

Sector Thematic

IT sector: Decoding signal from noise



IT Sector

In this note, we decode the signal from noise and probe some key questions: (1) How structural is the demand and how correlated is it to the macros (top-down assessment)? (2) Can the inflationary pressure on enterprises accelerate tech spend (enterprise trends – growth vectors)? (3) What's leading to growth visibility beyond CY22 (cloud partnerships–the second order impact)? (4) What led to the multiple reset and what's in the price (mean reversion 'favourable' outcome). We believe that there's high probability of double-digit growth outcome in the medium term and the structural drivers more than offset any macro variability. Risk-reward is favourable for tier-1 IT as current valuations imply a modest growth ask-rate; at the same time, mid-tier IT will sustain its growth premium. We have a constructive stance on the sector and our top picks are Infosys from tier-1 IT and Persistent Systems from mid-tier IT, both of which reflect growth leadership.



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IT Sector

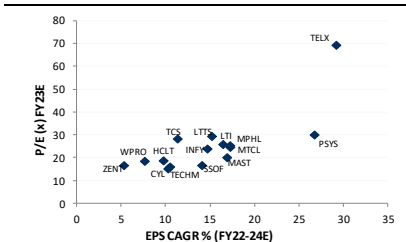
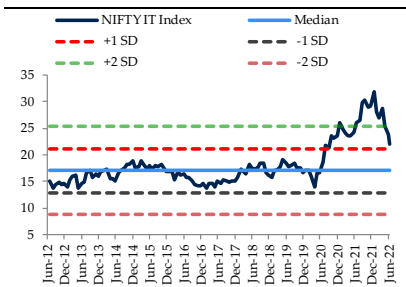
IT sector: Decoding signal from noise

In this note, we decode the signal from noise and probe some key questions: (1) How structural is the demand and how correlated is it to the macros (*top-down assessment*)? (2) Can the inflationary pressure on enterprises accelerate tech spend (*enterprise trends – growth vectors*)? (3) What's leading to growth visibility beyond CY22 (*cloud partnerships–the second order impact*)? (4) What led to the multiple reset and what's in the price (*mean reversion 'favourable' outcome*). We believe that there's high probability of double-digit growth outcome in the medium term and the structural drivers more than offset any macro variability. Risk-reward is favourable for tier-1 IT as current valuations imply a modest growth ask-rate; at the same time, mid-tier IT will sustain its growth premium. We have a constructive stance on the sector and our top picks are Infosys from tier-1 IT and Persistent Systems from mid-tier IT, both of which reflect growth leadership.

- Top-down assessment:** Despite the correlation to the macro, the demand for the sector is structural (double-digit CAGR over five years is high probability). For mid-tier IT, growth premium is highly correlated to macros; for tier-1 IT, growth is a greater function of market share gains, compared to industry growth. Inflationary pressure on enterprise can accelerate technology spending and some key drivers include: (1) inflationary environment and constrained supply/talent market improving the value proposition of third-party service providers (gap between job openings & unemployment); (2) increased outsourcing from Continental Europe (~25% increase in deal volumes) and increase in travel/onsite releasing some pent-up demand; and (3) lower down-spiral impact of pricing in legacy services.
- Enterprise trends–growth vectors:** Enterprise tech spends are strong and there's limited impact on overall growth due to any vertical-specific slowdown. Key insights: (1) while Q3-Q4 enterprise growth trajectory is moderating, growth ahead is still expected to be above long-term average; (2) growth delta-E&U, travel & hospitality verticals; and (3) strong tech spend continuity in BFSI. Tightening macro conditions are likely to lead to increasing investments in digitisation to reduce cost of operations and tech budgets are expected to increase in CY23, driven by modernising of the application portfolio.
- Cloud partnerships–the second order impact:** Tech value migration towards cloud providers is underway and will drive the growth curve of SIs. Our partnership framework and industry checks suggest that (1) partner ecosystem is expected to be the key driver of growth with hyperscalers becoming key deal influencers, (2) hyperscalers are valuing SI partnership diversity (positive for mid-tiers), (3) several mid-tiers are gaining disproportionately in the cloud ecosystem of AWS (LTI, MPHL), Salesforce (PSYS, MTCL) and mid-tier potency is supported by (a) accelerated shorter duration deal activity and better bandwidth by mid-tier IT in USD 10mn deals, and (b) increased digitisation in the mid-market segment.
- Mean reversion 'favourable' outcome:** The recent divergence between earnings trajectory and P/E de-rating is at a historic high, with the sector P/E de-rating by 35%, from 35x to 22x YTD. We believe that the tier-1s have higher margin of safety on our base case intrinsic value and assess stress impact on earnings (based on prior drawdown in earnings estimate). Current valuation implies ~6.5% CAGR in USD revenue over FY22-32E for tier-1 and 12.5% CAGR in USD revenue for mid-tier IT vs. historical trajectory of 8% CAGR and 12.5% CAGR respectively (ask-rate of growth is modest with 2-5 years of structural groundswell). The cut in multiples are reflecting the seismic denominator effect of higher cost of capital and front-ended cross currency impact; BUY/ADD on this dip.

Company	CMP* (INR)	RECO	TP (INR)
TCS	3,235	ADD	3,640
Infosys	1,488	BUY	1,800
HCL Tech	985	ADD	1,140
Wipro	420	ADD	490
Tech Mahindra	1,000	ADD	1,150
LTI	3,976	BUY	5,150
Tata Elxsi	8,081	SELL	6,630
Mindtree	2,862	BUY	3,860
Mphasis	2,229	BUY	2,975
LTTS	2,973	ADD	3,370
Persistent	3,259	BUY	5,080
Cyient	764	BUY	920
Sonata	659	BUY	850
Mastek	2,110	REDUCE	2,100
Zensar	272	BUY	325

*CMP as on 4th Jul 2022



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Focus Charts

Exhibit 1: Double digit growth a high probability: Five year growth CAGR sensitivity to Global IT services growth & market-share

