

Q1 FY15 IT Services Earnings Preview



BP WEALTH

IT Services | Earnings Preview

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Strong US and European economy to boost demand – Q1 FY15 to be a strong one

Improving demand environment in the west, rise in discretionary spending bodes well for the IT sector

We expect the June quarter (traditionally the strongest) performance to be a modest one, specifically on the volumes growth and dollar revenue growth front, primarily due to revival in discretionary spending, improvement in demand environment and traction in deal flows (both renewals and transformational deals). We expect volumes growth for Top five IT companies to be in the range of 2-4% in Q1 FY15. Currency movement stood more or less stable in the quarter with INR appreciating against USD (Q1 FY15 average stood at Rs 59.8 a appreciation of 3.1% q-o-q). Moreover, cross currency movement stood favorable and will have ~30-50 bps +ve impact on USD revenues (USD depreciated 0.1%/1.7%/3.9% q-o-q against Euro (EUR), GBP and Australian dollar (AUD) respectively). On the pricing front we expect it to be stable to positive as clients are willing to spend on discretionary projects while pricing on deal renewals can be under pressure. We have taken a 0.5% q-o-q increase in pricing. Taking all these factors into account we expect dollar revenue growth to be in the range of 2.1 -5.1% for the quarter. We expect TCS to post industry leading growth of 5.1% in Q1 FY15 and 16.7% in FY15E. Infosys is expected to grow by 3.1% in the quarter and 9.3% in FY15E (in line with its FY15E guidance of 7-9% growth). We expect Wipro to report 2.1% q-o-q revenues growth, which is on the higher end of its US\$ guidance (-0.3%/2.0% q-o-q growth). HCL tech will continue to do well on account of its strong IMS business, however, we expect the core software business to pick up. We expect HCL Tech and Tech Mahindra to grow 4.6% and 2.3% respectively in the quarter. On account of rupee appreciation against the dollar the top line growth in rupee terms will come in the range of 0.5%-3% q-o-q.

EBITDA Margin for all IT exporters to remain under pressure

We expect IT companies under our coverage to report drop in margins primarily due to annual wage hikes, higher visa expenses and ~3% INR appreciation offset by operational efficiencies and offshore shifts. Generally 1% depreciation in rupee results in a margins expansion in tune of 30-40 bps. Thus, we expect margins contraction in tune of 100/250 bps for IT companies. We expect Infosys EBITDA margins to contract 155 bps q-o-q to 26.7% due salary hike of 7% offshore and 2% onsite from April 1st, while TCS margins to contract 160 bps q-o-q to 29.3%. We expect Wipro margins to contract only by 110 bps q-o-q to 23.5% as salary hikes are effective from 1st June onwards, while HCL Tech margins is expected to contract by 65 bps q-o-q to 26.1% as salary hikes are effective from 1st July. Rupee appreciation will result into Forex gains for IT companies in the quarter which will improve the NPM margin, however the quantum of gains will depend on the nature and timing of hedges.

Infosys likely to reiterate its US\$ guidance for FY15E

We expect Infosys to maintain its US\$ revenue guidance for FY15E at 7%-9% y-o-y growth. We expect Infosys performance can improve on account of 1) significant improvement in demand environment specially in BFSI & Manufacturing verticals in the last 1-2 quarters 2) appointment of new CEO 3) expansion into new geographies like China and Japan. We believe, Infosys performance can revive in FY15E on account of deal wins and could surprise the street going forward. We expect Wipro to accelerate its growth guidance and could guide for USD revenue growth of 2-4% QoQ for 2QFY15, implying 9- 11% y-o-y growth. We have assumed Wipro FY15E revenues to grow 10.8% y-o-y in FY15E.

Valuation & Outlook

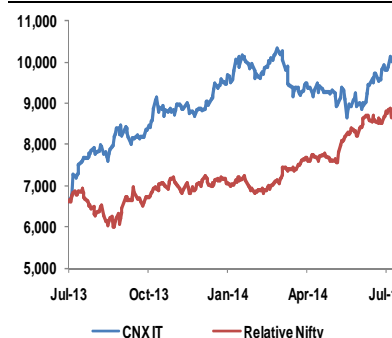
Indian IT Sector has outperformed in the last 1 year supported by 1) Improved economic data in key markets like US and Europe 2) Strong deal wins, robust environment for new deal wins, ramp up of existing projects and 3) improved commentary on discretionary spending from all major IT players. We believe still there is a lot of juice left in the sector, however the US immigration bill, rising salary and visa cost and volatile currency remains the key concern for the sector. TCS & HCL tech will continue to do well and sentiments has further improved with the participation of Tech Mahindra and Wipro in the performance club. P/E rerating has already happened for these stocks, which now will be supported by earnings growth. We expect the whole sector to outperform for the next 6-12 month. Tech Mahindra remained the favorite P/E rerating candidate in the last six months, which we expect to continue (as it could surprise the street on revenue growth versus industry to due its aggressive inorganic growth strategy). We remain overweight on the sector and has a BUY rating for Infosys, Tech Mahindra, HCL Tech, Wipro Ltd, Polaris and Persistent and Hold rating on TCS.

