives: Fragmented industry, high client concentration, contingent liability

- It operates in a fragmented industry.
- Hinduja Global gets majority of repeat business, but it is exposed to client concentration risk as top five clients constituted 47% of Q3FY14 sales.
- Contingent liability of ₹2.3 bn in FY13; of this, ₹1.8 bn pertains to income tax demand received by Hinduja Ventures for IT/ITES business prior to Oct 2006 (details page 12).
- Losses continue at most of the subsidiaries.

## PAT CAGR of 36% during FY13-16 aided by revenue growth and margin improvement

US\$ revenues are expected to grow at a three-year CAGR of 13% to US\$524 mn in FY16, primarily driven by telecom / technology and health insurance. We factor average exchange rate (₹/US\$) of ~62 during FY14-FY16. We expect Hinduja Global's EBITDA margin to improve hereon because a) it is exiting the unprofitable Indian telecom client account and b) improvement of seat utilisation. PAT to increase at 36% CAGR to ₹2 bn in FY13-16.

## Valuations: CMP has upside

CRISIL Research has arrived at a fair value of ₹674 per share for Hinduja Global using the discounted cash flow (DCF) method, after lowering some of the contingent liability risk. At the current market price of ₹590 per share, our valuation grade is **4/5**.

## KEY FORECAST (CONSOLIDATED)

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Operating income	15,543	19,845	25,209	28,587	32,556
EBITDA	1,820	2,319	3,240	3,735	4,325
Adj net income	945	914	1,726	1,929	2,317
Adj EPS (₹)	45.9	44.4	83.8	93.7	112.5
EPS growth (%)	(10.1)	(3.3)	88.9	11.8	20.1
Dividend yield (%)	3.4	3.4	4.1	4.1	4.3
RoCE (%)	8.0	8.5	12.8	14.2	15.8
RoE (%)	8.8	7.7	13.4	13.6	14.8
PE (x)	12.8	13.3	7.0	6.3	5.2
P/BV (x)	1.1	1.0	0.9	0.8	0.7
EV/EBITDA (x)	9.4	5.9	4.2	3.5	2.8

NM: Not meaningful; CMP: Current market price

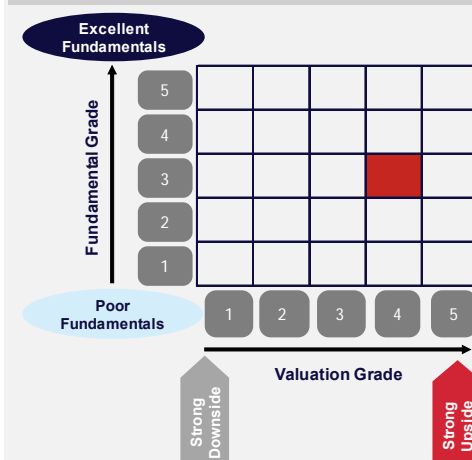
Source: Company, CRISIL Research estimates

February 28, 2014

**Fair Value** ₹674

**CMP** ₹590

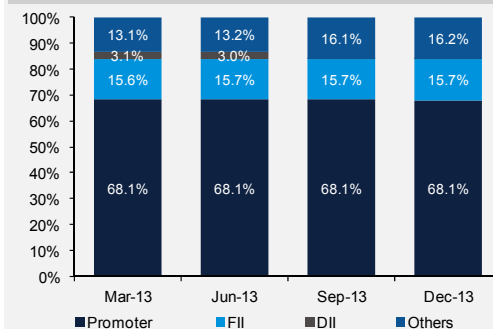
## CFV MATRIX



## KEY STOCK STATISTICS

NIFTY/SENSEX	6277/21120
NSE/BSE ticker	HGS/HGSL
Face value (₹ per share)	10
Shares outstanding (mn)	20.6
Market cap (₹ mn)/(US\$ mn)	12,154/200
Enterprise value (₹ mn)/(US\$ mn)	13,648/224
52-week range (₹)/(H/L)	610/219
Beta	0.8
Free float (%)	31.9%
Avg daily volumes (30-days)	24,399
Avg daily value (30-days) (₹ mn)	14.3

## SHAREHOLDING PATTERN



## PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Hinduja Global	10%	43%	160%	114%
CNX 500	3%	3%	20%	8%

## ANALYTICAL CONTACT

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**Table 1: Hinduja Global - Business environment**

Parameters	Telecom and technology	Health insurance	Consumer electronics	Others*
Revenue contribution (FY13)	31%	26%	16%	26%
Revenue contribution (FY16E)	35%	28%	15%	21%
Revenue growth (FY12-13)	33%	40%	16%	20%
Revenue CAGR (FY13-16E)	23%	24%	11%	10%
Service offerings#	<ul style="list-style-type: none"> <li>Customer relationship management services such as voice, email, chat and technical help desk</li> <li>Transaction processing such as application processing and account maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Transaction processing such as claims management, claims audit and policy administration</li> <li>Customer relationship management services such as medical management / clinical services</li> </ul>	<ul style="list-style-type: none"> <li>Customer relationship management services such as tech support services, voice, call and correspondence services</li> <li>Transaction processing such as application processing and account maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Customer relationship management services such as tech support services, voice, call and correspondence services</li> <li>Transaction processing such as application processing and account maintenance</li> </ul>
Key geographies to which services are offered	The US, Canada, India, the UK	The US	The US, the UK, The Philippines	The US, Canada, the UK
Market position	Mid-sized outsourcing player in a highly fragmented industry			
Demand drivers	Clients are trying to augment their revenue growth by increasing automation and standardising processes. Increasing comfort from the clients' side to share sensitive information with vendors is also expected to drive incremental outsourcing. Affordable Care Act offers an opportunity in the health insurance vertical			
Key competitors	<ul style="list-style-type: none"> <li>Pure-play BPM (ITES export) players such as Genpact, EXL Services, First Source Solutions, WNS</li> <li>Integrated IT and BPM players such as Infosys BPO, Wipro BPO, eClerx Services, etc.</li> </ul>			
Key risks	<ul style="list-style-type: none"> <li>Client concentration</li> <li>Contingent liability risk</li> <li>Talent acquisition and retention</li> </ul>			

\*Others include banking and financial services, media, chemicals, biotechnology, etc.

#Broad classification and indicative list of service offerings

Source: Company, CRISIL Research

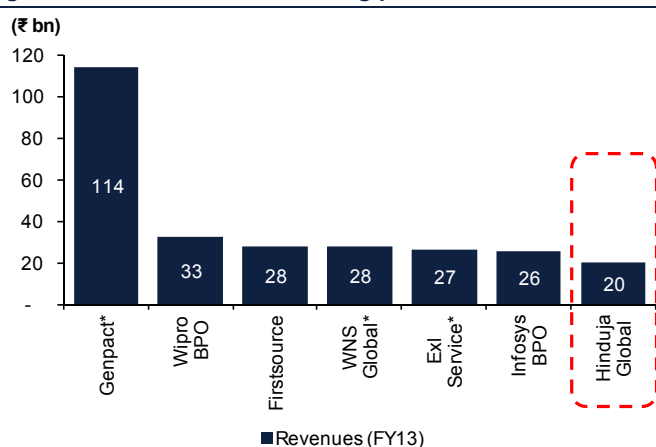
## Grading Rationale

### Mid-sized outsourcing player catering to diverse sectors

Hinduja Group-promoted Hinduja Global, a mid-sized outsourcing player, offers various services such as voice, claims management, payroll processing, technical help desk and application processing. It derives majority of its revenues from the overseas market (the Indian domestic business constituted hardly 5% of FY13 revenues). It has gained domain knowledge across diverse sectors (telecom, healthcare, insurance and consumer sectors) through strategic acquisition and successful integration. This has helped the company post a PAT CAGR of 21% over FY07-13.

**Hinduja Global is a BPM player catering to 535 clients world-wide**

**Figure 1: A mid-sized outsourcing partner to...**



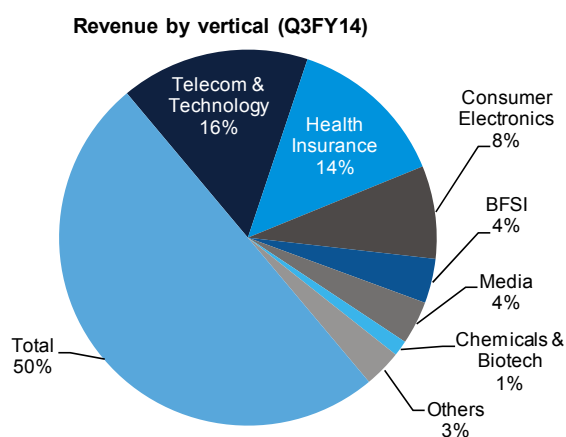
\*US listed companies

Converted \$ revenues of Genpact, WNS and Exl into ₹ at the exchange rate of 1\$ = ₹60

Genpact and EXL Service is CY12, rest are FY13

Source: Companies, CRISIL Research

**Figure 2: ... many companies across diverse sectors**



Source: Company, CRISIL Research

### Other BPM players also service diverse sectors

- **Genpact:** Banking and insurance constituted 41.3% of Q3FY14 revenues, manufacturing 34.6% and others 24.1%.
- **Firstsource:** Telecom and media constituted 43.8% of Q3FY14 revenues, healthcare 31.9%, banking /financial services 23.7% and others 0.6%.
- **WNS:** Insurance constituted 36.9% of Q3FY14 revenues, travel and leisure 18.8% and the rest by sectors such as BFSI, retail, consumer products, telecom, media, etc.
- **EXL:** Insurance and healthcare constituted 54.7% of Q2FY14 revenues, utilities 11%, banking/financial services 7.8% and the rest by travel, transportation, logistics and others.