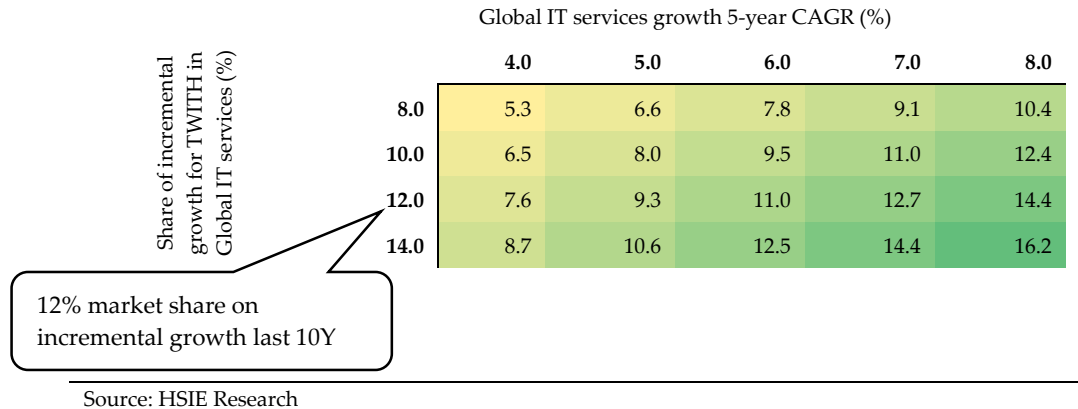


Exhibit 2: High correlation of US GDP and S&P500 to IT sector growth

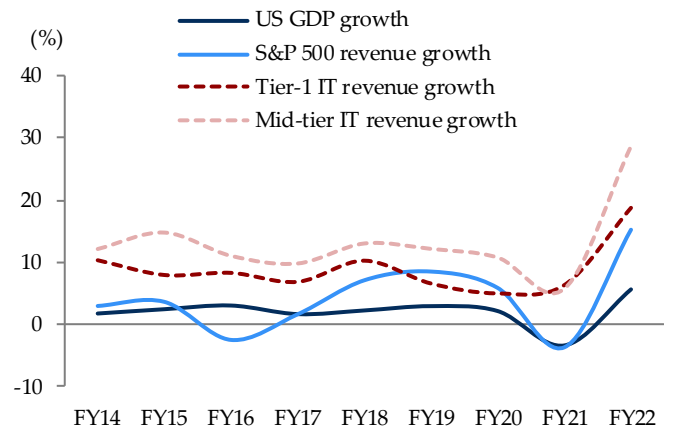


Exhibit 3: Growth trend by industries: US S&P 500

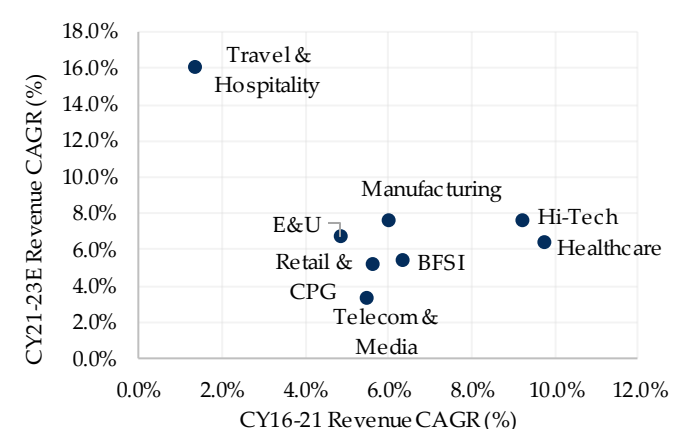


Exhibit 4: High correlation of mid-tier IT growth premium/discount (to Tier-1) to S&P 500 revenue growth

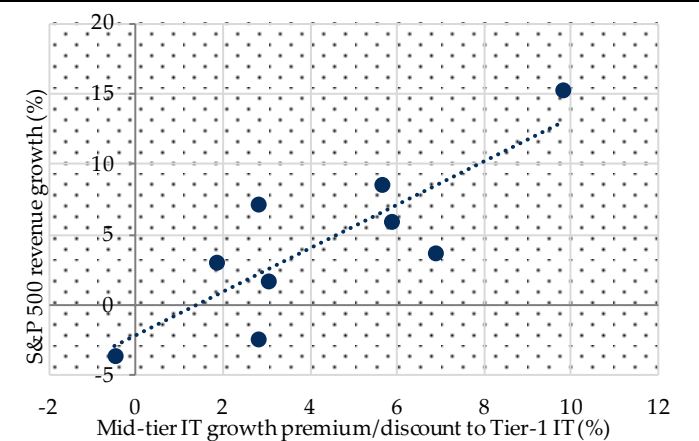


Exhibit 5: Implied USD revenue CAGR % based on reverse DCF

	FY15-22	Implied FY22-32E
TCS	7.5%	7.2%
INFO	9.4%	7.0%
WPRO	5.6%	5.2%
HCLT	10.2%	5.9%
TECHM	7.2%	7.8%
TIER-1 AVERAGE	8.0%	6.6%
LTI	14.6%	11.2%
MTCL	13.4%	11.1%
TELX	13.2%	22.5%
MPHL	7.8%	7.6%
LTTS	11.1%	12.3%
PSYS	13.9%	12.1%
MID TIER AVERAGE	12.3%	12.8%