Company	Reco.	CMP Rs	Target Price (Rs)	Return %
Infosys	Buy	3,310	3,805	15%
TCS	Hold	2,398	2,594	8%
Wipro Ltd	Buy	547	633	16%
HCL Tech	Buy	1,473	1,745	18%
Tech Mahindra	Buy	2,067	2,402	16%
Polaris Fin Tec	Buy	257	300	16%
Persistent Sys	Buy	1,185	1,345	13%

Performance %	1 m	3 m	6 m	1 Yr
Infosys	11%	6%	-4%	33%
TCS	13%	11%	7%	59%
Wipro Ltd	7%	6%	1%	51%
HCL Tech	8%	7%	15%	79%
Tech Mahindra	6%	16%	13%	98%
Polaris	20%	41%	79%	125%
Persistent	12%	20%	16%	132%

Currency	Q1 FY15	Q4 FY14	Change %
USD/INR	59.8	61.7	3.3%
EUR/INR	82.0	84.6	3.2%
GBP/INR	100.6	102.2	1.5%
EUR/USD	1.4	1.4	-0.1%
GBP/USD	1.7	1.7	-1.7%
USD/EUR	0.7	0.7	0.1%
USD/GBP	0.6	0.6	1.7%
USD/AUD	1.1	1.1	4.1%

Relative Price Chart



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Q1 FY15E Results Summary

Company Rs mn	Sales			EBITDA			PAT			US\$ Revenues (\$ mn)		
	AMJ-14	q-o-q %	y-o-y %	AMJ-14	q-o-q %	y-o-y %	AMJ-14	q-o-q %	y-o-y %	AMJ-14	q-o-q %	y-o-y %
Infosys Ltd	1,29,415	0.5%	14.9%	34,598	-5.0%	16.0%	28,215	-5.7%	18.8%	2,157	3.1%	8.3%
TCS	2,20,941	2.5%	22.8%	64,667	-2.8%	25.5%	49,810	-6.1%	31.2%	3,682	5.1%	16.3%
Wipro Ltd	1,17,523	0.8%	20.8%	27,642	-3.7%	36.8%	21,667	-2.7%	33.5%	1,756	2.1%	10.6%
HCL Tech*	85,416	2.3%	22.4%	22,280	-0.2%	38.0%	16,620	2.3%	39.4%	1,424	4.6%	16.0%
Tech Mahindra	50,634	0.1%	23.4%	10,350	-3.4%	19.7%	7,126	16.0%	3.8%	844	2.3%	16.5%
Persistent	4,632	3.7%	29.7%	1,095	-1.4%	55.5%	696	3.6%	21.9%	75	2.9%	18.5%
Polaris	6,502	5.0%	18.0%	589	22.0%	7.0%	455	0.3%	5.4%	109	4.6%	7.9%

Source: Company, BP Equities Research

**AMJ is April, May & June 2014

*HCL Tech year ending June

Valuation Ratios Comparative table

YE March	Reco	CMP	Target Price	Upside %	EPS (Rs)		Growth %	P/E		P/BV		EV/EBITDA		RoE %	RoCE %	Dividend Yield %
					FY15E	FY16E		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E			
Infosys	Buy	3,310	3,805	15%	211.1	237.8	12.7%	15.7	13.9	3.3	2.8	11.8	8.8	22.3%	22.2%	1.1%
TCS	Hold	2,398	2,594	8%	112.2	129.7	15.6%	21.4	18.5	7.2	5.9	15.9	13.3	34.9%	33.5%	1.4%
Wipro	Buy	547	633	16%	36.3	42.2	16.1%	15.0	12.9	3.2	2.7	10.6	8.5	23.0%	20.9%	1.5%
HCL Tech*	Buy	1,473	1,745	18%	105.4	124.7	18.3%	14.0	11.8	4.2	3.2	8.6	6.7	33.6%	30.2%	1.0%
TechM	Buy	2,067	2,402	16%	140.7	171.6	21.9%	14.7	12.1	4.0	3.1	9.4	7.4	30.4%	25.4%	1.0%
Persistent	Buy	1,185	1,345	13%	73.3	89.1	21.5%	16.2	13.3	2.8	2.3	9.0	6.8	19.2%	19.2%	0.6%
Polaris	Buy	257	300	16%	22.3	30.0	34.2%	11.5	8.6	1.6	1.4	8.1	5.6	14.1%	13.2%	2.3%