Source: Companies, CRISIL Research

**Table 2: Hinduja Global ranked 11<sup>th</sup> among top 15 Indian BPM companies**

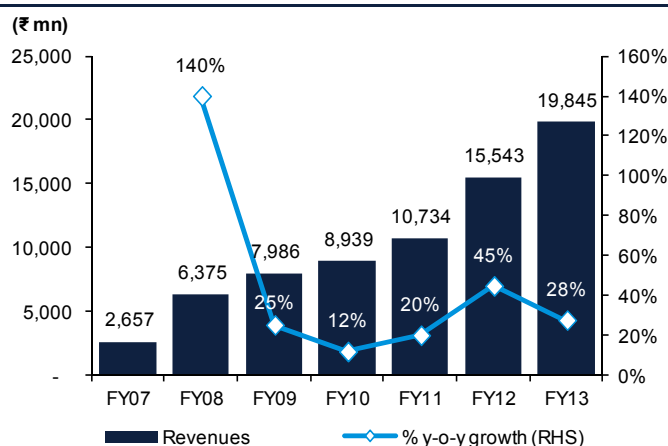
Rank	Company	Rank	Company
1	Genpact India Pvt. Ltd	9	Aditya Birla Minacs Worldwide Ltd
2	Tata Consultancy Services Ltd	10	EXL Services Pvt. Ltd
3	Serco Global Services Pvt. Ltd	11	Hinduja Global Solutions Ltd
4	Aegis Ltd	12	HCL Technologies Ltd - Business Services
5	Wipro BPO	13	Tech Mahindra Ltd
6	Infosys BPO	14	Hero Management Service Ltd
7	Firstsource Solutions Ltd	15	Mphasis Ltd
8	WNS Global Services Pvt. Ltd		

Source: NASSCOM

### Inorganic strategy = scale + vertical diversification + reach

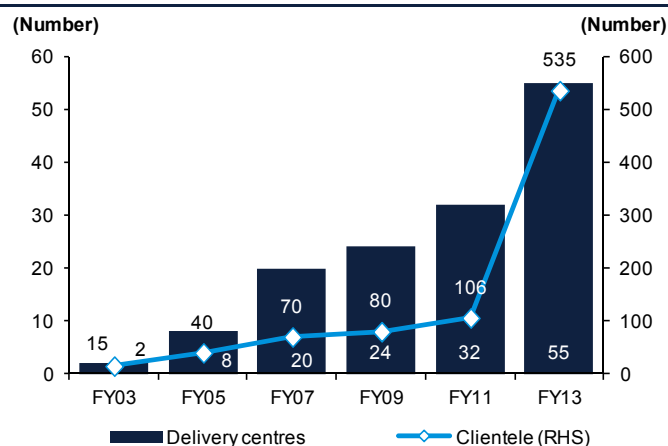
During FY00-03, Hinduja Global grew only through the organic mode with two clients each in healthcare and telecom/technology. Post 2003, the company focused on inorganic growth as it got cash from the sale of stake in telecom circle. It acquired various companies over 2003-12, which drove up revenues, expanded its service offerings and widened the geographic presence. It currently also caters to sectors such as consumer electronics, banking / financial services, media, chemicals, biotechnology, etc.

**Figure 3: Acquisitions drove up revenues 7.5x over FY07-13...**



Source: Company, CRISIL Research

**Figure 4: ... and widened the delivery platform**



Significant expansion of clientele in FY13 due to 378 payroll processing clients added through HCCA business services acquisition

Source: Company, CRISIL Research

Table 3: Rationale and valuation for each acquisition

Acquired company	Country	Year	Consideration Paid	Revenue when acquired	Valuation (price/sales in x)	Revenue (annualised FY14 based on H1FY14)	Rationale for acquisition
C-Cubed	The Philippines	2003	\$12 mn	\$14 mn	0.9	\$54 mn	Entry into the Philippines, key verticals and expansion of the offshore business
Affina LLC (HGS US LCC)	The US	2006	\$30 mn	\$53 mn	0.6	\$87 mn	Entry into the US onshore market. Expansion into key verticals for the US economy - telecom, consumer electronics and services, government and pharmaceuticals
Careline Services, UK (HGS UK)	The UK	2010	£10.8 mn	£20 mn	0.5	£25 mn	Entry into the UK market. Access to marquee clients (Unilever, Talk Talk, Pizza Hut, Lloyds, Fiat, KFC) Access to retail, BFSI clients
Online Support, Canada (HGS Canada)	Canada	2011	\$77 mn	\$72 mn	1.1	\$93 mn	Entry into the Canada onshore market (alternative near-shore option for the US market) Access to global clients (Apple, Amex, Bell)
HCCA Business Services (HGSBPL)	India	2011	₹399 mn	₹341 mn	1.2	₹499 mn	Entry to payroll /finance and account outsourcing
Deloitte EBOS (HGS EBOS)	The US	2012	\$8.3 mn	\$11 mn	0.8	\$12.2 mn	Presence in the US healthcare sector through accounts receivable processing services and insurance eligibility verification services

All these companies are wholly-owned subsidiaries of Hinduja Global

Source: Company, CRISIL Research

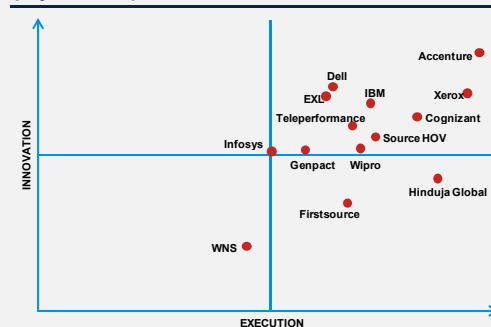
Table 4: Comparison of valuation multiples in the BPM industry

Year	Acquirer	Target company	Valuation	Total amount paid (US\$ mn)
2010	Private equity firm - Apax Partners	Acquired Brazil-based TIVIT (which provides IT and outsourcing services)	1.8x revenues	470
2013	EXL Services Holdings	Outsource Partners International (OPI), former KPMG captive and a dedicated provider of finance and accounting services	1.2x revenues	91
2011	Venture capital private equity firm - Trillium Capital	Stream Global Services, provider of BPO services	0.7x revenues	525

Source: Companies, CRISIL Research

Hinduja Global's acquisition of C-Cubed in 2003 helped it enter the Philippines, which is an attractive offshore destination for voice-based services. The acquisition of Affina in 2006 was to foray into the US onshore market; it realised that it would be difficult for it to grow offshore without an onshore presence. During 2007-09, the company consolidated its acquisitions and put the acquisition plans on the backburner, owing to global meltdown in 2008. In 2010, it acquired Careline to enter the UK. Acquisition of HCCA Business Services in 2011 provided access to a new service offering - payroll processing. The EBOS (niche provider revenue cycle outsourcing division of Deloitte) acquisition in October 2012 helped Hinduja Global gain access to the healthcare provider segment.

#### Hinduja Global ranked 4<sup>th</sup> among healthcare payer BPM providers



Source: HFS Blueprint report – Healthcare Payer BPM services- July 2013

**Table 5: Average revenue per client (excluding HCCA business services) improved in FY13)**

	Revenues (₹ mn)	Number of clients	Average revenue per client (overall) (₹ mn)	Average revenue per client (excluding HCCA business acquisition)* (₹ mn)
FY08	6,375	75	60	60
FY09	7,986	80	90	90
FY10	8,939	80	106	106
FY11	10,734	106	93	93
FY12	15,543	485	27	121
FY13	19,845	535	33	139

\*excluded HCCA business services because it has lower billing per client

Source: Company, CRISIL Research

### Successful integration of acquisitions

Hinduja Global has successfully integrated all acquisitions as reflected in its PAT CAGR of 21% over FY07-13. The company has done a commendable job on integration and has not overpaid for acquisitions.

### Hinduja Global fared well in 2008-09 when Indian BPM industry was hit by global crisis

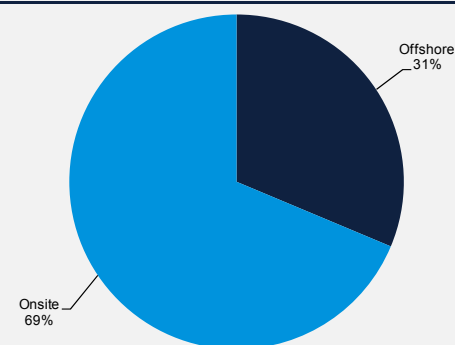
The Indian BPM industry was hit by the global economic meltdown in 2008-09. Many small BPM players suffered – few even shut shop. Most of them were unorganised and performed low-end outsourcing work. These players offered back-office and voice-based services for loan recovery, credit card support and payment, tele-marketing, website design, development and marketing. They catered mainly to the US, the UK and Australia. During this period, Hinduja Global not only survived but also fared well.

### Round-the-clock region-wide service

Hinduja Global is present in many locations (55 across 11 countries) with different time zones which helps it cater to client needs round the clock. Offshore as well as onshore presence across various destinations helps the company meet client specific needs for delivery of service from a particular destination. For instance, a US electronic company has low-value and high-value television products. It will prefer to outsource high-value television customer support to an onshore delivery centre. On the other hand, it may prefer to outsource the customer support service for a low-value television to an offshore delivery centre.

Average revenue per client on an overall basis dropped post the acquisition of HCCA business services (which provides payroll processing services) because the billing per client in payroll processing is lower (about ₹0.8 mn)

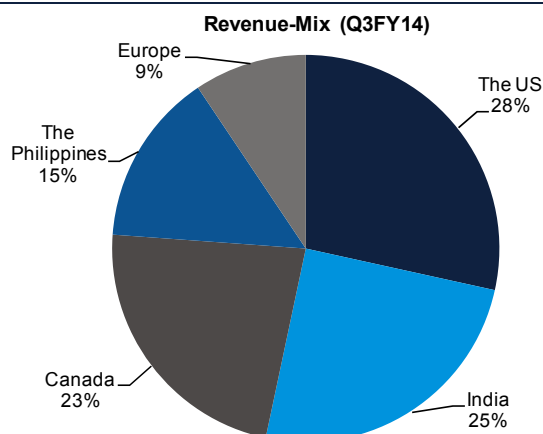
### Majority of revenues are onsite



Source: Company



**Figure 5: Presence across various regions (revenue by delivery centre)...**



Source: Company, CRISIL Research

**Figure 6: ...with different time zones provide 24-hour services**

The US	8 am	Onshore work
India (offshore work for the US)	6.30 pm	Caters to local markets in the day. From afternoon : offshore work for the US (as it largely does non-voice); two shifts starting from 3 pm and 10 pm
The Philippines (offshore work for the US)	9 pm	Caters to local markets in the day. At night: largely offshore work for the US (as it primarily does voice)
Canada	8 am	Onshore work
The UK	1 pm	Onshore work

Source: CRISIL Research

**Table 6: Geographic revenue mix (based on origination) of other BPM players**

BPM players	Revenue mix based on origination (as on Q3FY14)
Hinduja Global	The US 59%, Canada 23%, The UK 9% and others 8%
First Source	The US 46.6%, The UK 36.5%, India 8.3% and others 8.5%
WNS	The UK 53.3%, North America 26.8%, European Union 4.7% and others 15.2%
EXL*	The US 73.1%, The UK 23.3% and others 3.7%

\* as on Q2FY14

Source: Companies, CRISIL Research

### The Philippines – an attractive offshore destination (especially for voice)

The Philippines, just like India, is a leading destination for BPM services due a large skilled talent pool and cost advantage. It is an attractive offshore destination for voice-based services vis-à-vis India due to:

- Strong supply of people willing to work in call centres as there are limited employment opportunities in the Philippines. For instance, this country has a good supply of registered nurses who are ready to work in the night shift, thereby catering to the US clients.
- Their accent is supposed to be better than that of Indians.