Source: Company, HSIE Research

Exhibit 6: IT sector valuation universe

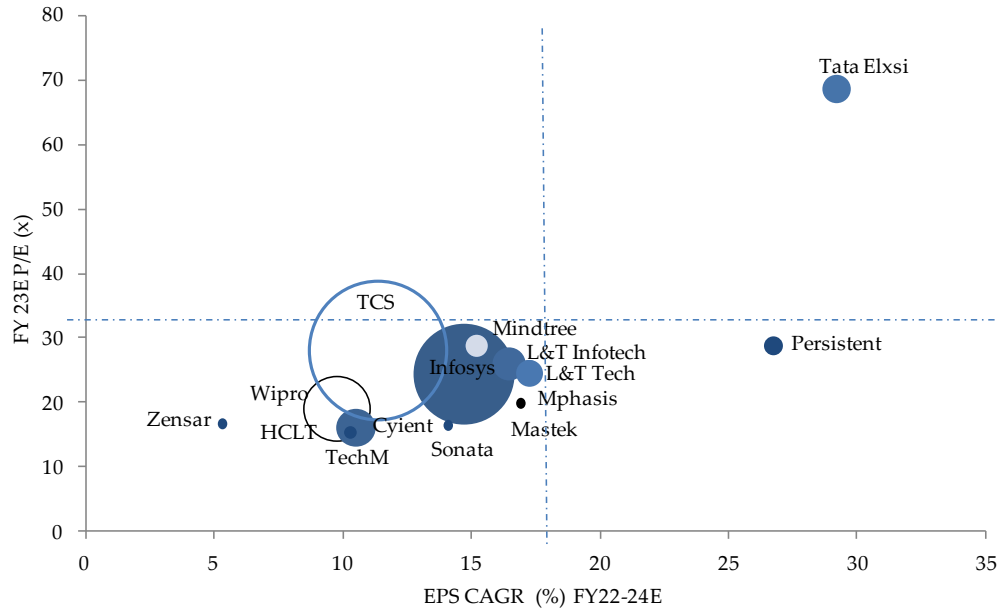
Company	Bloom Code	MCap (INR bn)	CMP (INR)	TP (INR)	RECO	EPS (Rs)			P/E (x)			RoE (%)			\$ Rev CAGR % FY22-24	EPS CAGR % FY22-24
						FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
TCS	TCS IN	11,967	3,235	3,640	ADD	104.7	115.4	129.9	30.9	28.0	24.9	43.7	45.6	47.5	9.9	11.4
Infosys	INFO IN	6,325	1,488	1,800	BUY	52.6	61.1	69.3	28.3	24.4	21.5	29.2	32.6	33.8	13.0	14.7
HCL Tech	HCLT IN	2,672	985	1,140	ADD	49.7	51.9	59.9	19.8	19.0	16.4	22.1	22.4	24.9	10.5	9.8
Wipro	WPRO IN	2,302	420	490	ADD	22.3	22.5	25.8	18.9	18.7	16.3	20.2	18.0	19.0	9.8	7.7
TechM	TECHM IN	965	1,000	1,150	ADD	63.1	62.3	77.1	15.8	16.1	13.0	21.5	20.1	23.9	12.6	10.5
Tier-1 IT Median									19.8	19.0	16.4	22.1	22.4	24.9	10.5	10.5
LTI	LTI IN	697	3,976	5,150	BUY	131.2	153.5	177.9	30.3	25.9	22.4	28.5	28.2	28.0	17.1	16.5
Tata Elxsi	TELX IN	503	8,081	6,630	SELL	88.3	117.8	147.3	91.6	68.6	54.9	37.2	41.1	41.8	24.6	29.2
Mindtree	MTCL IN	471	2,862	3,860	BUY	100.3	117.1	138.0	28.5	24.4	20.7	33.8	31.7	30.6	18.6	17.3
Mphasis	MPHL IN	416	2,229	2,975	BUY	77.3	90.4	106.3	28.8	24.7	21.0	21.5	23.1	24.5	14.5	17.3
L&T Tech	LTTS IN	314	2,973	3,370	ADD	90.7	103.0	120.4	32.8	28.9	24.7	25.1	23.9	23.7	12.7	15.2
Persistent	PSYS IN	249	3,259	5,080	BUY	90.3	113.1	145.1	36.1	28.8	22.5	22.4	23.7	25.8	26.9	26.7
Cyient	CYL IN	84	764	920	BUY	47.3	49.8	57.5	16.1	15.3	13.3	17.2	16.9	17.9	16.0	10.3
Sonata	SSOF IN	68	659	850	BUY	36.2	40.1	47.2	18.2	16.4	14.0	37.6	34.6	34.3	14.3	14.1
Mastek	MAST IN	64	2,110	2,100	REDUCE	96.6	106.5	132.0	21.8	19.8	16.0	30.6	26.9	26.6	13.5	16.9
Zensar	ZENT IN	62	272	325	BUY	18.2	16.3	20.2	14.9	16.7	13.5	16.3	13.0	14.8	11.3	5.3
Mid Tier IT AVG									31.9	27.0	22.3	27.0	26.3	26.8	17.0	16.9
Mid Tier IT Median									28.7	24.5	20.8	26.8	25.4	26.2	15.3	16.7

Source: Company, HSIE Research, CMP as on 4th July 2022

Company	Bloom Code	MCap (USD bn)	CMP USD	TP	RECO	EPS			P/E (x)			RoE (%)			\$ Rev CAGR% FY22-24	EPS CAGR% FY22-24
						FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
Accenture	ACN US	177.5	281	NA	NR	8.8	10.8	12.2	31.9	25.9	23.1	32.3	32.8	31.4	15.8	17.5
Cognizant	CTSH US	35.5	68	NA	NR	4.1	4.5	5.0	16.8	15.1	13.6	18.7	19.2	19.2	8.4	11.2
Capgemini^	CAP FP	27.5	157	NA	NR	9.2	10.2	11.5	17.1	15.4	13.6	15.9	18.3	18.5	10.4	12.1
EPAM	EPAM US	17.3	302	NA	NR	9.1	8.6	12.5	33.4	35.2	24.2	21.6	18.4	23.6	25.6	17.3
Globant	GLOB US	7.3	176	NA	NR	3.8	5.0	6.2	46.8	35.0	28.2	8.8	15.0	15.9	30.8	28.7
TietoEVRY^	TIETO FH	2.8	24	NA	NR	2.5	2.3	2.5	9.6	10.1	9.3	16.9	11.1	13.4	2.9	1.6
Global IT AVG									25.9	22.8	18.7	19.0	19.1	20.3	15.7	14.7
Global IT Median									24.5	20.7	18.4	17.8	18.4	18.8	13.1	14.7

Source: Bloomberg, ^CMP, MCap and EPS in EUR terms, CMP as on 4th July 2022

Exhibit 7: IT sector P/E and EPS growth grid



Source: Company, HSIE Research, Note: Size of Bubble represents M-cap; CMP as on 4th July 2022

Exhibit 8: Stock performance (%)