Source: Company, BP Equities Research

*HCL Tech year ending June

Peer Performance

Company YE March	Market Cap US\$ bn	Sales			EBITDA			PAT			EBITDA Margin %		EPS		
		FY15E	FY16E	Growth%	FY15E	FY16E	Growth%	FY15E	FY16E	Growth%	FY15E	FY16E	FY15E	FY16E	Growth%
Infosys	31.6	541.1	607.4	12.3%	147.2	169.4	15.0%	120.6	135.9	12.7%	27.2%	27.9%	211.1	237.8	12.7%
TCS	75.7	941.3	1,090.1	15.8%	282.8	329.8	16.6%	219.8	254.0	15.6%	30.0%	30.3%	112.2	129.7	15.6%
Wipro	21.7	484.9	530.6	9.4%	113.9	132.4	16.3%	89.5	103.8	16.1%	23.5%	25.0%	36.3	42.2	16.1%
HCL Tech*	16.7	388.2	455.5	17.3%	104.5	123.7	18.3%	74.5	88.1	18.3%	26.9%	27.1%	105.4	124.7	18.3%
TechM	8.0	214.1	240.7	12.4%	46.2	54.9	18.8%	40.1	45.8	14.2%	21.6%	22.8%	140.7	171.6	21.9%
Persistent	0.8	19.4	22.3	15.3%	4.4	5.2	18.6%	2.9	3.6	21.5%	22.6%	23.3%	73.3	89.1	21.5%
Polaris	0.4	24.2	27.3	12.8%	2.8	3.7	31.9%	2.2	3.0	34.2%	11.6%	13.6%	22.3	30.0	34.2%

Source: Company, BP Equities Research

*HCL Tech year ending June



Infosys Q1 FY15 Preview

YE March (Rs mn)	Q1 FY15	Q4 FY14	Q-o-Q change %	Q1 FY14	Y-o-Y change %
Net Sales	1,29,415	1,28,750	0.5%	1,12,670	14.9%
EBITDA	34,598	36,420	(5.0%)	29,830	16.0%
Operating Profit	30,845	32,810	(6.0%)	26,640	15.8%
Profit Before Tax	39,187	41,320	(5.2%)	32,410	20.9%
PAT	28,215	29,920	(5.7%)	23,740	18.8%
Reported Diluted EPS (Rs.)	49.4	52.4	(5.7%)	41.5	18.9%
No of Shared Diluted (mn)	571	571		571	
Margin Analysis %			Change in bps		Change in bps
EBIDTA Margin %	26.7%	28.3%	-155	26.5%	26
Operating margin %	23.8%	25.5%	-165	23.6%	19
NPM %	21.8%	23.2%	-144	21.1%	73
Net Sales US\$	2,157	2,092	3.1%	1,991	8.3%

Source: Company, BP Equities research

Expectations/Comments

We expect IT services volumes to grow 1.9% sequentially

Consolidated IT services revenues to grow 3.1% Q-o-Q and 8.3% Y-o-Y to US\$ 2.16 bn

Net employees to increase by ~2200

Margins to contract by 155 bps q-o-q to 26.7% due salary hike of 7% offshore and 2% onsite from April 1st and ~3% rupee appreciation offset by cost optimization techniques

Pricing to remain more or less stable however we expect that it has bottomed out and can improve with return of discretionary spending

Key Financials					
YE March (Rs.mn)	FY12	FY13	FY14	FY15E	FY16E
Net Sales	3,37,340	4,03,520	5,01,330	5,41,060	6,07,385
Growth%	22.7%	19.6%	24.2%	7.9%	12.3%
Operating Profit	97,790	1,04,290	1,22,600	1,32,149	1,51,758
Growth%	20.5%	6.6%	17.6%	7.8%	14.8%
Net Profit	83,160	94,210	1,08,670	1,20,605	1,35,897
Growth%	21.7%	13.3%	15.3%	11.0%	12.7%
Diluted EPS (Rs)	145.5	164.9	190.2	211.1	237.8
Growth%	21.7%	13.3%	15.3%	11.0%	12.7%