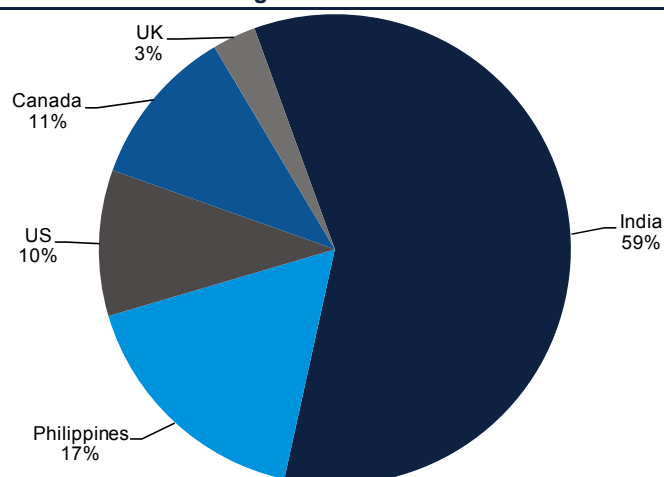
Employee cost is 15% higher in the Philippines than in India.

### Billing rates per hour

- India: voice is \$12 and non-voice is \$8-9
- The Philippines: 15% more than India (both voice and non-voice)

The Philippines and India are good offshore destinations due to large, high quality and cost-effective workforce

**Figure 7: Headcount across the globe**



Total headcount as of December 31, 2013: 25,676

Source: Company, CRISIL Research

### Scope for mining existing clients

As of September 2013, Hinduja Global has 535 clients. The top 20 clients constituted 80% of revenues in Q3FY14. This leaves enough scope for mining the existing clients by cross-selling services. The fact that the average revenue per client (excluding HCCA acquisition) has improved also indicates that it has increased its service offerings to existing clients.

**Table 7: Top 20 clients constituted 80% of Q3FY14 revenues**

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Top client (%)	10%	12%	11%	12%	12%	12%	12%	13%	13%	13%
Top 5 clients (%)	47%	46%	45%	45%	45%	43%	45%	46%	45%	47%
Top 10 clients (%)	60%	62%	63%	62%	63%	61%	63%	63%	63%	63%
Top 20 clients (%)	76%	79%	79%	77%	80%	79%	80%	78%	81%	80%

Source: Company

**Table 8: Client concentration largely in line with most of its peers**

	Top client (%)	Top 5 clients (%)
Genpact	NA	12.2
First Source	21.8	45.4
WNS	15.7	37.2
EXL	9.6	35.6

As of Q3FY14, except EXL which is as on Q2FY14

Source: Companies, CRISIL Research

**Table 9: Client contribution to revenues**

	Q3FY14	Q2FY14	Q1FY14	Q4FY13	Q3FY13	Q2FY13	Q1FY13	Q4FY12	Q3FY12	Q2FY12
> ₹200 mn	8	9	8	8	7	6	6	6	6	5
> ₹150 mn	10	10	9	9	9	7	7	7	7	5
> ₹100 mn	15	16	12	12	12	11	9	11	11	9
> ₹50 mn	26	23	21	20	20	20	23	21	20	15
> ₹10 mn	54	52	51	51	53	50	53	53	54	47

Source: Company

- Hinduja Global's Indian delivery centre employees constitute 60% of the total headcount but revenues from India constitute 25% of total revenues. This is because revenues from India-to-India is booked in ₹, billing of offshore from India is lower than onsite (the US, Canada, the UK)
- For peers - WNS and Genpact, headcount at the Indian delivery centre was close to 75% of the total

Most of its clients contribute  
>₹10 mn and <₹50 mn

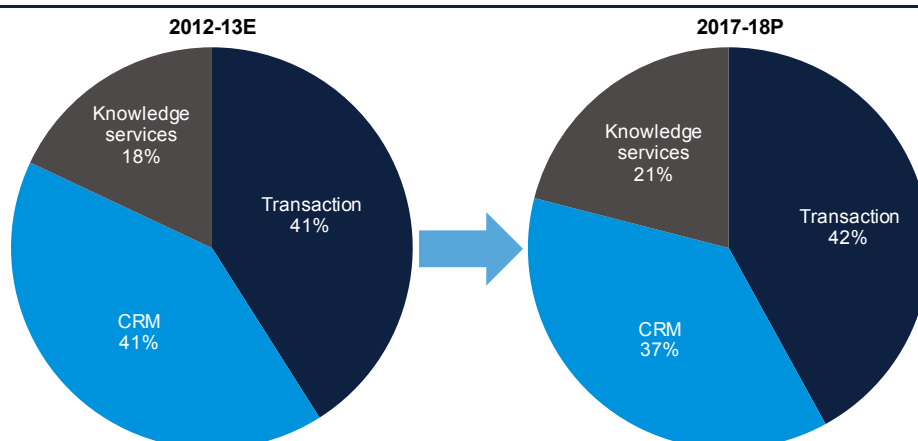
### Industry to grow, health insurance is an opportunity...

CRISIL Research expects the Indian BPM industry to increase at a five-year CAGR of 12% to \$31 bn in FY18. The growth in the Indian BPM industry (accounting for over one-third share of the global BPM market) is expected to be primarily driven by a) an inherent need to reduce costs which would ensure continued offshoring by clients and b) the US recovery which would drive volume growth, both onshore and offshore.

We expect revenues of the transaction services industry (which includes insurance claim processing, policy processing, accounting, etc.) to grow at a 12% CAGR over FY13-18. The clients find it easy to outsource these functions, which are considered non-core and non-critical in nature. Availability of abundant skilled labour, having extensive knowledge on international accounting standards such as IFRS (International Financial Reporting Standards) and GAAP (Generally Accepted Accounting Principles) should help sustain growth in transaction services exports.

CRISIL Research expects revenues of customer relationship management (largely voice) to increase at a CAGR of 9% over FY13-18 against 11% CAGR over the past five years. Increased competition from other countries and lack of sufficient expertise to cater to the non-English speaking audience in Europe are expected to undermine India's growth in exports in this segment. Countries such as the Philippines, Ireland, Mexico and certain Latin American countries are more attuned to the culture in the US, while non-English speaking countries in Eastern Europe have a clear advantage among the European client base. The Philippines, where the BPO sector is a major contributor to economic growth, has also provided tax breaks for all outsourcing companies, foreign or national, (0% tax on units opened post 2011) to provide an impetus to the business.

**Figure 8: Transaction and customer relationship management (CRM) constitute 82% of Indian BPM industry**



Source: Company, CRISIL Research

### ***Health insurance provides opportunity: Hinduja Global well-placed to capitalise on Affordable Care Act***

One of the requirements under Affordable Care Act is that all health insurance providers need to ensure that the selling, general and administrative costs are within a specified limit, which means they need to look out for opportunities to reduce costs. CRISIL Research believes that because of Affordable Care Act, the prevention care segment will grow faster. Given that Hinduja Global is present in this service offering, it is well-placed to capitalise on Affordable Care Act.

### **... but market is fragmented**

Hinduja Global operates in a fragmented BPM industry. Given that the industry has too many players, there is significant competitive pressure. BPM companies have also resorted to inorganic means to grow. This helps them to enter new markets or acquire new capabilities, enabling them to offer their services to a wider customer base or wider services to their existing customer base.

**Table 10: Acquisitions in the BPM industry**

Acquirer	Target	Time	Value (US\$)	Rationale
Genpact	Headstrong	May-11	550 million	Consulting and IT services
	Empower research	Sep-11	NA	Research and analytics in US media industry
	Accounting Plaza	Apr-12	NA	Retail expertise in Europe
	Atyayati Technology	May-12	NA	Mobility based technology platform in rural banking
	Triumph Engineering	Jul-12	NA	Expand Genpact's services portfolio for manufacturing sector
	JAWOOD	Feb-13	NA	Expand Genpact's capability into healthcare segment
EXL	Outsource partner international (OPI)	May-11	91 million*	F&A capabilities
	Trumbull	Oct-11	NA	Property and casualty insurer
	Landacorp Inc.	Oct-12	38 million	Increase capabilities to serve the healthcare industry
Hinduja Global	Online support inc	Aug-11	78 million	Canada market access across vertical
	HCCA	Aug-11	NA	Entry to HRO domain
	EBOS	Sept-12	NA	Healthcare collection
Eclerx	Agylis	Apr-12	16-20 million	High value services + tier 2 city delivery center
WNS	Fusion Outstanding Solutions	Jun-12	15.5 million	Expanding global delivery and entering emerging market
Wipro	Promax	Apr-12	36.5 million	Analytics capabilities
	Opera Solutions	May-13	30 million	Big data capabilities

**Source: CRISIL Research**

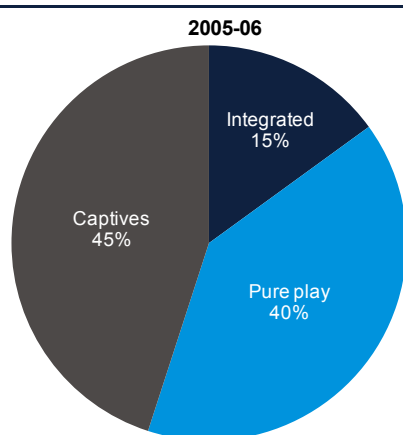
### **Billing rates of BPM industry are lower compared to IT services industry**

The BPM industry's offshore (India) billing rates are \$8-12 per hour, lower than the IT services industry's offshore (India) billing rates of \$20-25 per hour. The BPM industry's onsite (the US) billing rates are \$16-18 per hour, significantly lower than the IT services industry's onsite billing rates of \$60-70 per hour.