Companies	1W (%)	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)	10Yr (%)
TCS	-2.4	-6.0	-14.2	-16.7	-2.7	44.3	173.4	418.5
Infosys	0.9	-2.2	-21.0	-21.6	-5.1	102.8	209.3	380.1
Wipro	-1.1	-11.6	-30.6	-41.7	-22.0	48.1	115.5	218.3
HCL Tech	-0.8	-5.6	-17.1	-26.2	0.0	89.2	134.0	714.6
TechM	-0.7	-12.9	-33.3	-44.1	-8.2	42.7	164.7	447.2
LTI	-4.5	-8.3	-36.9	-47.4	-1.6	140.1	406.4	NA
Mindtree	-3.3	-7.1	-33.7	-40.1	10.8	218.3	435.5	1535.2
Mphasis	-4.7	-13.2	-32.7	-34.4	3.4	124.1	272.5	478.5
Tata Elxsi	1.1	-4.2	-10.3	35.2	82.4	783.8	867.6	7028.0
LTTS	-5.0	-16.8	-42.8	-49.7	3.3	75.1	308.3	NA
Persistent	-5.7	-14.3	-32.0	-32.6	11.3	425.2	380.4	1551.6
Cyient	-3.6	-4.1	-19.1	-29.3	-12.7	41.3	46.8	354.0
Mastek	0.2	-19.7	-36.9	-30.3	-9.9	339.3	648.0	5442.3
Zensar	-2.2	-11.7	-29.0	-47.7	-18.9	6.2	67.9	412.9
Sonata	-4.1	-5.3	-13.9	-24.1	-12.4	87.6	333.1	3328.6
NSE IT	-1.6	-6.7	-23.5	-29.2	-3.9	74.9	173.1	359.1
Nifty 50	0.0	-4.5	-12.3	-11.1	0.7	32.5	64.7	198.6

Source: Bloomberg, HSIE Research, CMP as on 4th Jul 2022

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Top down assessment

Although there is a correlation to the macro, the sector's demand is structural. Enterprise inflationary pressure can accelerate cost take out technology spending.

Growth for the IT sector is premised on the continuity of growth premium; historically, Indian IT has grown at a premium of ~550bps compared to global IT services (3.5% CAGR 10Y) while global IT services have grown at a premium of ~150bps compared to US GDP growth (2% CAGR 10Y). For the IT sector, the relative growth performance is a stronger determinant of overall performance as compared to the industry/GDP driver. Deal wins worth USD 170bn by large providers in the trailing twelve months provide revenue visibility.

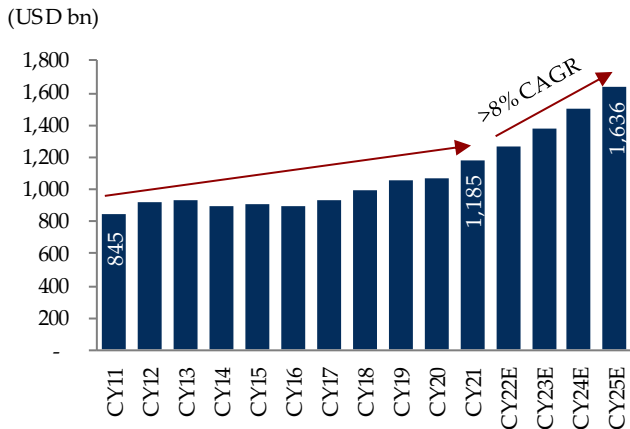
We have done some top-down sensitivity (Exhibit: 13) to assess growth scenarios based on market share in incremental growth and growth rate for global IT services. We also assess market share trends vs. global peers and look at growth and growth premium correlation to macros. Key pointers: (1) double-digit CAGR over five years is a high probability for Indian IT and +/-1% growth change in global IT services leads to +/-1.7% change in five-year CAGR; (2) growth is a bigger function of market share gains as compared to industry growth; and (3) there's a high correlation of growth and mid-tier growth premium with US GDP and US S&P500 growth.

The core value proposition of reducing the total cost of ownership and improving time to market becomes even more prominent in the current macro as enterprises need to route digital spend to optimise. Some drivers for tech spending include (1) an inflationary environment improving the value proposition of third-party service providers (Exhibit: 27); (2) a supply/talent constrained market (the highest-ever gap between job openings and unemployment) driving demand for process automation with peak levels of tech job openings (CompTIA data); (3) industry-specific growth acceleration (travel & hospitality, energy & utilities) supporting tech budgets; (4) increased outsourcing deals from Europe (as per Everest data, ~25% increase in outsourcing deal volume from Europe ex-UK in the past two years as compared to 18% increase from North America); and (5) increase in travel may release some pent-up demand (including in-person events of Mobile World Congress, IoT World, Cisco Live, AWS re:Invent and many more in H2CY22).

In fact, the upside risk to FY23E growth can come from (1) lower down-spiral pricing impact in legacy services; (2) pull-forward of demand in anticipation of recessionary scenario in CY23; (3) increase in onsite with a resumption in travel; and (4) strong bookings of short cycle deals in FY22.

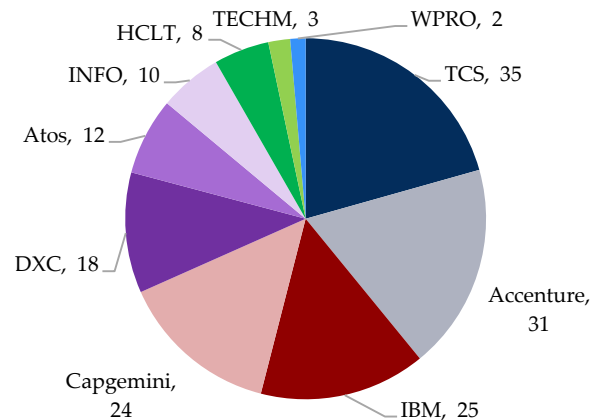
Indian IT's growth has been driven more by market share gains as compared to industry growth and its competitive advantage has been reflected in the market share displacement. As a subset of USD 1.1tn global IT services, we relook at growth trends of TWITH (TCS, INFO, WPRO, HCLT, TECHM) in comparison with global-10 (G10) IT services that include an aggregate of Accenture, IBM services (adj. for Kyndryl), Cognizant, Capgemini, Atos, DXC Tech, Fujitsu, CGI, and Computacenter. G10 revenue pool expanded from USD 214bn a decade ago to USD 235bn, posting ~1% CAGR. In comparison, TWITH expanded from USD 30bn to USD 70bn in the past 10 years at an 8.9% CAGR. **The accelerated digitisation by enterprise (catalysed by COVID) has amplified the industry growth into a multi-year tech upcycle—a double-digit growth trajectory is here to stay.**