We expect Infosys to maintain its US\$ revenue guidance for FY15E at 7%-9% y-o-y growth

NPM margins contraction to be lower on account of Forex gains in the quarter

Key Ratios					
EBITDA (%)	31.8%	28.6%	27.2%	27.2%	27.9%
OPM(%)	29.0%	25.8%	24.5%	24.4%	25.0%
NPM (%)	24.7%	23.3%	21.7%	22.3%	22.4%
RoE (%)	26.0%	25.1%	24.0%	22.3%	21.2%
RoCE (%)	25.8%	25.0%	23.9%	22.2%	21.1%
BV/Per Share Rs.	586	696	843	1,005	1,187

Valuation Ratios					
P/E (x)			17.4x	15.7x	13.9x
P/BV (x)			3.9x	3.3x	2.8x
EV/EBIDTA (x)			13.4x	11.8x	8.8x
EV/Sales			3.3x	2.9x	2.2x
Market Cap./ Sales (x)			3.8x	3.5x	3.1x
Dividend Yield (%)			1.1%	1.3%	1.4%

Source: Company, BP Equities research



TCS Q1 FY15 Preview

YE March (Rs mn)	Q1 FY15	Q4 FY14	Q-o-Q change %	Q1 FY14	Y-o-Y change %
Net Sales	2,20,941	2,15,511	2.5%	1,79,871	22.8%
EBITDA	64,667	66,535	(2.8%)	51,532	25.5%
Operating Profit	60,624	62,811	(3.5%)	48,627	24.7%
Profit Before Tax	65,769	69,882	(5.9%)	51,145	28.6%
PAT	49,810	53,049	(6.1%)	37,962	31.2%
Reported Diluted EPS (Rs.)	25.4	27.1	(6.1%)	19.4	31.2%
No of Shared Diluted (mn)	1,958	1,958		1,957	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	29.3%	30.9%	-160	28.6%	62
Operating margin %	27.4%	29.1%	-171	27.0%	40
NPM %	22.5%	24.6%	-207	21.1%	144
Net Sales US\$	3,682	3,502	5.1%	3,165	16.3%

Source: Company, BP Equities research

Expectations/Comments

We expect volumes to grow 4.5% sequentially

Consolidated IT services revenues to grow 5.1% Q-o-Q and 16.3% Y-o-Y to US\$ 3.68 bn

Net employees to increase by ~9K

Pricing to remain more or less stable however we expect that it has bottomed out and can improve with return of discretionary spending

Margins to contract by 160 bps to 29.3% primarily due to rupee appreciation and full quarter impact of salary hikes

Key Financials					
YE March (Rs. mn)	FY12	FY13	FY14	FY15E	FY16E
Net Sales	4,88,938	6,29,895	8,17,174	9,41,258	10,90,134
Growth%	32.6%	28.8%	29.7%	15.2%	15.8%
EBITDA	1,44,177	1,80,872	2,50,403	2,82,755	3,29,766
Growth%	28.8%	25.5%	38.4%	12.9%	16.6%
Net Profit	1,06,382	1,39,060	1,84,249	2,19,775	2,54,014
Growth%	21.9%	30.7%	32.5%	19.3%	15.6%
Diluted EPS (Rs)	54.4	71.0	94.1	112.2	129.7
Growth%	21.9%	30.7%	32.4%	19.3%	15.6%

The company is operating at optimum utilization levels so margin expansion seems difficult going ahead.

Key Ratios					
EBITDA Margin %	29.5%	28.7%	30.6%	30.0%	30.3%
Operating Margins %	27.6%	27.0%	29.0%	28.4%	28.6%
NPM (%)	21.8%	22.1%	22.5%	23.3%	23.3%
RoE (%)	35.2%	36.0%	36.7%	34.9%	32.7%
RoCE (%)	33.9%	34.7%	35.5%	33.8%	31.8%
BV/Per Share Rs.	156.6	209.5	265.3	331.9	408.9

We expect TCS to reiterate its bullish commentary on FY15E

Valuation Ratios					
P/E (x)			25.5x	21.4x	18.5x
P/BV (x)			9.0x	7.2x	5.9x
EV/EBIDTA (x)			18.3x	15.9x	13.3x
EV/Sales			5.6x	4.8x	4.0x
Market Cap./ Sales (x)			5.7x	5.0x	4.3x
Dividend Yield (%)			1.4%	1.6%	1.9%