## Integrated players an apparent threat to pure play BPM players

Top-tier Indian IT service providers such as Infosys, Wipro and TCS have established BPM arms. However, over the last few years, these companies have begun to provide integrated IT-BPM services, wherein they manage the clients' IT servicing, support and back-office needs. This strategy enables vendors to win larger deals while ensuring higher client retention. Over the past five years, the market share of integrated IT-enabled service providers has grown organically and inorganically. However, it is important to note that integrated players have taken a large share from captives.

**Figure 9: Revenue share of integrated players has increased...**



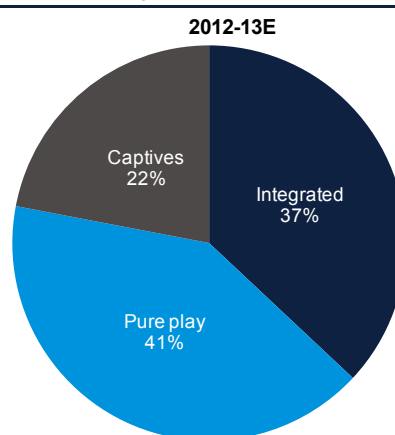
*Captives: Business unit of a company functioning offshore as an entity of its own*

Source: NASSCOM, CRISIL Research

Over the next five years, CRISIL Research expects revenues of integrated players (players who provide both IT and BPO services) to grow faster (13-14% growth) in the medium term compared to that of pure play BPM players (8-10% growth). This phenomenon is particularly prominent in the transactions services segment where there is significant scope for automation.

Our channel checks indicate that for IT companies, BPM is a non-core offering. They would not separately market BPO services, but would be including it as a bundled service offering.

**Figure 10: ... over the years**



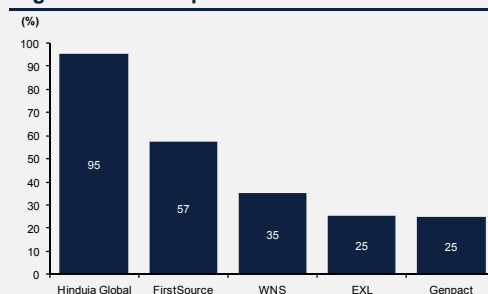
Source: NASSCOM, CRISIL Research



## Managing attrition is critical

Hinduja Global largely employs graduates. As salaries account for more than 65% of revenues, managing attrition at reasonable levels is critical. Most of the attrition takes place in 0-90 days. Hinduja Global's attrition is high at 100%, which is an industry-wide phenomenon. The company's ability to improve profitability while managing attrition and salary hikes is a key monitorable.

**Figure: Peer Comparison: Attrition**



Not strictly a like-to-like comparison as definition of attrition may vary across players. Certain players exclude 0-90 days while calculation of attrition

**Source: Company, CRISIL Research**

**Table 11: Peer comparison - operating parameters**

	Genpact*	Firstsource	WNS*	EXL*	Hinduja Global
Q3FY14 EBITDA margins (%)	12.8	11.6	13.9	20.8#	14.0
Q3FY14 PAT margins (%)	8.9	6.0	9.6	13.4#	8.2
Revenue per employee (₹ mn) FY13	1.8	0.9	1.0	1.2	0.9
Debtor days (excluding unbilled revenues) FY13	87	50	53	61	73
Debtor days (including unbilled revenues) FY13	NA	68	81	NA	83

\*US listed companies, # as on Q2FY14

Converted \$ revenues of WNS and Genpact into ₹ at the exchange rate of 1\$ = ₹60

**Source: Companies, CRISIL Research**

## Key Risks

### Client and geographic concentration

Hinduja Global is exposed to client concentration risk; its top five clients constituted 47% of revenues in Q3FY14. Any loss of business from these clients or loss of client could reduce the company's revenues and impact the business.

**Top two clients constituted about 25% of revenues in Q3FY14**

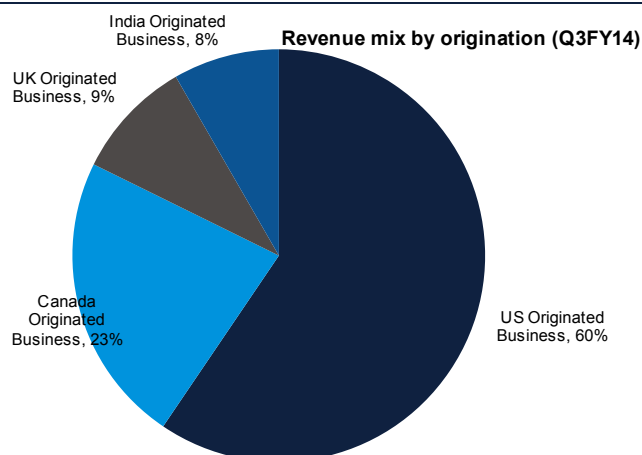
**Table 12: Contribution of top five clients is high at 47%**

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Top Client (%)	10%	12%	11%	12%	12%	12%	12%	13%	13%	13%
Top 5 Clients (%)	47%	46%	45%	45%	45%	43%	45%	46%	45%	47%
Top 10 Clients (%)	60%	62%	63%	62%	63%	61%	63%	63%	63%	63%
Top 20 Clients (%)	76%	79%	79%	77%	80%	79%	80%	78%	81%	80%

**Source: Company**

The company derives about 80% of its revenues from the US and Canada as of Q3FY14. Given the political scenario and unemployment rate in developed countries, there is an increasing concern in these markets regarding offshoring jobs to low-cost destinations. Any protectionist policy in these regions may impact Hinduja Global's revenues.

**Figure 11: The US and Canada account for majority of revenues**



**Source: Company, CRISIL Research**

### Contingent liability

Hinduja Global has a contingent liability of ₹2.3 bn in FY13. Out of this, ₹1.8 bn pertains to the income tax demand received by Hinduja Ventures (erstwhile Hinduja TMT) for the IT/ITES business prior to October 2006 (Hinduja Ventures demerged its IT/ITES business into a separate company - Hinduja Global - in October 2006; see Company Overview section for details). The remaining contingent liability of ₹519 mn in FY13 is for the income tax demand received by Hinduja Global for the period between October 2006 and FY09.

Hinduja Ventures began the BPO services in 2000 and was claiming income tax benefit under Section 10 A of the Income Tax Act. The Income Tax Department, after allowing Section 10A benefit for the BPO until FY05, denied this benefit. The denial was made on the grounds that

BPO units were not 'separate undertakings' as per section 10A but were an 'extension/ expansion' of the original IT business (that was housed under Hinduja Ventures), for which STPI\* registration was granted in 1992. Accordingly, tax authorities took a stand that separate registrations have to be taken upon commencement of BPO operations to be eligible for section 10A benefit. The company has filed appeals against the contentions of the Income Tax Department.

Hinduja Ventures and Hinduja Global have filed an appeal against the demand. Hinduja Global had also paid ₹375 mn advance to Hinduja Ventures in FY13 to discharge part payment of disputed income tax dues pertaining to the IT/ITES business.

### Losses continue at most of the subsidiaries

Hinduja Global's subsidiaries constituted about 60% of consolidated revenues but only 40% of consolidated PBT in FY13. Careline, its UK subsidiary, reported PBT loss in FY13 compared to PBT profit in FY12 due to write-off as two of its clients went into administration. The company made 100% provision on these accounts. In FY13, losses at the HGS Canada subsidiary also mounted due to poor business performance. We will monitor the financial performance of the subsidiaries.

Note: Hinduja Global has not done impairment at its subsidiaries till date

**Table 13: Subsidiary key financials**

Company name	Acqui yr	Unit	FY13						FY12						FY11					
			Revenue	GP	EBITDA	EBIT	PBT	PAT	Revenue	GP	EBITDA	EBIT	PBT	PAT	Revenue	GP	EBITDA	EBIT	PBT	PAT
Affiana Canada LLC (HGS USA)	2006	000 US\$	1,331	99	(208)		(208)		1,447	(132)	(157)	NA	(157)		1,418	442	(10)	NA	(10)	NA
Careline Services (HGS UK)	2010	000 £	26,790	7,939	(297)	(297)	(237)	(200)	24,982	8,252	1,888	1,888	1,990	1,467	24,301	8,191	1,420	1,420	1,379	968
Online Support Inc, Canada (HGS Canada)	2011	000 US\$	72,809	23,955	7,894	1,339	(2,539)	(1,817)	48,572	17,003	6,893	2,119	(465)	(314)						
HCCA (HGSBSPL)	2011	₹ mn	389	157	61	51	52	34	326	148	47	39	24	16						
Deloitte EBOS (HGS EBOS)	Oct 2012	000 US\$	5,831	1,916	(890)	(1,552)	(1,552)													

Financials of Online Support for FY12 are for eight month ending March 31, 2012

Source: Company, CRISIL Research

### Exposed to currency fluctuations; it hedges

Since Hinduja Global follows the onshore to onshore model in the UK and Canada, currency risk is negligible. However, the company is exposed to the currency risk largely in the offshore business. It hedges two-thirds of the receivables in the offshore destinations - India and Philippines.



