India Equity Analytics

Results Preview Q3FY19- Logistics & Others

Analyst
Chintan Bhindora
chintan.bhindora@narnolia.com
+91-22-62701206

Container Corporation Of India Ltd

CCRI IN

Logistics

CMP	**688**
Target	**843**
Upside	**23%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	10%	11%	13%	15%
Roce%	10%	11%	15%	17%
P/E	28.1	28.1	24.9	20.2
P/B	2.7	3.2	3.3	3.0
EV/Ebdita	17.2	18.1	15.2	12.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Standalone Volume (in 000's TEUs)							
EXIM	2,642	3,002	3,321	3,819	739	849	786
Domestic	461	530	594	672	128	140	140
Standalone Segment Revenue							
EXIM	4,518	4,851	5,842	6,901	1,319	1,467	1,559
Domestic	1,088	1,319	1,469	1,668	320	355	363
Sales	5,980	6,622	7,829	9,145	1,640	1,822	1,922
Sales Gr	*-5%*	*11%*	*18%*	*17%*	*25%*	*27%*	*17%*
Ebdita	1,246	1,499	1,995	2,428	446	504	524
Ebdita Gr	*8%*	*20%*	*33%*	*22%*	*71%*	79%	*18%*
Net Profits	857	1,073	1,347	1,656	289	336	344
Profit Gr%	*10%*	*25%*	*26%*	*23%*	*55%*	*51%*	*19%*
Ebdita Margin%	20.8%	22.6%	25.5%	26.6%	27.2%	27.7%	27.3%
Net Profit Margin%	14.3%	16.2%	17.2%	18.1%	17.6%	18.4%	17.9%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

- Revenue growth in Q3FY19 is expected to be 17.2% on the back of 18.2% growth in EXIM & 13.3% growth in Domestic.
- We have factored in a volume growth of 6.3% & 9.6% YoY for EXIM & Domestic respectively. Also, realizations are expected to be higher by 11.2% YoY for EXIM primarily due to recent price hikes taken by CONCOR, whereas domestic realizations are expected to improve by 3.4% YoY.
- EBITDA margins are expected to improve by 100bps YoY to 27.3% in Q3FY19 as CONCOR continues to witness efficiency gains due to higher double stacking (10% of the total volumes are double stacked), improvement in rail freight margin & higher realizations. In FY19, management has guided for a 50% growth in double stacking (1638 trains in H1FY19 as against 1012 trains in H1FY18).
- PAT is expected to grow by 19% in Q3FY19 on the back of EBITDA margin improvement.
- Capex is expected to be around INR 800-1000cr in FY19. Management has guided for an increase in terminal network from 79 in FY18 to 90 in FY19 (82 in Q2FY19) & 100 in FY20.
- As on H1FY19, total receivable from Government on account of SEIS stands at INR 875cr.
- Management is targeting a revenue of INR 12,000cr & 7,000 (000's) TEUs by FY21 on the back of foray into 3PL logistics, coastal shipping venture. Also, proposed DFC (Mundra & Pipavav will open up by March 2019) is expected to increase the speed of transportation leading to efficiency & market share gains.

Key Trackable this Quarter

- Growth in double stacking & additions to the terminal network
- Volumes & realizations for segments - EXIM & Domestic

We value the stock 15x FY20e EV/EBITDA. BUY

Future Supply Chain Solutions Ltd

FSCSL IN

Logistics

CMP	**656**
Target	**714**
Upside	**9%**
Rating	**ACCUMULATE**

	FY17*	FY18	FY19E	FY20E
Roe%	16%	14%	15%	20%
Roce%	15%	19%	16%	23%
P/E	56.8	45.7	36.3	20.7
P/B	8.9	6.3	5.3	4.2
EV/Ebdita	33.5	23.1	17.2	11.0

* Based on Issue Price

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
W. Space (Mn sq ft)		4.6	7.6	9.6	4.4	6.4	7.0
Segment Revenue							
Contract		584	902	1,275	148	220	246
Express		172	358	409	35	46	48
Temp. Controlled		32	34	38	8	8	9
Others		5	18	12	5	2	3
Sales	560	793	1,312	1,734	195	276	305
Sales Gr	*8%*	*41%*	*65%*	*32%*	*36%*	*34%*	*56%*
Ebdita	74	113	154	236	33	39	45
Ebdita Gr	*6%*	*52%*	*36%*	*54%*	*61%*	21%	*36%*
Net Profits	46	58	72	127	16	21	23
Profit Gr%	*55%*	*27%*	*24%*	*75%*	*37%*	*5%*	*40%*
Ebdita Margin%	13.3%	14.2%	11.7%	13.6%	17.0%	14.0%	14.7%
Net Profit Margin%	8.2%	7.4%	5.5%	7.3%	8.3%	7.7%	7.4%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