Source: Company, BP Equities research



Wipro Q1 FY15 Preview

YE March (Rs mn)	Q1 FY15	Q4 FY14	Q-o-Q change %	Q1 FY14	Y-o-Y change %
Net Sales	1,17,523	1,16,535	0.8%	97,294	20.8%
EBITDA	27,642	28,690	(3.7%)	20,203	36.8%
Operating Profit	24,803	25,810	(3.9%)	17,702	40.1%
Profit Before Tax	27,957	28,927	(3.4%)	20,568	35.9%
PAT	21,667	22,265	(2.7%)	16,233	33.5%
Reported Diluted EPS (Rs.)	8.8	9.0	(2.7%)	6.6	33.4%
No of Shared Diluted (mn)	2,463	2,462		2,461	
Margin Analysis %			<i>Change in bps</i>		<i>Change in bps</i>
EBIDTA Margin %	23.5%	24.6%	-110	20.8%	276
Operating margin %	21.1%	22.1%	-104	18.2%	291
NPM %	18.4%	19.1%	-67	16.7%	175
Net Sales US\$ (Wipro IT Services)	1,756	1,720	2.1%	1,588	10.6%

Source: Company, BP Equities research

Expectations/Comments

We expect volumes growth to be in the range of 1.5%

Consolidated IT services revenues to grow 10.6% Y-o-Y and 2.1% q-o-q to US\$1.76 bn, which is on the higher end of its US\$ guidance of -0.3%/2.0% q-o-q growth

Net employees in Global IT services to increase by ~1.5K

Forex losses to be realized on top line resulting in lower rupee realization. Wipro has a total of US\$1.9 bn of forex contracts

We expect Wipro margins to contract only by 110 bps q-o-q to 23.5% as salary hikes are effective from 1st June onwards however rupee appreciation of ~3% will impact margins

We expect Wipro to gain some momentum in term of revenue growth and the management should provide stronger revenue guidance in range of 2-4% for Q2 FY15E which will boost confidence

Key Financials					
YE March (Rs. mn)	FY12	FY13	FY14	FY15E	FY16E
Net Sales	3,18,747	3,74,256	4,34,269	4,84,915	5,30,640
Growth%	2.6%	17.4%	16.0%	11.7%	9.4%
Operating Profit	59,912	69,972	89,354	1,02,493	1,20,147
Growth%	3.9%	16.8%	27.7%	14.7%	17.2%
Net Profit	52,311	61,347	77,967	89,472	1,03,849
Growth%	-1.3%	17.3%	27.1%	14.8%	16.1%
Net Profit including Discontinued op.	55,730	66,359	77,967	89,472	1,03,849
Growth%	5.2%	19.1%	17.5%	14.8%	16.1%
Diluted EPS (Rs)	21.3	24.9	31.7	36.3	42.2
Growth%	7.0%	19.0%	17.4%	14.7%	16.1%
Key Ratios					
EBITDA Margin %	21.7%	21.3%	23.1%	23.5%	25.0%
Operating Margins %	18.8%	18.7%	20.6%	21.1%	22.6%
NPM (%)	17.5%	17.7%	18.0%	18.5%	19.6%
RoE (%)	20.6%	22.6%	24.0%	23.0%	22.3%
RoCE (%)	17.8%	19.2%	20.8%	20.9%	20.7%
BV/Per Share Rs.	116	115	140	168	203
Valuation Ratios					
P/E (x)			17.2x	15.0x	12.9x
EV/EBITDA			12.7x	10.6x	8.5x
P/BV (x)			3.9x	3.2x	2.7x
Market Cap / Sales			3.1x	2.8x	2.5x

Source: Company, BP Equities research



HCL Tech Q4 FY14 Preview

YE June (Rs mn)	Q4 FY14	Q3 FY13	Q-o-Q change %	Q3 FY13	Y-o-Y change %
Net Sales	85,416	83,490	2.3%	69,800	22.4%
EBITDA	22,280	22,320	(0.2%)	16,150	38.0%
Operating Profit	20,401	20,600	(1.0%)	14,450	41.2%
Profit Before Tax	21,584	20,530	5.1%	15,220	41.8%
PAT	16,620	16,240	2.3%	11,920	39.4%
Reported Diluted EPS (Rs.)	23.5	23.0	2.3%	16.9	39.3%
No of Shared Diluted (mn)	706	706		706	
Margin Analysis %			<i>Change in bps</i>		<i>Change in bps</i>
EBIDTA Margin %	26.1%	26.7%	-65	23.1%	295
Operating margin %	23.9%	24.7%	-79	20.7%	318
NPM %	19.5%	19.5%	1	17.1%	238
Net Sales US\$	1,424	1,361	4.6%	1,228	16.0%