Exhibit 9: Global IT services accelerating



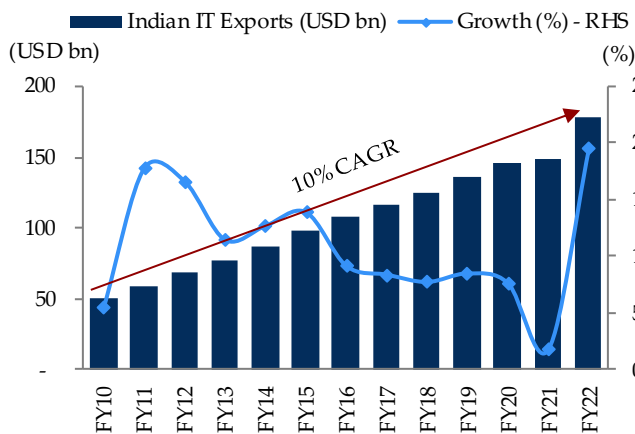
Source: Gartner, HSIE Research

Exhibit 10: Growth visibility from USD 170bn TCV (total contract value) of trailing twelve months deals



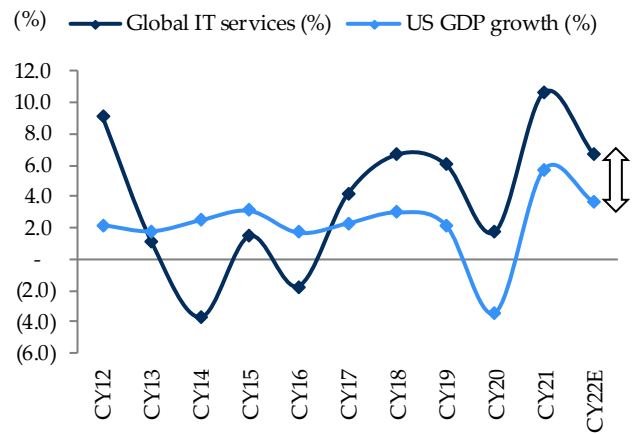
Source: Company, HSIE Research; Note: INFO TCV implies only large deal bookings (USD 50mn+ TCV), HCLT/WPRO/TECHM implies only net-new deals, Accenture implies only outsourcing deals, IBM includes one quarter of GTS bookings

Exhibit 11: 10% CAGR in Indian IT Exports over the past decade



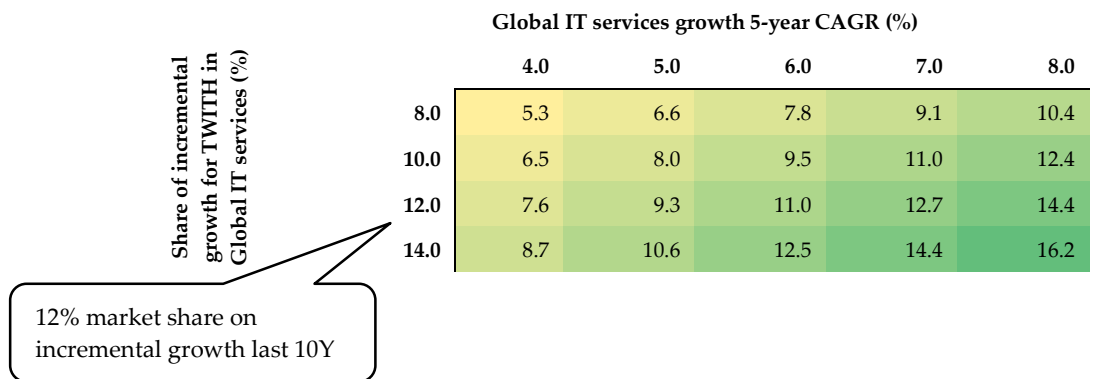
Source: NASSCOM, HSIE Research

Exhibit 12: Global IT services growth premium to US GDP



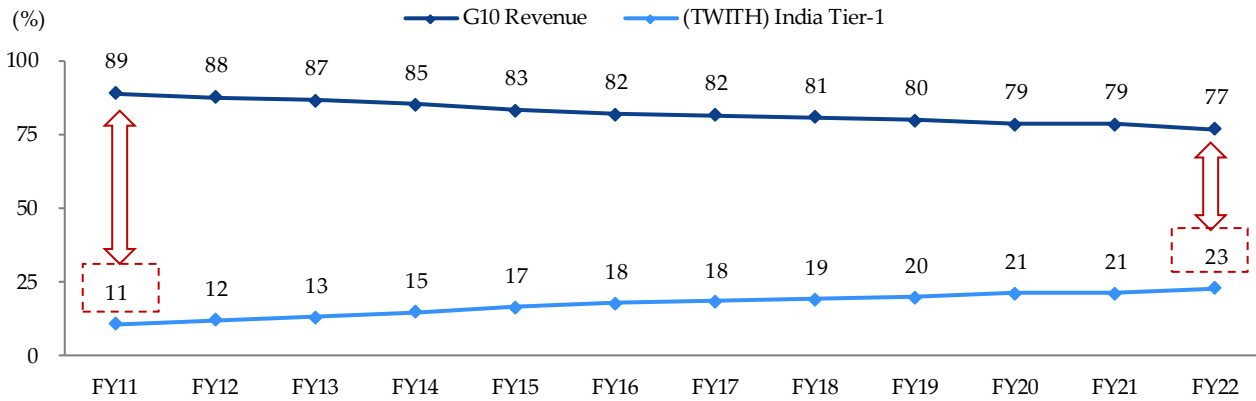
Source: IMF, Gartner, HSIE Research

Exhibit 13: Double digit growth a high probability: 5-year growth CAGR sensitivity to Global IT services growth & market-share



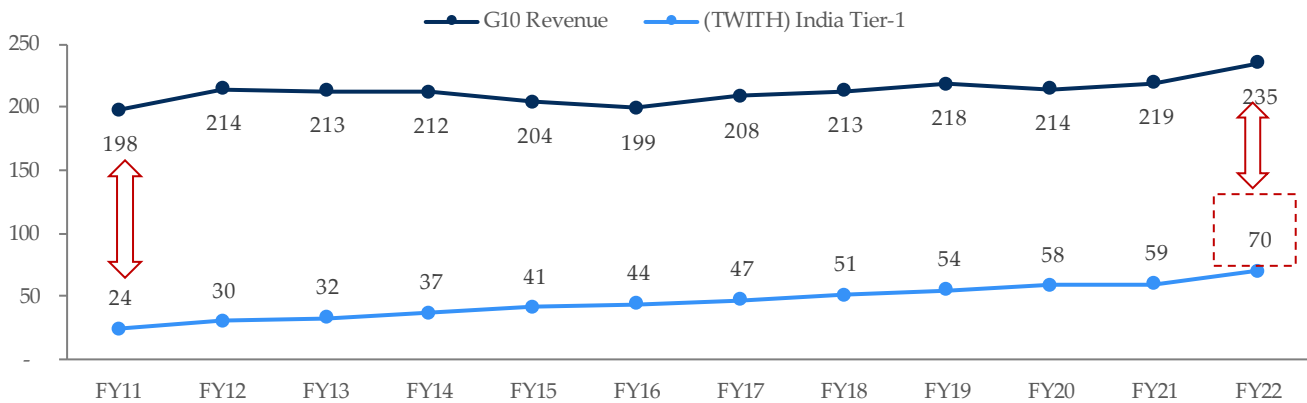
Source: HSIE Research

Exhibit 14: Consistent gain in market-share vs. global peers (%)