❑Revenue growth in Q3FY19 is expected to be around 56% on the back of marquee client wins like Voltbek Home Appliances, JK Helene Curtis (part of Raymond Group), Tilda and many more. Management has indicated a strong 12 month sales funnel of INR 400-500cr.

❑FSC is moving from direct-to-store delivery to a distribution centre-based model, which will lead to the Future Group entities completely giving up the back office storing functions. This will pave the way for robust growth from Anchor group as well.

❑ Gross margins are expected to dip from 33.8% in FY18 to 28.7% in FY19 due to lag effect in achieving optimal utilisation of new warehousing space & changing mix towards foods business (low margin, but high churn). In FY20, gross margins are expected to recoup to 31.1%.

❑ In Q3FY19, EBITDA margins are expected to dip YoY to 14.7% as FSC continues to aggressively add warehousing space. EBITDA margins are expected to dip significantly in FY19 as Vulcan express (100% subsidiary acquired in February 2018) is expected to turn EBITDA positive only from Q4FY19 onwards. In FY20, EBITDA margins are expected to rebound sharply with Vulcan express turning into black.

❑ FSC is expected to add another 1.2 mn sq ft & 2mn sq ft of warehousing space in H2FY19 & in FY20 respectively (H1FY19 addition of 1.8mn sq ft).

❑ FSC has raised INR 199cr via NCD issue to fund the proposed expansion, thus taking the total debt on the books from INR 25cr in FY18 to INR 218cr in H1FY19 post the said issue.

Key Trackable this Quarter

❑ Addition of Marquee Clients & increase in Warehousing Space

❑ Share of Future Group Entities to the Total Revenue & revenue growth of Non-Anchor customers

We value the stock 12x FY20e EV/EBITDA. ACCUMULATE

Mahindra Logistics Ltd

MAHLOG IN

Logistics

CMP	**517**
Target	**567**
Upside	**10%**
Rating	**ACCUMULATE**

	FY17*	FY18	FY19E	FY20E
Roe%	13%	15%	19%	21%
Roce%	17%	23%	28%	32%
P/E	65.3	53.7	39.5	29.1
P/B	8.6	8.2	7.4	6.1
EV/Ebdita	38.1	28.0	22.3	16.6

*Based on Issue Price

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
SCM	2,372	3,076	3,539	4,386	754	829	916
PTS	295	340	378	423	81	98	94
Sales	2,667	3,416	3,918	4,809	835	927	1,009
Sales Gr	*29%*	*28%*	*15%*	*23%*	*17%*	*11%*	*21%*
Ebdita	76	120	162	215	29	34	45
Ebdita Gr	*46%*	*57%*	*35%*	*33%*	46%	31%	*52%*
Net Profits	46	64	93	126	15	19	26
Profit Gr%	*25%*	*40%*	*46%*	*36%*	*29%*	*37%*	*73%*
Ebdita Margin%	2.9%	3.5%	4.1%	4.5%	3.5%	3.7%	4.4%
Net Profit Margin%	1.7%	1.9%	2.4%	2.6%	1.8%	2.0%	2.5%

Conso/Fig in Rs Cr

❑ Revenue growth in Q3FY19 is expected to be around 21% on the back of several client wins in Q2FY19 with a higher share of warehousing.

❑ EBITDA margins are expected to around 4.4% in Q3FY19 on the back of cost rationalization efforts for operating expenses and employee cost along with higher warehousing revenue growth to continue driving EBITDA margin expansion by 90 bps YoY and 80 bps QoQ in Q3FY19.

❑ PAT is expected to grow by 73% in Q3FY19 on the back of EBITDA margins improvement.

❑ Management has guided for a capex of INR 20-25cr each in the next 2 years with 0.4mn addition in warehousing space in H2FY19 post the addition of 0.6mn of warehousing space in H1FY19.