Source: Company, BP Equities research

Expectations/Comments

We expect modest volumes growth of ~2% q-o-q for core IT software. HCL tech will continue to do well on account of its strong IMS business, however we expect the core software business to pick up in the coming quarters

Consolidated IT services revenues to grow 4.6% Q-o-Q and 16.0% Y-o-Y to US\$ 1.42 bn fueled by growth in IMS vertical

Net employees to increase by ~1000

Pricing to remain more or less stable with a positive bias

Margins to contract by 65 bps q-o-q to 26.1% as salary hikes are effective from 1st July

IMS business to grow 8.0% q-o-q while we expect BPO business to grow 3.0% q-o-q in US\$ terms

Key Financials					
YE June (Rs. mn)	FY12	FY13	FY14E	FY15E	FY16E
Net Sales	2,10,312	2,57,474	3,30,356	3,88,183	4,55,489
Growth%	31.2%	22.4%	28.3%	17.5%	17.3%
EBITDA	40,251	57,968	86,780	1,04,488	1,23,659
Growth%	46.4%	44.0%	49.7%	20.4%	18.3%
Net Profit	25,260	40,594	61,970	74,461	88,070
Growth%	47.7%	60.7%	52.7%	20.2%	18.3%
Diluted EPS (Rs)	36.0	57.6	87.7	105.4	124.7
Growth%	47.6%	59.9%	52.3%	20.2%	18.3%
Key Ratios					
EBITDA Margin %	19.1%	22.5%	26.3%	26.9%	27.1%
Operating Margins %	16.5%	19.9%	24.0%	24.3%	24.5%
NPM (%)	12.0%	15.8%	18.8%	19.2%	19.3%
RoE (%)	26.5%	34.4%	38.0%	33.6%	30.2%
RoCE (%)	20.2%	28.2%	33.4%	30.2%	27.5%
BV/Per Share Rs.	139	187	261	350	459
Valuation Ratios					
P/E (x)			16.8x	14.0x	11.8x
P/BV (x)			5.6x	4.2x	3.2x
EV/EBIDTA (x)			11.1x	8.6x	6.7x
EV/Sales (x)			2.9x	2.3x	1.8x
Market Cap./ Sales (x)			3.1x	2.7x	2.3x
Dividend Yield (%)			1.0%	1.1%	1.1%

Source: Company, BP Equities research



Tech Mahindra Q1 FY15 Preview

YE March (Rs mn)	Q1 FY15	Q4 FY14	Q-o-Q change %	Q1 FY14	Y-o-Y change %
Net Sales	50,634	50,581	0.1%	41,032	23.4%
EBITDA	10,350	10,718	(3.4%)	8,645	19.7%
Operating Profit	8,707	9,289	(6.3%)	7,471	16.5%
Profit Before Tax	9,361	8,325	12.4%	9,321	0.4%
PAT	7,126	6,142	16.0%	6,863	3.8%
Reported Diluted EPS (Rs.)	30.5	26.3	16.0%	29.4	3.8%
No of Shared Diluted (mn)	233	233		233	
Margin Analysis %			Change in bps	Change in bps	
EBIDTA Margin %	20.4%	21.2%	-75	21.1%	-63
Operating margin %	17.2%	18.4%	-117	18.2%	-101
NPM %	14.1%	12.1%	193	16.7%	-265
Net Sales US\$	844	825	2.3%	724	16.5%

Source: Company, BP Equities research

Consolidated IT services revenues to increase 2.3% q-o-q and 16.5% y-o-y to US\$ 844 mn

Commentary on Non BT business and non telecom business will be the key factor to watch

Pricing to remain more or less stable with a negative bias

Margins to contract 75 bps sequentially due to rupee appreciation and higher visa expenses

Impact from hedges/forex on other income will be relatively muted compared to losses amounting to INR 3.08b in H2 FY14.