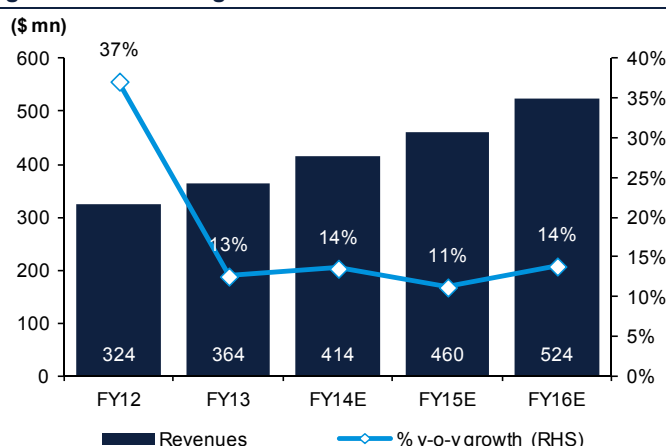
## Financial Outlook

### US\$ revenues to grow at a three-year CAGR of 13%

Revenues in US\$ are expected to grow at a three-year CAGR of 13% to US\$ 524 mn in FY16 from US\$ 364 mn in FY13. The revenue growth is expected to be primarily driven by telecom / technology and health insurance vertical. We have factored average exchange rate (₹/US\$) of ~62 during FY14-16.

Revenues estimated to grow at a three-year CAGR of 13%

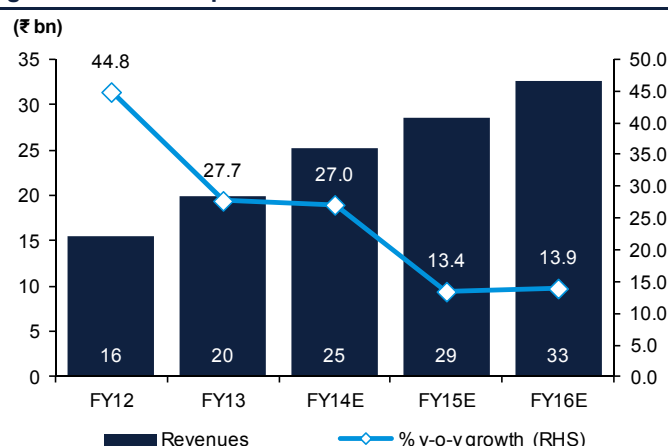
Figure 12: Revenue growth in dollar...



Source: Company, CRISIL Research

Note: Our financial estimates don't factor growth from any new acquisitions (which can be done by the company).

Figure 13: ... and rupee terms



Source: Company, CRISIL Research

### Operating margins expected to improve hereon

Hinduja Global had healthy operating margins of more than 18% in FY09-11. However, the operating margins were impacted during FY11-13 primarily on account of the

- Underutilised seats in Philippines: Hinduja Global built excess seats (about 1000 seats) in Philippines two years ahead of the demand materialising. Slower-than-expected ramp up in demand resulted in low seat utilisation.
- Issues in the Indian Telecom sector impacted profitability

We expect the operating margins to improve hereon because

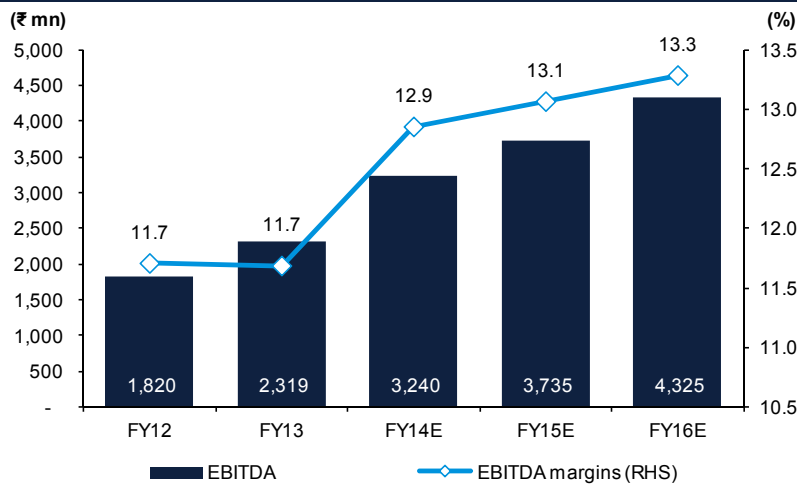
- Hinduja Global has exited its unprofitable telecom clients. It has also reduced ~200 employees at its Indian operations from July 2012- till date.
- Improvement in seat utilisation - The Philippines centre has seen sign of improvement in seat utilisation - stands at 95% in Q3FY14.

Table 14: Trend in seat utilisation across geographies

	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
India	77.1%	78.3%	78.4%	76.4%	75.6%	77.5%	80.6%	80.5%	80.0%	78.0%	78.6%
The Philippines	99.7%	79.4%	79.6%	81.8%	81.5%	80.5%	82.6%	95.8%	96.7%	94.0%	95.4%
The US	74.1%	80.0%	86.2%	75.6%	72.3%	84.4%	84.6%	81.0%	88.4%	83.8%	89.9%
UK	84.7%	89.0%	93.0%	91.2%	84.6%	76.7%	81.9%	77.3%	67.9%	68.2%	66.7%
Canada		86.2%	68.4%	71.6%	70.6%	68.7%	70.7%	73.3%	74.8%	74.1%	75.5%
<b>Total</b>	<b>81.6%</b>	<b>79.8%</b>	<b>78.9%</b>	<b>77.6%</b>	<b>76.4%</b>	<b>77.8%</b>	<b>80.3%</b>	<b>84.0%</b>	<b>83.1%</b>	<b>80.8%</b>	<b>82.2%</b>

Source: Company

**Figure 14: Margins on a rising trajectory**

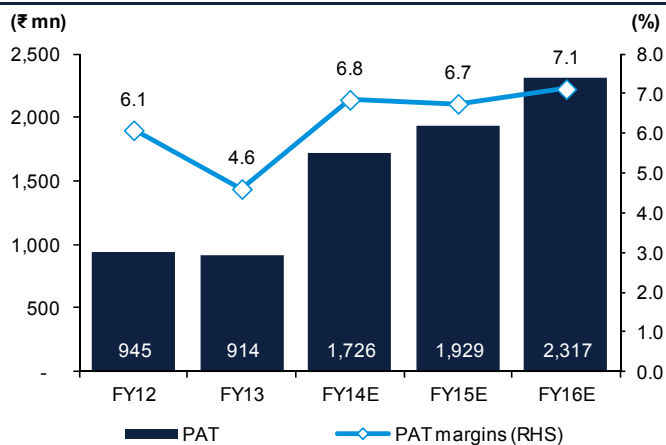


Source: Company, CRISIL Research

### PAT to increase at a CAGR of 36% during FY13-16

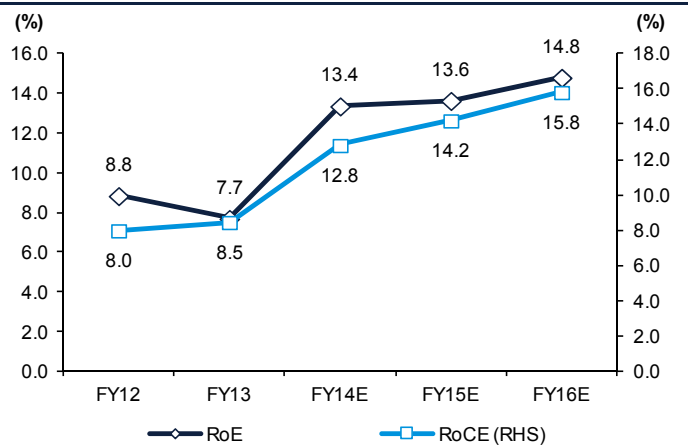
Following income growth, EBITDA margin improvement and lower interest costs, we expect PAT margin to improve to 7.1% in FY16 from 4.6% in FY13. We do not expect the company to incur substantial capex over the next two years (we have factored maintenance capex of ₹800 mn per annum during FY14-16). Accordingly, there would not be an additional debt and related increase in interest costs. We expect adjusted PAT to increase at a three-year CAGR of 36% in FY16. The tax rate was higher in FY13 compared to FY12 on account of end of tax holiday period for some of the units in the Philippines and absence of the tax reversals in FY12. Going forward, we factor effective tax rate close to 28%.

**Figure 15: PAT margin and...**



Source: Company, CRISIL Research

**Figure 16: ...return ratios to improve**



Source: Company, CRISIL Research

**Note:** PAT y-o-y growth in FY14E is higher than FY13 as the company had booked forex gain of ₹193 mn in H1FY14.

## Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects, and financial performance.

### Professional management set-up

Hinduja Global is run by professionals. It is headed by Mr Partha DeSarkar, CEO, who has 25 years of experience in customer service and operations across banking, financial services and health insurance. Prior to joining Hinduja Global in 2003, Mr DeSarkar, an IIM Bangalore and IIT Chennai alumni, worked at Deloitte Consulting, GE Capital International Services and Bank of America. He is supported by Mr Srinivas Palakodeti, CFO who spearheads the finance function across all global locations and subsidiaries. He has 24 years of experience with capabilities in operations, project planning and implementation, deal structuring and investor relations. He plays a key role in mergers & acquisitions strategy and execution. Mr Palakodeti, from IIM Ahmedabad, has a long association with the Hinduja Group. He held diverse roles in the Hinduja group companies - Ashok Leyland Investments Services, Hinduja TMT Ltd, IndusInd Bank and IndusInd Media & Communications Ltd. Mr Subramanya C., CTO, has more than two decades of experience in technology.

**The business is run by professionals**

### Quick to explore acquisition targets

The management has been quick in identifying acquisition targets and capitalising on them. Hinduja Global acquired various companies which provided scale, reach and presence across various verticals. It has done a commendable job on integration and has not overpaid for acquisitions. The company is always on the look-out for acquisition targets that strengthen its capabilities across new service lines /geographies.

### Strong second line of management: region-wise heads

The top management is supported by separate region-wise heads. Most of them have over two decades of experience in their respective domain. They have been empowered to take decisions; decentralised decision-making aids in faster response to market opportunities.