❑ MAHLOG is looking to increase the size of large warehouses from 3 lac sq ft to 3 mn sq ft in the next 3 years, and thus has indentified Delhi, Bangalore and Chennai as three of the potential destinations along with another warehouse at Chakan.

❑ MAHLOG, engaged into a backward integration, by acquiring Transtech Logistics Private Limited ("TLPL") for an investment of upto INR 7cr. TLPL provides transport management solution to 3PL players (including MAHLOG) on SaaS model under the brand name "ShipX".

❑ Management has guided for INR 6,000cr revenue by FY21 (CAGR of 25% over FY18-21) with 0.5% EBITDA margin expansion annually on the back of higher share of warehousing to the total revenue.

Key Trackable this Quarter

❑ Addition of Marquee Clients and Increase in Warehousing Space

❑ Share of warehousing revenue in the SCM segment

❑ EBITDA margins trend

We value the stock 32x FY20e EPS. ACCUMULATE

TCI Express Ltd

TCIEXP IN

Logistics

CMP	**627**
Target	**607**
Upside	**-3%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	26%	32%	31%	31%
Roce%	32%	39%	41%	43%
P/E	40.4	31.2	32.5	24.9
P/B	9.4	8.8	9.0	6.9
EV/Ebdita	24.8	20.3	20.1	15.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Volume Growth %		14.0%	15.7%	14.8%	17.6%	17.0%	14.3%
Sales	750	885	1,057	1,257	229	247	271
Sales Gr	*13%*	*18%*	*19%*	*19%*	*22%*	*21%*	*18%*
Ebdita	62	91	121	155	24	27	32
Ebdita Gr	*13%*	*46%*	*33%*	*28%*	*64%*	*38%*	*32%*
Net Profits	37	58	74	96	15	16	20
Profit Gr%	*29%*	*56%*	*27%*	*30%*	*78%*	*25%*	*27%*
Ebdita Margin%	8.3%	10.2%	11.4%	12.3%	10.5%	11.0%	11.7%
Net Profit Margin%	5.0%	6.6%	7.0%	7.7%	6.7%	6.6%	7.3%

Std/Fig in Rs Cr

❑ Management has guided for a revenue growth of 22-25% in FY19 with 18-20% volume growth with an equal contribution from both SME & Top 500 companies.

❑ Our estimates factor in a revenue growth of 19.5% & 18.9% with a volume growth of 15.7% & 14.8% in FY19 and FY20 respectively.

❑ Revenue is expected to be INR 271cr with a growth of around 18% in Q3FY19.

❑EBITDA margins are expected to improve to 11.4% & 12.3% in FY19 and FY20. TCIEXP's cost rationalisation efforts for operating expenses & employee cost along with higher capacity utilization (85% in Q2FY19 as against 80% in FY16) to continue driving EBITDA margin expansion by 120 bps YoY and 70 bps QoQ in Q3FY19.

❑ PAT is expected to grow by 27% in Q3FY19 on the back of EBITDA margin improvement. In FY19 & FY20, PAT growth is expected to be around 27% and 30% despite higher tax rates (34.5% for FY19 & FY20 as against 30.3% in FY18) & depreciation due to operational improvement.

❑ Management has guided for a capex of INR 400cr in 5 years starting FY18. Capex in FY18 & H1FY19 was at INR 71cr & INR 16cr respectively. TCIEXP has opened 30 new branches in H1FY19 by expanding its presence in Tier 2 & 3 cities. Management intends to increase the branch network to 1000 by FY20 from 650 in FY18.

❑ Capex is expected to be around INR 60cr & 50cr in FY19 and FY20 respectively.

❑ Management is targeting to double the revenues in the next 5 years for which it is increasing size of 8 of its 28 sorting centres over the next 5 years. Also, company will convert these 8 leased sorting centres into owned ones.