PAT margins to be expand due to lower Forex losses

Key Financials					
YE March (Rs. mn)	FY12	FY13	FY14	FY15E	FY16E
Net Sales	1,17,024	1,43,320	1,88,313	2,14,052	2,40,650
Sales Growth (Y-o-Y)	NA	22.5%	31.4%	13.7%	12.4%
EBIDTA	19,518	30,632	41,836	46,191	54,894
EBIDTA Growth (Y-o-Y)	NA	56.9%	36.6%	10.4%	18.8%
Net Profit	18,432	19,556	30,287	32,849	40,053
Net Profit Growth (Y-o-Y)	NA	6.1%	54.9%	8.5%	21.9%
Reported EPS (Rs)	78.9	83.8	129.7	140.7	171.6
Diluted EPS Growth (Y-o-Y)	NA	6.1%	54.9%	8.5%	21.9%
Adjusted EPS (Rs)	77.4	90.6	124.6	140.7	171.6
Diluted EPS Growth (Y-o-Y)	NA	17.1%	37.5%	12.9%	21.9%
No of Diluted shares (mn)	233.5	233.5	233.5	233.5	233.5
Key Ratios					
EBIDTA (%)	16.7%	21.4%	22.2%	21.6%	22.8%
NPM (%)	15.8%	13.6%	16.1%	15.3%	16.6%
RoE (%)	75.0%	36.3%	35.3%	30.4%	28.7%
RoCE (%)	50.1%	26.1%	28.3%	25.4%	24.8%
Book Value Per share (Rs.)	206.3	293.5	393.2	511.9	659.3
Valuation Ratios					
P/E (x)	26.2x	24.7x	15.9x	14.7x	12.1x
EV/EBITDA	23.5x	14.7x	10.7x	9.4x	7.4x
P/BV (x)	10.0x	7.0x	5.3x	4.0x	3.1x
Market Cap. / Sales (x)	4.1x	3.4x	2.6x	2.3x	2.0x

Source: Company, BP Equities research

**Polaris Q1 FY15 Preview**

YE March (Rs mn)	Q1 FY15	Q4 FY14	Q-o-Q change %	Q1 FY14	Y-o-Y change %
Net Sales	6,502	6,194	5.0%	5,510	18.0%
EBITDA	589	483	22.0%	551	7.0%
Operating Profit	434	350	24.2%	421	3.2%
Profit Before Tax	556	420	32.3%	568	(2.1%)
PAT	455	454	0.3%	432	5.4%
Reported Diluted EPS (Rs.)	4.6	4.6	0.3%	4.3	5.3%
No of Shared Diluted (mn)	100	100		100	
Margin Analysis %			<i>Change in bps</i>		<i>Change in bps</i>
EBIDTA Margin %	9.1%	7.8%	127	10.0%	-93
Operating margin %	6.7%	5.6%	104	7.6%	-96
NPM %	7.0%	7.3%	-33	7.8%	-84
Net Sales US\$	109	104	4.6%	101	7.9%

Source: Company, BP Equities research

Consolidated IT services revenues to grow 4.6% q-o-q to US\$ 109 mn primarily due to traction in the product platform

We have projected a top line of US\$ 459.6 mn up 11.2% in FY15E

Strong order book in intellect to drive growth going forward

Margins to expand 127 bps sequentially on account of cost optimization in the product business

PAT to go down because of increase in tax rate for the quarter (last quarter tax rate was low at 9.4%)

Persistent Q1 FY15 Preview

YE March (Rs mn)	Q1 FY15	Q4 FY14	Q-o-Q change %	Q1 FY14	Y-o-Y change %
Net Sales	4,632	4,467	3.7%	3,573	29.7%
EBITDA	1,095	1,111	(1.4%)	704	55.5%
Operating Profit	837	846	(1.1%)	468	79.1%
Profit Before Tax	967	923	4.7%	803	20.4%
PAT	696	672	3.6%	571	21.9%
Reported Diluted EPS (Rs.)	17.4	16.8	3.6%	14.3	21.9%
No of Shared Diluted (mn)	40	40		40	
Margin Analysis %			<i>Change in bps</i>		<i>Change in bps</i>
EBIDTA Margin %	23.6%	24.9%	-122	19.7%	393
Operating margin %	18.1%	18.9%	-87	13.1%	499
NPM %	15.0%	15.0%	-1	16.0%	-95
Net Sales US\$	75	73	2.9%	63	18.5%

Source: Company, BP Equities research

Consolidated IT services revenues to grow 2.9% Q-o-Q to US\$ 75 mn primarily due to increased traction in IP Led revenues

We have projected a top line of US\$ 312.5 mn in FY14E up 14.1% y-o-y

Margins to contract 122 bps sequentially on account of weaker dollar and higher visa expenses.