**Table 15: Regional heads**

Name	Designation	Joined Hinduja Global in	Qualification	Years of experience	Experience
Ramesh Gopalan	Executive Vice President - Global Healthcare and India Business Head	2010	Bachelor in Engineering; MBA from Indian Institute of Management, Ahmedabad; CFA,US	20 years of experience in research, healthcare and outsourcing	Accenture, Deloitte Consulting, and Infosys BPO
Kathy Hamburger	President, the US business	2012	NA	30 years covering significant areas of business strategy with expertise in sales, client services and operations	3i infotech, Quantum Information Services, Regulus Group
Ross Beattie	President and CEO, Canada business	2012	NA	30 years in the technology sector	
Pushkar Misra	President and CEO, The Philippines	2003	B. Tech from the Institute of Technology (IIT), Kanpur; MBA from the Institute of Management (IIM), Ahmedabad	22 years	SBI Capital Markets, Larsen & Toubro
Matthew Vallance	CEO, Europe	2013	BA in European Business Studies, -Diploma in Marketing, UK	More than 20 years of experience mainly in BPO industry with significant expertise in the BFSI, Telecom and Media segments.	Managing Director for Europe and Emerging Markets at Sutherland Global Services. Worked as global CEO at First Source Solutions Ltd for a decade.

Source: Company

## Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, corporate governance at Hinduja Global meets the regulatory requirement – it has good board practices and an independent board.

### Board composition well above SEBI's listing guidelines

The board comprises six members, of whom three are non-executive directors from the promoter group and the rest are independent directors. The board is chaired by the promoter, Mr Ramkrishan. P. Hinduja, non-executive chairman. The number of independent directors is above the requirement under clause 49 of SEBI's listing guidelines (where one-third of the directors must be independent when the chairman of the board is non-executive).

The directors are well qualified with strong industry experience:

- Mr Ramkrishan. P. Hinduja, non-executive chairman of the board, graduated from the Wharton School of Business, University of Pennsylvania. He is credited for developing start-ups in the telecom and cable TV businesses at Hinduja Global.
- Ms. Shanu S.P. Hinduja, non-executive co-chairperson, graduated in finance and economics. She is a senior advisor on future strategy and expansion to the Hinduja Group's chairman, Mr Srichand P Hinduja.
- Ms. Vinoo Hinduja, non-executive director, holds a Bachelor's degree in Business Administration, and Diploma in Health Policy and Management from the US.
- Mr Rajendra Chitale, independent director, is a chartered accountant and lawyer. He is the managing partner at M.P. Chitale and Associates (legal and tax firm). He also serves as an independent director at Ambuja Cements, Reliance Capital, Reliance General and Reliance Insurance. In the past, he held directorships at Life Insurance Corporation of India, Unit Trust of India, Small Industries Development Bank of India, National Stock Exchange of India Ltd and SBI Capital Markets Ltd.
- Mr Rangan Mohan, independent director, holds a B.Tech Chemical Engineer degree and is a post graduate in management studies from the Indian Institute of Management, Ahmedabad. He is an active member in NASSCOM and the Computer Society of India (CSI).
- Mr Anil Harish, independent director, is an advocate with three decades of experience in legal practice. He was the former managing committee member of the Income-Tax Appellate Tribunal Bar Association.

**Well above the requirements of SEBI's listing norms**

**There are no executive directors on Hinduja Global's board**

**The independent directors are vastly experienced in their respective fields and given their profile, they should be able to exercise independence in decision making**

**All independent directors have been on the board for more than five years**

Six board meetings were held in FY13. Only Mr Rajendra Chitale, independent director, attended all the board meetings; Ms. Vinoo Hinduja attended 50% of the board meetings.

### **Board processes**

The company has audit, compensation, investor grievance committees in place to support corporate governance. The audit committee is chaired by an independent director - Mr Anil Harish.

### **Good disclosure standards**

The company's quarterly investor presentations, analyst conference call transcripts, fact sheets and annual reports uploaded on the company website are sufficient to analyse the company's business performance.

## Valuation

Grade: 4/5

CRISIL Research has arrived at a fair value of ₹674 per share for Hinduja Global using the discounted cash flow (DCF) method, after lowering some of the contingent liability risk. Based on discounted cash flow, we have arrived at ₹686 per share. From this, we have deducted ₹12 per share factoring 89% discount on contingent liability. The fair value implies P/E multiples of 7.2x FY15E and 6.0x FY16E earnings. The stock is currently trading at ₹590 per share. Consequently, the valuation grade is **4/5**.

## Valuation break-up

	Value (₹ mn)	Value per share (₹)
Equity value	14,414	686
Less: Contingent liability (Factoring 89% discount)	253	12
Net value	14,161	674

Source: CRISIL Research

## Key DCF assumptions

- We have considered the discounted value of the firm's estimated free cash flows from FY14 to FY21.
- We have assumed a terminal growth rate of 2.5% beyond the explicit forecast period until FY21.
- We have used cost of equity of 18.4%.

## WACC computation

	FY14-21	Terminal value
Cost of equity	18.4%	18.4%
Cost of debt (post tax)	9.2%	9.2%
WACC	15.6%	15.6%
Terminal growth rate		3%

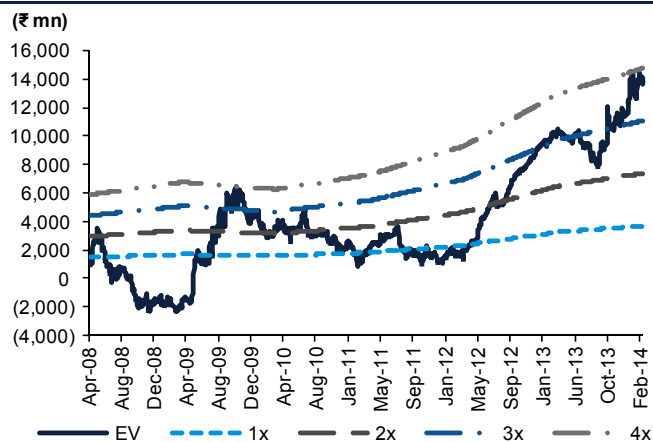
		Terminal growth rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
Terminal WACC	13.6%	737	780	831	892	968
	14.6%	676	711	751	799	857
	15.6%	626	654	<b>686</b>	724	770
	16.6%	584	607	633	664	699
	17.6%	548	567	589	614	642

#### One-year forward P/E band



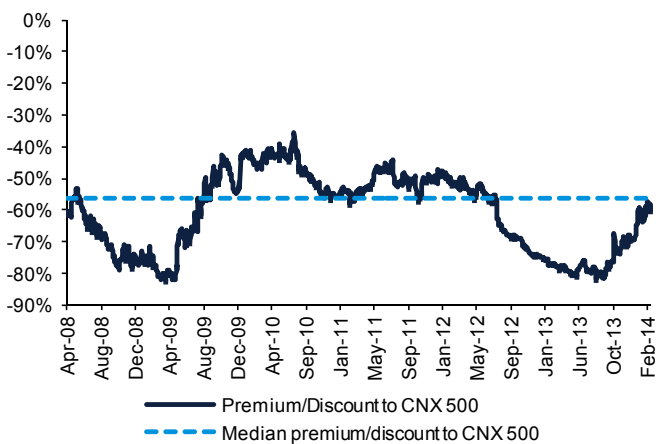
Source: NSE, CRISIL Research

#### One-year forward EV/EBITDA band



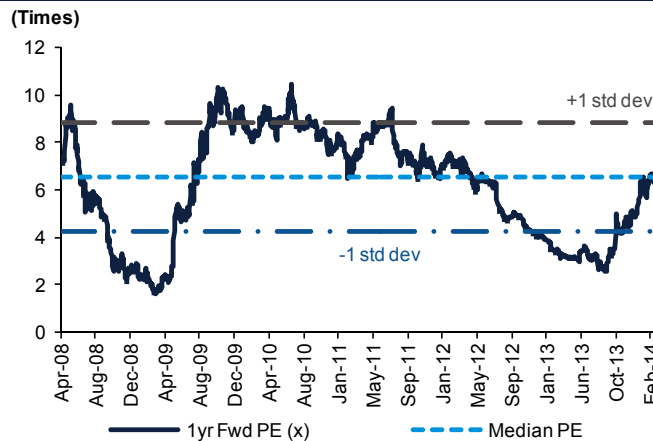
Source: NSE, CRISIL Research

#### P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

#### P/E movement



Source: NSE, CRISIL Research



## Peer valuation

	Unit	M.Cap	P/E (x)				P/b (x)				EV/EBITDA (x)				RoE (%)			
			FY13	FY14E	FY15E	FY16E	FY13	FY14E	FY15E	FY16E	FY13	FY14E	FY15E	FY16E	FY13	FY14E	FY15E	FY16E
Hinduja Global*	₹ bn	12	13.3	7.0	6.3	5.2	1.0	0.9	0.8	0.7	5.9	4.2	3.5	2.8	7.7	13.4	13.6	14.8
<b>Indian BPM player</b>																		
First Source Solutions	₹ bn	19	3.5	9.8	6.8	5.3	0.4	0.9	0.8	0.7	6.7	7.5	6.2	5.4	9.3	10.3	12.8	14.7
<b>Global BPM Player</b>																		
WNS	US\$ bn	1.0	44.6	15.0	13.5	12.4	2.1	3.2	3.0	2.5	8.6	12.5	10.6	9.4	4.6	15.9	18.6	21.2
Genpact	US\$ bn	3.8	16.4	16.4	14.6	12.6	3.0	3.0	2.9	2.0	11.0	10.6	9.9	8.5	13.7	19.5	18.4	18.7
<b>Median</b>			<b>30.5</b>	<b>15.7</b>	<b>14.1</b>	<b>12.5</b>	<b>2.6</b>	<b>3.1</b>	<b>3.0</b>	<b>2.3</b>	<b>9.8</b>	<b>11.5</b>	<b>10.2</b>	<b>8.9</b>	<b>9.1</b>	<b>17.7</b>	<b>18.5</b>	<b>19.9</b>
<b>Integrated players (offering IT and BPM services)</b>																		
Wipro	₹ bn	1,473	17.5	19.1	16.3	14.5	3.8	4.4	3.7	3.1	13.2	14.0	11.9	10.7	23.3	24.5	24.0	23.0
Infosys	₹ bn	2,196	17.5	18.3	16.0	14.1	4.4	4.7	4.0	3.4	12.3	14.3	12.0	10.6	27.2	24.5	24.6	24.1
<b>Median</b>			<b>17.5</b>	<b>18.7</b>	<b>16.1</b>	<b>14.3</b>	<b>4.1</b>	<b>4.5</b>	<b>3.8</b>	<b>3.2</b>	<b>12.8</b>	<b>14.2</b>	<b>12.0</b>	<b>10.6</b>	<b>25.3</b>	<b>24.5</b>	<b>24.3</b>	<b>23.5</b>

Source: \*CRISIL Research estimates, Industry sources

## Company Overview

Hinduja Global provides outsourcing solutions such as customer relationship management, transaction processing and customised IT solutions to domestic and international clients. Bulk of its billing is based on transaction pricing (per claim processed, per chats done). It caters to 535 clients through 56 delivery centres across Canada, France, Germany, India, Italy, Jamaica, the Netherlands, the Philippines, the UK and the US.