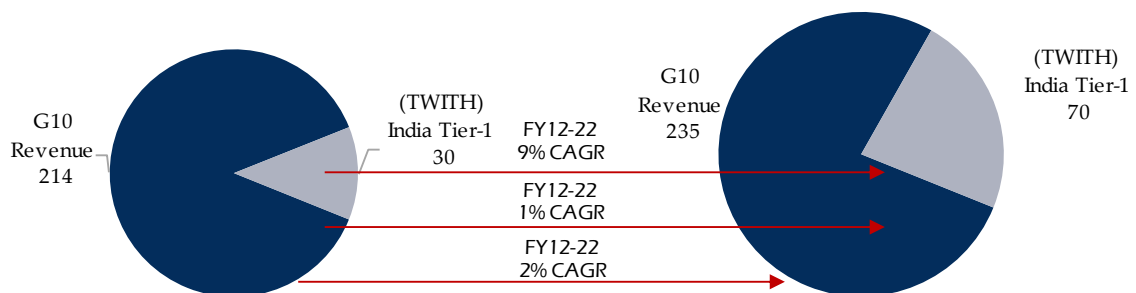
Source: Company, HSIE Research; TWITH implies aggregate of TCS, Infosys, Wipro, HCLT, TECHM and G10 implies aggregate of Accenture, IBM (GBS+GTS) & Kyndryl for FY22, DXC, Cognizant, Capgemini, Atos, NTT, Fujitsu, CGI, Computacenter

Exhibit 15: Revenue market-share trend (USD bn)



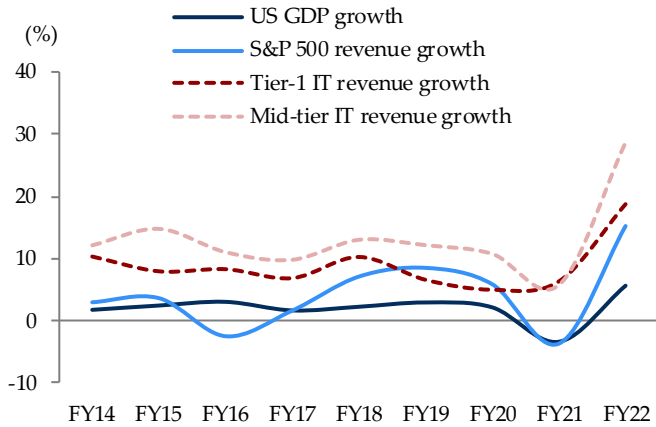
Source: Company, HSIE Research; TWITH implies aggregate of TCS, Infosys, Wipro, HCLT, TECHM and G10 implies aggregate of Accenture, IBM (GBS+GTS) & Kyndryl for FY22, DXC, Cognizant, Capgemini, Atos, NTT, Fujitsu, CGI, Computacenter

Exhibit 16: Growth driven more by market-share gains as compared to industry growth – change in revenue pool from FY12 to FY22 (USD bn)



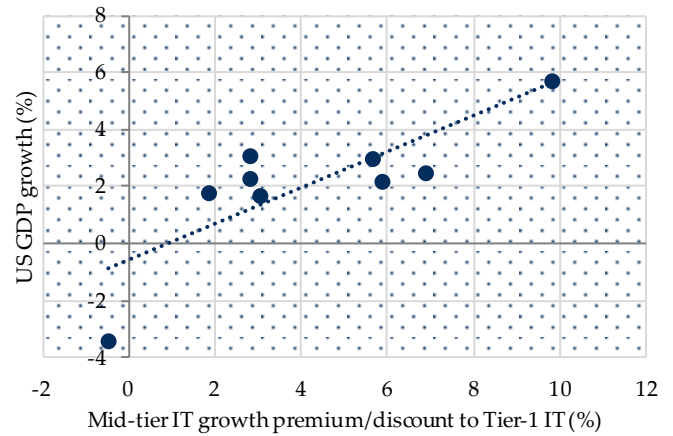
Source: Company, HSIE Research; TWITH implies aggregate of TCS, Infosys, Wipro, HCLT, TECHM and G10 implies aggregate of Accenture, IBM (GBS+GTS) & Kyndryl for FY22, DXC, Cognizant, Capgemini, Atos, NTT, Fujitsu, CGI, Computacenter

Exhibit 17: High correlation of US GDP and S&P500 to IT sector growth



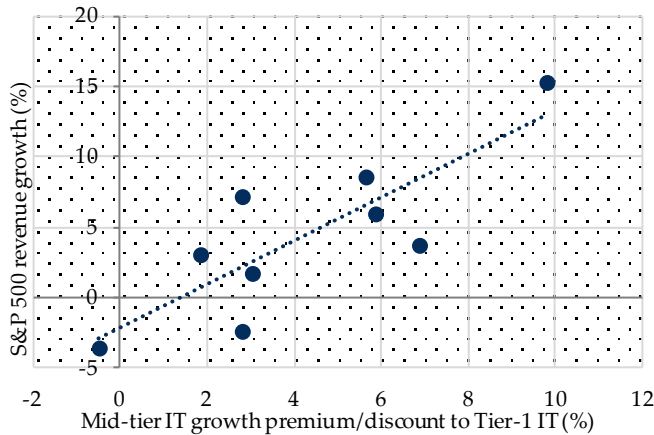
Source: Company, Bloomberg, HSIE Research Note: Tier-1 IT is aggregate of Accenture, Cognizant, TCS, Infosys, Wipro, HCL Tech and Mid-tier IT is aggregate of Tech Mahindra, LTI, Mindtree, Mphasis, Persistent, Coforge, EPAM, Globant