PAT to increase on account of lower forex losses

Source: Company, BP Equities research

**Currency movement on quarter closing basis**

	USD/INR	EUR/INR	GBP/INR	EUR/USD	GBP/USD	USD/EUR	USD/GBP	USD/AUD
Close rate Q4 FY13	54.29	69.57	82.47	1.28	1.52	0.78	0.66	0.96
Close rate Q1 FY14	59.53	77.47	90.52	1.30	1.52	0.77	0.66	0.97
Close rate Q2 FY14	62.63	84.58	101.17	1.35	1.62	0.74	0.62	1.07
Close rate Q3 FY14	61.81	84.96	102.37	1.38	1.65	0.73	0.61	1.12
Close rate Q4 FY14	60.13	82.67	100.01	1.38	1.67	0.73	0.60	1.08
Close rate Q1 FY15	60.07	82.24	102.76	1.37	1.71	0.73	0.58	1.06
% Change since Q1 FY14 Closing	0.9%	6.2%	13.5%	5.3%	12.5%	-5.0%	-11.1%	9.9%
% Change since Q4 FY14 Closing	-0.1%	-0.5%	2.7%	-0.6%	2.7%	0.6%	-2.6%	-1.7%

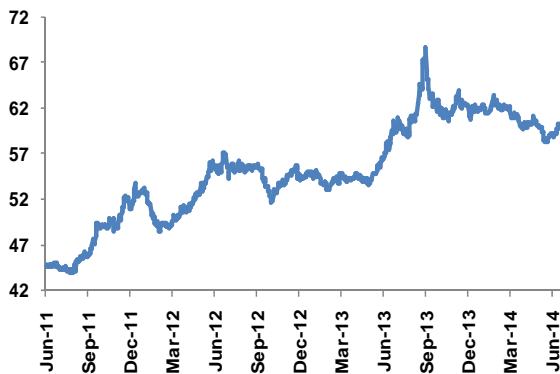
Source: Internet, BP Equities research

Currency movement on quarter average basis

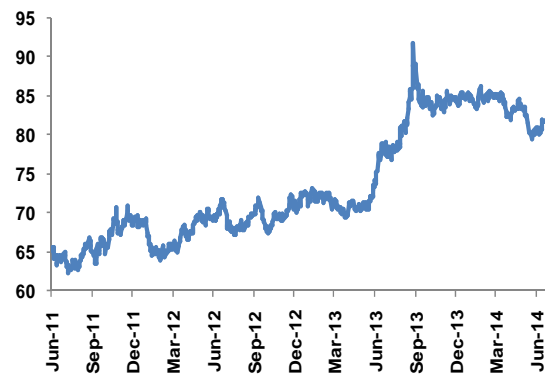
	USD/INR	EUR/INR	GBP/INR	EUR/USD	GBP/USD	USD/EUR	USD/GBP	USD/AUD
Average rate Q2 FY14	62.17	82.32	96.37	1.33	1.55	0.75	0.64	1.09
Average rate Q3 FY14	62.00	84.40	100.38	1.36	1.62	0.73	0.62	1.08
Average rate Q4 FY14	61.7	84.60	102.18	1.37	1.66	0.73	0.60	1.12
Average rate Q1 FY15	59.8	82.01	100.65	1.37	1.68	0.73	0.59	1.07
Change %	-3.1%	-3.1%	-1.5%	0.1%	1.7%	-0.1%	-1.7%	-3.9%

Source: Internet, BP Equities research

USD/INR



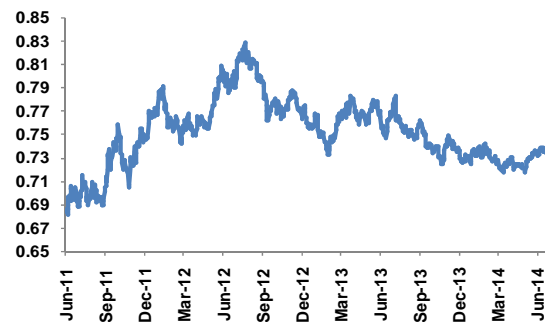
EUR/INR



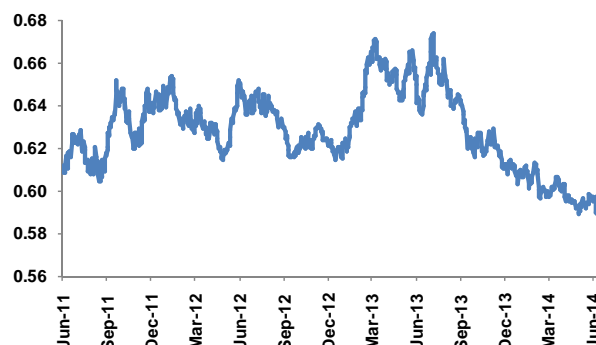
GBP/INR



USD/EUR



USD/GBP



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