## History

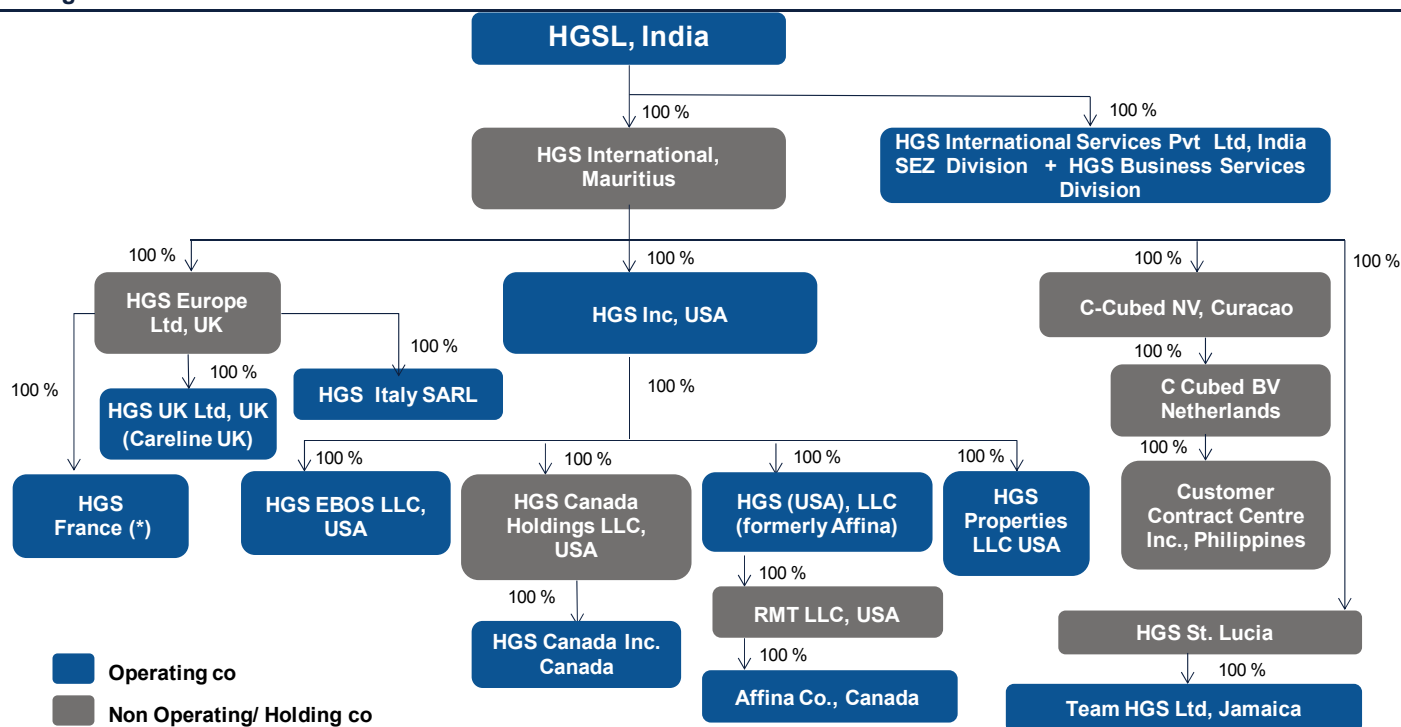
Established in 1993, Hinduja Global (erstwhile known as Ashok Leyland Information Technology - ALIT) started operations by providing information technology services. ALIT was merged with Hinduja Finance Corporation in 2000 to form Hinduja TMT. Hinduja TMT ventured into BPO services in 2000.

In October 2006, Hinduja TMT (now known as Hinduja Ventures) demerged its IT/ITES business into a separate company - HTMT Global Solutions Ltd (now called Hinduja Global). The demerger share entitlement ratio was one equity share of Hinduja Global for every two equity shares of Hinduja TMT.

Prior to the demerger, Hinduja TMT sold its investment in Hutch telecom circle for a consideration of US\$240 mn, which got equally split between Hinduja TMT and Hinduja Global. Using US\$120 mn, Hinduja Global acquired Affina, the US in 2006.

**IT/ITES business of Hinduja TMT was demerged into Hinduja Global so that both companies could have a distinct business identity**

## Holding structure



Hinduja Global Solutions is referred as HGS in the holding structure

Source: Company

## Hinduja Global is a part of Hinduja Group - interest across various businesses



Source: Group website

## Institutional investors with > 1% holding (as of December 2013)

Institutional investors	% holding
Credit Suisse (Singapore) Ltd	9.2
Bridge India Fund	2.3
Goldman Sachs Investments Mauritius I Ltd	1.9
JM Financial Institutional Securities Pvt Ltd	1.5
Merrill Lynch Capital Markets	1.4

Source: NSE

Within the Hinduja Group's IT and BPM segments, there are two companies – Hinduja Global (BPM) and Defiance Technologies (IT)

The company's strong parentage assures not only brand equity but also capital infusion as and when needed

## Annexure: Consolidated Financials

### Income statement

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
<b>Operating income</b>	<b>15,543</b>	<b>19,845</b>	<b>25,209</b>	<b>28,587</b>	<b>32,556</b>
<b>EBITDA</b>	<b>1,820</b>	<b>2,319</b>	<b>3,240</b>	<b>3,735</b>	<b>4,325</b>
<b>EBITDA margin</b>	<b>11.7%</b>	<b>11.7%</b>	<b>12.9%</b>	<b>13.1%</b>	<b>13.3%</b>
Depreciation and amortisation	613	772	881	955	1,041
<b>EBIT</b>	<b>1,207</b>	<b>1,547</b>	<b>2,359</b>	<b>2,780</b>	<b>3,284</b>
Interest	292	437	398	384	363
<b>Operating PBT</b>	<b>915</b>	<b>1,110</b>	<b>1,962</b>	<b>2,396</b>	<b>2,921</b>
Other income	260	206	347	298	315
Exceptional inc/(exp)	115	(8)	-	-	-
<b>PBT</b>	<b>1,290</b>	<b>1,308</b>	<b>2,309</b>	<b>2,694</b>	<b>3,236</b>
Tax provision	229	402	583	765	919
Minority interest	-	-	-	-	-
<b>PAT (Reported)</b>	<b>1,061</b>	<b>906</b>	<b>1,726</b>	<b>1,929</b>	<b>2,317</b>
Less: Exceptionals	115	(8)	-	-	-
<b>Adjusted PAT</b>	<b>945</b>	<b>914</b>	<b>1,726</b>	<b>1,929</b>	<b>2,317</b>

### Ratios

	FY12	FY13	FY14E	FY15E	FY16E
<b>Growth</b>					
Operating income (%)	44.8	27.7	27.0	13.4	13.9
EBITDA (%)	16.4	27.4	39.7	15.3	15.8
Adj PAT (%)	(10.1)	(3.3)	88.9	11.8	20.1
Adj EPS (%)	(10.1)	(3.3)	88.9	11.8	20.1

### Profitability

EBITDA margin (%)	11.7	11.7	12.9	13.1	13.3
Adj PAT Margin (%)	6.1	4.6	6.8	6.7	7.1
RoE (%)	8.8	7.7	13.4	13.6	14.8
RoCE (%)	8.0	8.5	12.8	14.2	15.8
RoIC (%)	17.8	12.3	17.2	17.1	18.9

### Valuations

Price-earnings (x)	12.8	13.3	7.0	6.3	5.2
Price-book (x)	1.1	1.0	0.9	0.8	0.7
EV/EBITDA (x)	9.4	5.9	4.2	3.5	2.8
EV/Sales (x)	1.1	0.7	0.5	0.5	0.4
Dividend payout ratio (%)	38.8	45.5	29.1	25.7	22.4
Dividend yield (%)	3.4	3.4	4.1	4.1	4.3

### B/S ratios

Inventory days	-	-	-	-	-
Creditors days	50	37	36	36	36
Debtor days (excluding unbilled revenues)	73	73	73	73	73
Debtor days (including unbilled revenues)	84	82	83	83	83
Working capital days	63	82	82	82	82
Gross asset turnover (x)	2.8	3.0	3.5	3.5	3.7
Net asset turnover (x)	5.5	6.0	7.8	9.2	11.2
Sales/operating assets (x)	5.5	6.0	7.8	9.2	11.2
Current ratio (x)	3.0	4.3	4.0	4.0	4.0
Debt-equity (x)	0.6	0.4	0.4	0.4	0.3
Net debt/equity (x)	0.4	0.1	0.1	0.1	(0.0)

### Interest coverage

EBIT/Interest (x)	4.1	3.5	5.9	7.2	9.1
EBITDA/Interest (x)	6.2	5.3	8.1	9.7	11.9

### Per share

	FY12	FY13	FY14E	FY15E	FY16E
Adj EPS (₹)	45.9	44.4	83.8	93.7	112.5
CEPS	75.7	81.9	126.6	140.1	163.1
Book value	552.9	600.1	654.6	719.2	801.3
Dividend (₹)	20.0	20.0	24.4	24.1	25.2
Actual o/s shares (mn)	20.6	20.6	20.6	20.6	20.6