Exhibit 18: High correlation of mid-tier IT growth premium/discount (to Tier-1) to US GDP growth



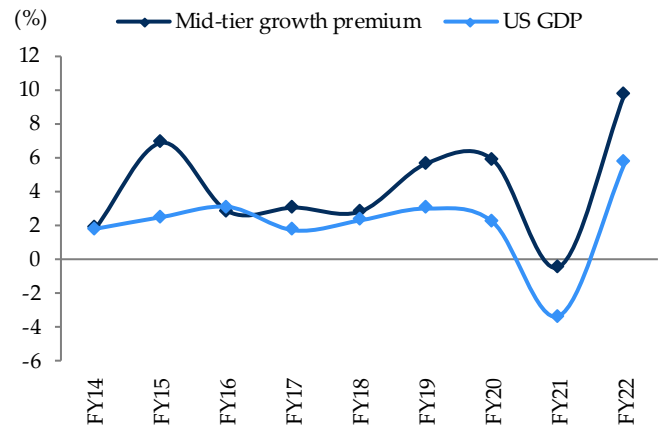
Source: Company, Bloomberg, HSIE Research

Exhibit 19: High correlation of mid-tier IT growth premium/discount (to Tier-1) to S&P 500 revenue growth



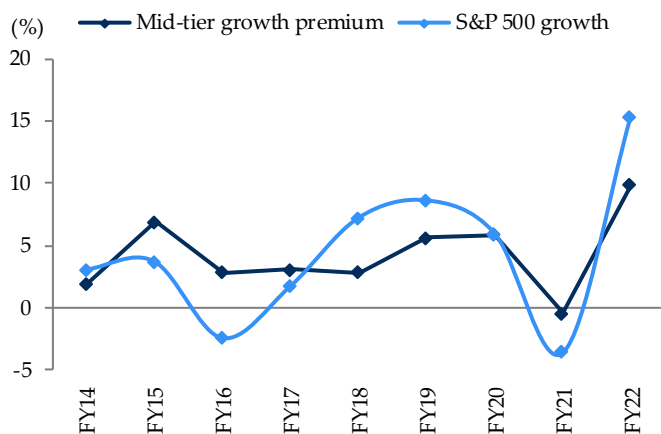
Source: Company, Bloomberg, HSIE Research

Exhibit 20: Trend of mid-tier IT revenue growth premium/discount (to Tier-1 IT) vs. US GDP growth



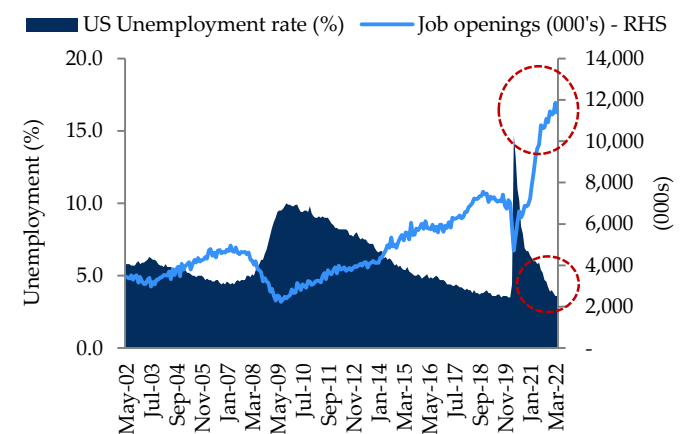
Source: Company, Bloomberg, HSIE Research

Exhibit 21: Trend of Mid-tier IT revenue growth premium/discount (to Tier-1 IT) vs. S&P 500 revenue growth



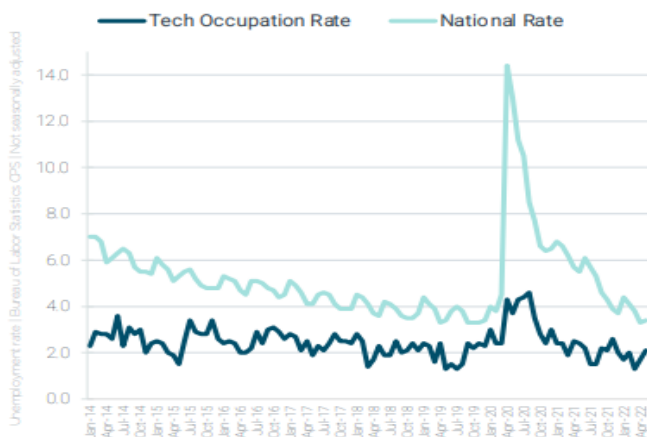
Source: Company, Bloomberg, HSIE Research

Exhibit 22: High gap between - record low unemployment & record high job openings