Key Trackable this Quarter

❑ Addition of Marquee Clients

❑ Progress of cost rationalisation efforts and its effect on EBITDA margins

❑ Increase in capacity of sorting centres

We value the stock 15x FY20e EV/EBITDA. NEUTRAL

Zee Entertainment Enterprises Ltd

Z IN

Others

CMP	**476**
Target	**519**
Upside	**9%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	33%	20%	17%	18%
Roce%	21%	22%	24%	26%
P/E	22.9	37.2	31.9	25.7
P/B	7.6	7.3	5.3	4.6
EV/Ebdita	25.3	25.5	17.1	14.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Advertising	3,674	4,205	4,938	5,822	1,202	1,211	1,363
Subscription	2,263	2,029	2,286	2,515	502	608	552
Other Services	498	452	580	649	134	157	161
Sales	6,434	6,686	7,803	8,986	1,838	1,976	2,076
Sales Gr	*10%*	*4%*	*17%*	*15%*	*12%*	*25%*	*13%*
Ebdita	1,927	2,076	2,553	3,015	594	676	679
Ebdita Gr	*28%*	*8%*	*23%*	*18%*	15%	38%	*14%*
Net Profits	2,221	1,479	1,437	1,781	322	387	399
Profit Gr%	*116%*	*-33%*	*-3%*	*24%*	*28%*	*-35%*	*24%*
Ebdita Margin%	29.9%	31.1%	32.7%	33.6%	32.3%	34.2%	32.7%
Net Profit Margin%	34.5%	22.1%	18.4%	19.8%	17.5%	19.6%	19.2%

Conso/Fig in Rs Cr

❑ Advertising revenue is expected to grow by 13.4% due to improvement in viewership share (from 18% in FY18 to 19.9% in H1FY19) & its consequent monetization through higher earning rates.

❑ Growth in subscription revenue is expected to be around 10.1% in Q3FY19. Management has revised its FY19 guidance from low teens to high teens on the back of content partnership deals signed with Airtel as well as Jio which will provide a ready customer base & early monetization for ZEE5. However, MRP based tariff can lead to some uncertainty in the near term.

❑ Revenue from movies & other businesses is expected to grow by 20% in Q3FY19 as ZEEL continues to maintain its run rate of movie releases.10-12 movies are expected to be released in FY19 (5 movies released in H1FY19). Q4FY19 is likely to have 3-4 releases for distribution business as well. This would lead to an overall revenue growth of 13% YoY in Q3FY19.

❑ Despite the heavy investments intended to be made on the digital side, EBITDA margins at 30%+ levels is expected to be maintained over FY19 & FY20, in line with management guidance.

❑ Q3FY19 reported profit is expected to grow by 24% YoY to INR 399cr. FY17 & FY18 had an exceptional gain of INR 1223cr & INR135cr due to gain on sale of sports broadcasting business.

❑ Management is working on early redemption of preference shares besides the original plan to redeem 20% every year from FY18 onwards.

❑ The uncertainty around the strategic partner for proposed strategic sale of upto 50% by Essel Group to transform ZEEL into a Tech-media company with a global presence will continue to weigh on the company.

Key Trackable this Quarter

❑ EBITDA Margins at 30%+ levels. All India Viewership Market Share.

❑ Updates on ZEE5 - Number of ZEE5 original releases, further investments & its performance

We value the stock 28x FY20e EPS. ACCUMULATE

Zee Media Corporation Ltd

ZEEN IN

Others

CMP	**24**
Target	**30**
Upside	**25%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	-3%	4%	12%	13%
Roce%	13%	9%	14%	20%
P/E	N/A	64.5	12.6	9.7
P/B	3.0	2.7	1.5	1.3
EV/Ebdita	11.0	13.6	4.1	2.5

N/A - Loss in FY17

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Advertising	373	511	635	820	144	149	171
Subscription	47	47	50	55	12	13	13
Others	31	20	25	27	4	6	6
Sales	450	578	710	902	159	169	190
Sales Gr	*-17%*	*28%*	*23%*	*27%*	*17%*	*35%*	*19%*
Ebdita	100	104	168	244	37	41	46
Ebdita Gr	*27%*	*4%*	*61%*	*45%*	493%	92%	*23%*
Net Profits	(16)	28	90	117	12	17	19
Profit Gr%	*-254%*	*LP*	*224%*	*29%*	*312%*	*355%*	*54%*
Ebdita Margin%	22.2%	18.0%	23.6%	27.0%	23.5%	24.2%	24.2%
Net Profit Margin%	-3.6%	4.8%	12.7%	12.9%	7.7%	10.2%	9.9%

LP - Loss to Profit

Conso/Fig in Rs Cr

❑ ZEEMEDIA now operates in only 1 segment i.e. TV Broadcasting business after demerging its print business (Diligent Media) from FY18 and exiting E-commerce business (Ez Mall) in Q1FY19.