### Balance Sheet

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
<b>Liabilities</b>					
Equity share capital	206	206	206	206	206
Reserves	11,177	12,149	13,271	14,602	16,293
Minorities	-	-	-	-	-
<b>Net worth</b>	<b>11,383</b>	<b>12,355</b>	<b>13,477</b>	<b>14,808</b>	<b>16,499</b>
Convertible debt	-	-	-	-	-
Other debt	7,330	5,510	5,460	5,360	4,860
<b>Total debt</b>	<b>7,330</b>	<b>5,510</b>	<b>5,460</b>	<b>5,360</b>	<b>4,860</b>
Deferred tax liability (net)	100	242	146	146	146
<b>Total liabilities</b>	<b>18,812</b>	<b>18,107</b>	<b>19,083</b>	<b>20,314</b>	<b>21,505</b>
<b>Assets</b>					
Net fixed assets	3,329	3,248	3,195	3,040	2,799
Capital WIP	6	29	0	0	0
<b>Total fixed assets</b>	<b>3,335</b>	<b>3,277</b>	<b>3,195</b>	<b>3,040</b>	<b>2,799</b>
<b>Investments</b>	<b>4,822</b>	<b>120</b>	<b>120</b>	<b>120</b>	<b>120</b>
<b>Current assets</b>					
Inventory	-	-	-	-	-
Sundry debtors	3,101	3,975	5,045	5,721	6,516
Loans and advances	2,163	3,022	3,839	4,353	4,957
Cash & bank balance	2,384	4,016	3,875	4,494	5,023
Marketable securities	56	69	69	69	69
<b>Total current assets</b>	<b>7,705</b>	<b>11,081</b>	<b>12,828</b>	<b>14,637</b>	<b>16,565</b>
<b>Total current liabilities</b>	<b>2,597</b>	<b>2,556</b>	<b>3,246</b>	<b>3,668</b>	<b>4,164</b>
<b>Net current assets</b>	<b>5,108</b>	<b>8,526</b>	<b>9,582</b>	<b>10,969</b>	<b>12,401</b>
<b>Intangibles/Misc. expenditure</b>	<b>5,546</b>	<b>6,185</b>	<b>6,185</b>	<b>6,185</b>	<b>6,185</b>
<b>Total assets</b>	<b>18,812</b>	<b>18,107</b>	<b>19,083</b>	<b>20,314</b>	<b>21,505</b>

### Cash flow

(₹ mn)	FY12	FY13	FY14E	FY15E	FY16E
Pre-tax profit	1,174	1,316	2,309	2,694	3,236
Total tax paid	(307)	(260)	(679)	(765)	(919)
Depreciation	613	772	881	955	1,041
Working capital changes	(971)	(1,773)	(1,198)	(768)	(903)
<b>Net cash from operations</b>	<b>510</b>	<b>56</b>	<b>1,313</b>	<b>2,117</b>	<b>2,454</b>
<b>Cash from investments</b>					
Capital expenditure	(5,721)	(1,352)	(800)	(800)	(800)
Investments and others	(4,865)	4,689	-	-	-
<b>Net cash from investments</b>	<b>(10,586)</b>	<b>3,337</b>	<b>(800)</b>	<b>(800)</b>	<b>(800)</b>
<b>Cash from financing</b>					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	5,822	(1,819)	(50)	(100)	(500)
Dividend (incl. tax)	(479)	(482)	(604)	(598)	(626)
Others (incl. extraordinary)	928	540	-	(0)	-
<b>Net cash from financing</b>	<b>6,271</b>	<b>(1,761)</b>	<b>(654)</b>	<b>(698)</b>	<b>(1,126)</b>
Change in cash position	(3,805)	1,632	(141)	619	529
Closing cash	2,384	4,016	3,875	4,494	5,023

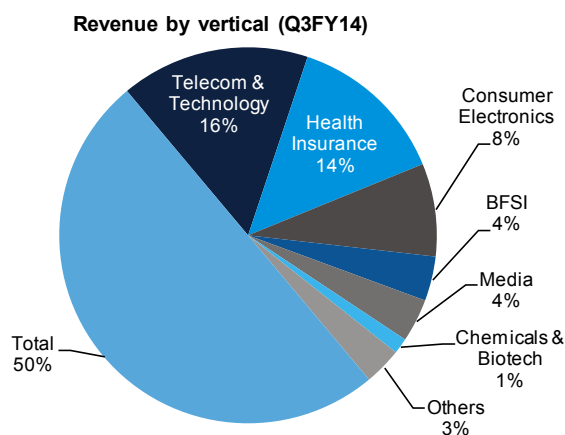
### Quarterly financials

(₹ mn)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
<b>Net Sales</b>	<b>5,212</b>	<b>5,262</b>	<b>5,592</b>	<b>6,473</b>	<b>6,569</b>
Change (q-o-q)	11%	1%	6%	16%	1%
<b>EBITDA</b>	<b>533</b>	<b>758</b>	<b>634</b>	<b>814</b>	<b>919</b>
Change (q-o-q)	7%	42%	-16%	28%	13%
<b>EBITDA margin</b>	<b>10.2%</b>	<b>14.4%</b>	<b>11.3%</b>	<b>12.6%</b>	<b>14.0%</b>
PAT	200	402	376	429	541
<b>Adj PAT</b>	<b>200</b>	<b>402</b>	<b>376</b>	<b>429</b>	<b>541</b>
Change (q-o-q)	80%	101%	-6%	14%	26%
<b>Adj PAT margin</b>	<b>4%</b>	<b>8%</b>	<b>7%</b>	<b>7%</b>	<b>8%</b>
<b>Adj EPS</b>	<b>9.7</b>	<b>19.5</b>	<b>18.3</b>	<b>20.9</b>	<b>26.3</b>

Source: Company, CRISIL Research

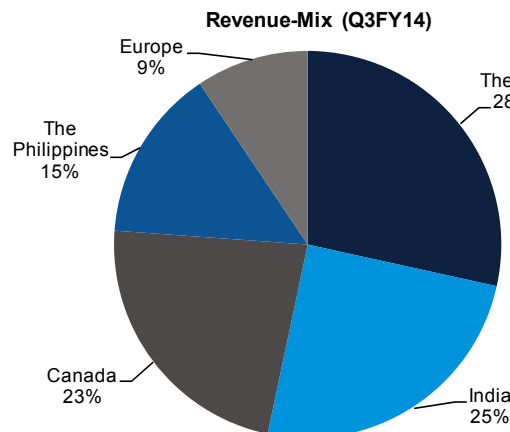
## Focus Charts

### Offers various services across diverse verticals



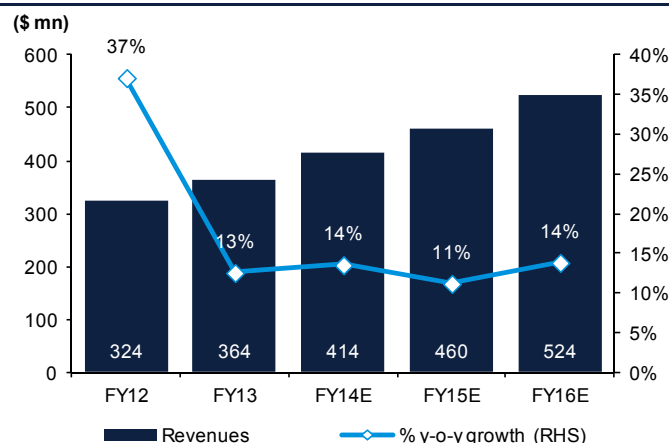
Source: Company, CRISIL Research

### Global delivery footprint



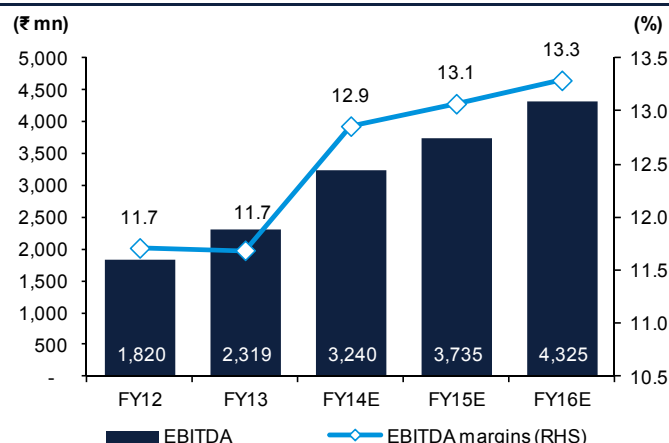
Source: Company, CRISIL Research

### Revenue growth in dollar terms



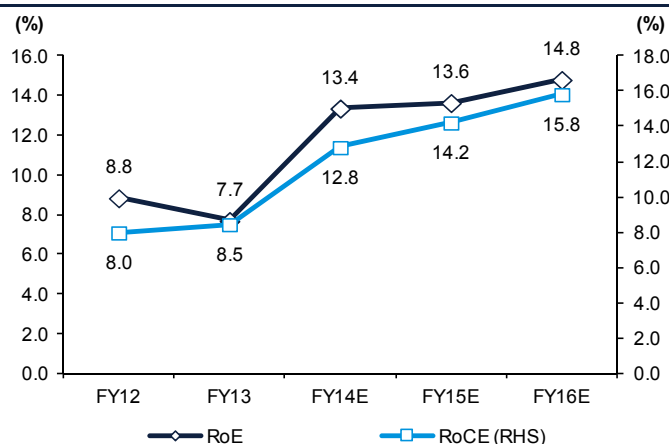
Source: Company, CRISIL Research

### Margins expected to improve...



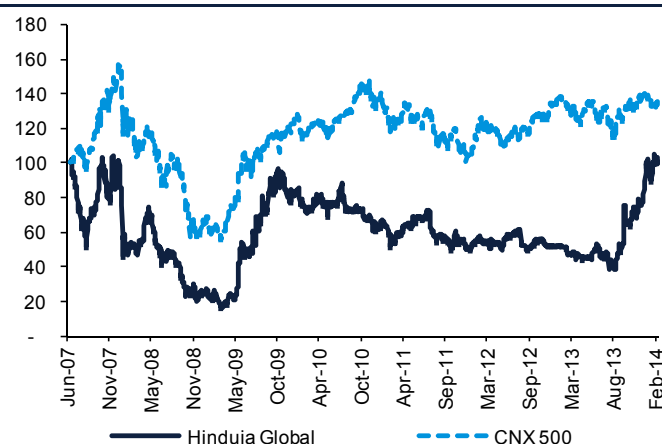
Source: Company, CRISIL Research

### ...so do return ratios



Source: Company, CRISIL Research

### Share price movement



-Indexed to 100

Source: Company, CRISIL Research

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