❑ Revenue growth in Q3FY19 is expected to be around 19% on the back of improvement in channel ratings, strong viewership, state elections & increase in earning rates across national as well as regional channels

❑EBITDA margins to improve by 560bps YoY to 23.6% in FY19 & another 340bps YoY to 27% in FY20 due to E-commerce exit, breakeven of 3 channels launched in FY18 & higher earning rates.

❑ PAT is expected to be around INR 19cr as against INR 12cr in Q3FY18 as loss making E-commerce business is exited and savings due to purchase of balance stake in profitable Zee Akaash. In FY19, PAT includes exceptional gain of INR 21cr on the sale of E-commerce business accrued in Q1FY19.

❑ Management has guided for a 25-30% revenue growth over FY18-21e (primarily ad revenues) with 22-25% EBITDA margins in FY19. After which, margins are expected to expand beyond 25%.

❑ ZEEMEDIA has received 4 new licenses for setting up channels in regional markets. However, management is not planning to add any channels in the medium term.

❑ With a handful of state elections & mega yielding general election to come over the next 6-12 months, ZEEMEDIA's viewership numbers & earning rates are expected to remain strong.

❑ Also, with INR 1500cr radio business deal with Reliance Broadcast being called off, the overhang of significant leverage on ZEEMEDIA's balance sheet has also gone away.

Key Trackable this Quarter

❑ Growth in earning rates, ad inventory utilization levels.

❑ Viewership & market share of channels.

We value the stock 12x FY20e EPS. BUY

SIS (India) Ltd

SECIS IN

Others

CMP	**770**
Target	**1009**
Upside	**31%**
Rating	**BUY**

	FY17*	FY18	FY19E	FY20E
Roe%	17%	16%	17%	21%
Roce%	14%	16%	16%	21%
P/E	61.8	50.6	28.2	19.1
P/B	10.3	8.0	4.8	4.0
EV/Ebdita	26.4	26.0	15.7	11.7

*Based on Issue Price

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
Security-India	1,595	2,144	2,731	3,534	562	630	754
Security-Australia	2,396	3,019	3,491	3,805	805	844	879
Facilities Mngt.	577	671	907	1,221	171	221	226
Segment EBITDA Margin %							
Security-India	6.4%	6.9%	5.3%	5.8%	6.8%	5.2%	5.5%
Security-Australia	4.3%	4.3%	4.3%	4.4%	4.6%	3.7%	4.7%
Facilities Mngt.	3.8%	5.1%	7.3%	8.5%	5.6%	7.1%	7.5%
Sales	4,567	5,833	7,128	8,560	1,538	1,690	1,858
Sales Gr	*19%*	*28%*	*22%*	*20%*	*35%*	*16%*	*21%*
Ebdita	221	312	359	475	84	78	100
Ebdita Gr	*70%*	*41%*	*15%*	*32%*	41%	6%	*18%*
Net Profits	91	162	200	296	47	44	55
Profit Gr%	*109%*	*79%*	*23%*	*48%*	*110%*	*-26%*	*16%*
Ebdita Margin%	4.8%	5.3%	5.0%	5.5%	5.5%	4.6%	5.4%
Net Profit Margin%	2.0%	2.8%	2.8%	3.5%	3.1%	2.6%	3.0%

Conso/Fig in Rs Cr

❑Revenue growth in Q3FY19 is expected to be 21% on the back of quarterly order wins of INR 66cr from Security Services Business - India & consolidation of SLV Security Services acquisition (FY18 revenue of INR 240cr). SIS also won a key contract of INR 300cr from Cognizant for 3 years. In Facility Management, company won railway cleaning contracts at 8 new stations.

❑ EBITDA margins are expected to improve by 75bps QoQ to 5.4% in Q3FY19 as contribution of higher margins facility management segment to total revenue increases, rationalization of training expenses & significant upfront costs for Cognizant contract incurred in Q2FY19.

❑ PAT is expected to be higher by 16% as SIS continues to enjoy lower tax rates due to Section 80JJAA benefit. Tax rate is expected to be around 13% and 14% in FY19 and FY20 respectively.

❑ Cash Logistics segment (accounted using the Equity Method) will continue to report losses of INR 18cr in FY19 & 17cr in FY20 till the industry consolidates (EBITDA breakeven by FY20).

❑ SIS made its 3rd acquisition in FY19 by acquiring 51% stake in Uniq Detective and Security Services by paying an upfront INR 51cr. Annual Revenues of INR 156cr in FY18. Uniq is expected to be integrated from Q4FY19 onwards.

❑ The total debt on the books has gone up from INR 536cr in FY18 to INR 665cr in H1FY19 post the NCD issue of INR 150cr.

Key Trackable this Quarter

❑ Order Wins in Security Services - India & Australia, Facilities Management Services.

❑ Expansion of customer base and branch network.

We value the stock 25x FY20e EPS. BUY

Teamlease Services Ltd

TEAM IN

Others

CMP	**2864**
Target	**2684**
Upside	**-6%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	16%	17%	18%	19%
Roce%	8%	13%	16%	17%
P/E	28.9	51.7	49.1	38.4
P/B	4.5	8.6	9.0	7.3
EV/Ebdita	40.3	52.4	48.6	37.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segment Revenue							
General Staffing	2,945	3,375	3,943	4,602	840	977	1,012
Specialised Staffing	51	183	306	330	59	76	78
Other HR Services	45	66	149	188	19	38	40
Sales	3,041	3,624	4,397	5,120	918	1,091	1,129
Sales Gr	*21%*	*19%*	*21%*	*16%*	*13%*	*25%*	*23%*
Ebdita	37	69	97	124	18	24	26
Ebdita Gr	*44%*	*86%*	*41%*	*27%*	44%	59%	*46%*
Net Profits	58	73	100	127	18	25	26
Profit Gr%	*132%*	*28%*	*36%*	*28%*	*100%*	*43%*	*42%*
Ebdita Margin%	1.2%	1.9%	2.2%	2.4%	1.9%	2.2%	2.3%
Net Profit Margin%	1.9%	2.0%	2.3%	2.5%	2.0%	2.3%	2.3%

Conso/Fig in Rs Cr

❑ Revenue growth in Q3FY19 is expected to be 23% on the back of 20.4% growth in General Staffing segment. The total headcount of general staffing associates & NETAP trainees is expected to grow by 15% YoY to around 1,97,000.

❑ Specialized Staffing segment is expected to grow by 32% YoY to INR 78cr primarily on account of lower base as Telecom Staffing vertical was acquired & consolidated from November 2017 onwards.

❑ Other HR Services segment is expected to post revenue of INR 40cr largely due to new contract wins in H1FY19 (Revenues of INR 68cr in H1FY19 as against INR 26cr in H1FY18).

❑ EBITDA margins are expected to improve by 10bps QoQ to 2.3% in Q3FY19 as the core employee strength is likely to remain the same & hence, staffing core employee productivity is expected to improve even further. Also, contribution from the higher margin segments - Specialized Staffing & Other HR Services is expected to increase from 6.9% in FY18 to 10.1% in FY20.

❑ PAT is expected to be higher by 42% in Q3FY19 as TEAMLEASE continues to enjoy nil tax rates due to Section 80JJAA benefit. Tax rate is expected to remain 0% as long as the Section 80JJAA benefit continues on the back of strong growth in headcount.

❑ Management is targeting revenues of INR 14,000cr & PAT margins of 3-4% by FY23 on the back of transition from a technology driven staffing solutions company to a technology company on a SaaS model. Management is targeting to enter Hospitality, Healthcare & Engineering services verticals within the Specialized Staffing segment.

Key Trackable this Quarter

❑ Growth in Headcount & Core Employee Productivity

❑ Management commentary on avenues to achieve INR 14,000 revenue target, potential verticals in specialized staffing segment - Hospitality, Healthcare & Engineering Services and their source of funding

We value the stock 35x FY20e EPS. NEUTRAL

Disclosures: Narnolia Financial Advisors Ltd.* (NFAL) (FormerlyMicrosec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300002407 valid till 01.12.2020. NFALis engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, it's associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and it's associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Terms & Conditions: This report has been prepared by NFAL and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances.The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors.Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFIRegistered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. NFAL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sell in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. NFAL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sell in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Narnolia Financial Advisors Ltd.
803 & 703, A Wing, Kanakia Wall Street
Andheri Kurla Road, Andheri (E)
Mumbai-400093
T: +912262701200
D: +912262701236
www.narnolia.com