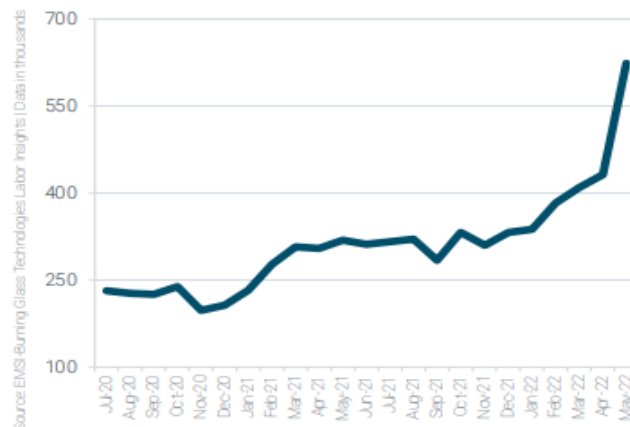
Source: FRED, HSIE Research

Exhibit 23: Tech unemployment rate even lower



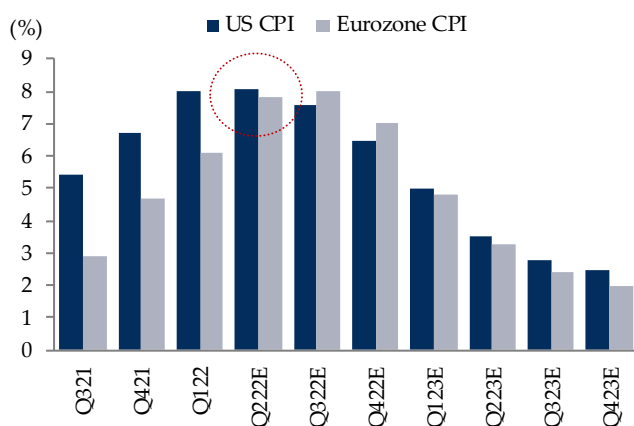
Source: CompTIA

Exhibit 24: Tech job postings trending higher



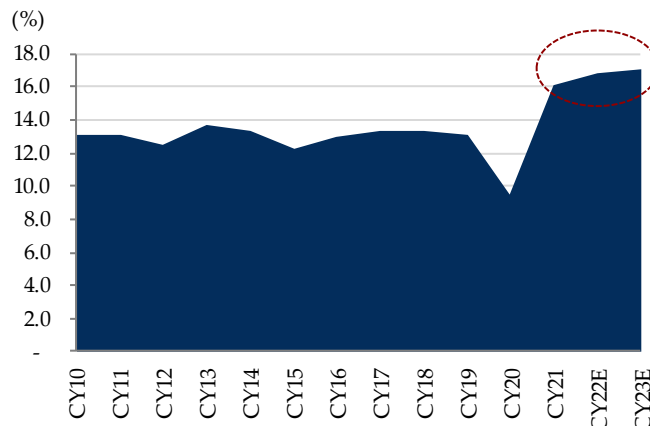
Source: CompTIA

Exhibit 25: Inflationary environment in US & Eurozone maybe peaking



Source: Bloomberg

Exhibit 26: US S&P 500 operating margin not reflecting the inflationary impact of cost



Source: Bloomberg

Exhibit 27: Cost optimisation a key driver of tech spend across industries

BFSI	<ul style="list-style-type: none"> Technology: Cloud adoption, cyber security, IT estate rationalization, core platform simplification, agile and DevOps adoption. Regulatory: New credit risk and operational risk mandates, controls management, consent order management and strategic framework for risk and finance management. Customer journey transformation, ecosystem strategies for new products and services, fintech adoption.
Communication, Media and Technology	<ul style="list-style-type: none"> Operating model resilience, COST OPTIMISATION 5G and fiber rollout, network virtualization. Data and analytics, cloud enablement, product and platform engineering. M&A, divestitures, business simplification.
Retail and Consumer Business	<ul style="list-style-type: none"> Employee experience, automation, application and data modernization, cloud migration, COST OPTIMISATION. Supply chain transformation for speed and visibility. Seamless and Unified Customer experience across channels, hyper personalization, last-mile delivery, marketplace, payments.
Manufacturing	<ul style="list-style-type: none"> IT infrastructure modernization, cloud enablement, cybersecurity. Plant safety, remote asset management, energy efficiency and decarbonisation. Supply chain resilience, process resilience. Utilities invested in connected ecosystems, smart grids and front-end digital investments to enhance customer experience.

Source: TCS, HSIE Research

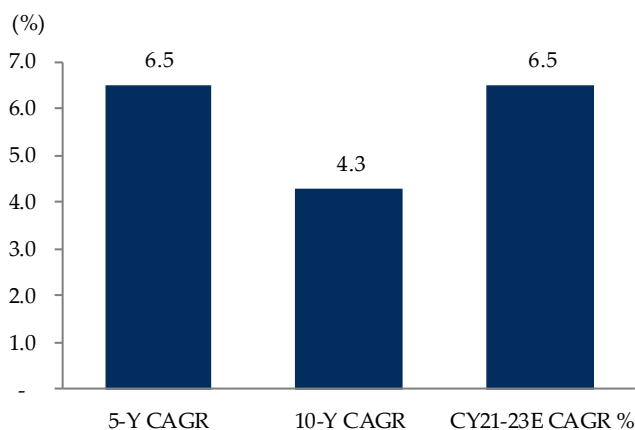
Enterprise trends–growth vectors

Strong technology spending trends and enterprise growth trends in E&U, travel & hospitality, BFSI; limited impact on growth due to vertical-specific slowdown

In this section, we look at the enterprise buyer segment, growth trends and tech spend priority across industries. The key pointers that emerge: (1) US S&P 500's revenue growth trajectory still ahead of historical growth (6.5% CAGR ahead as compared to 4.3% CAGR over last ten years); (2) Q3 and Q4 growth moderating over the CY21 high growth base and growth dispersion between industries moderating to pre-COVID dispersion; (3) E&U vertical and travel & hospitality vertical accelerating vs. historical trends while retail & CPG vertical is expected to decelerate; (4) E&U accelerating tech spend to drive efficiency, streamline operations and increase automation (Chevron, Exxon, Halliburton – key vendors LTI, LTTS) and deal activity has also increased (Infosys-BP); (5) tech spend commentary of large BFSI remains strong with tech spend growing well ahead of overall growth, for instance: (i) Citigroup (TCS, LTI key vendors) tech spend up 12% YoY, (ii) Goldman Sachs (Infosys key vendor) spend up 13% YoY, (iii) Bank of America (TCS key vendor) increasing new tech budget to USD 3.6bn for the year; and (6) limited impact on IT sector growth due to vertical specific fluctuations (e.g. if BFSI enterprise growth slows down from 7.5% to 0%, IT sector growth moderates from 11.2% to 8.9%).

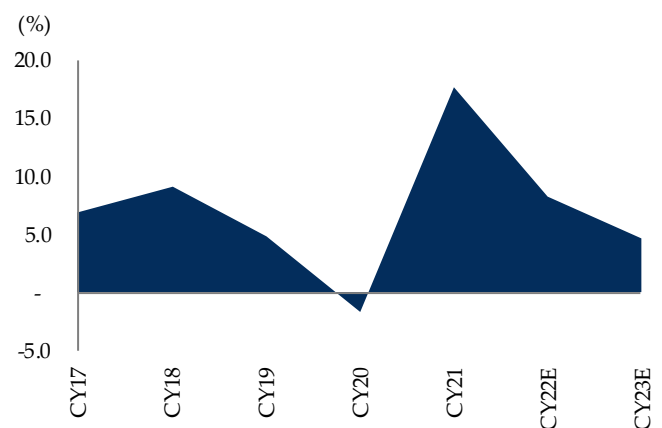
No major aberration was seen even in the recent March quarter as revenue performance was slightly ahead of expectations across S&P 500 industry segments–revenue outperformance narrowed to ~1.2% as compared to revenue outperformance range of 2.0% to 3.5% in the prior four quarters. With increasing macro pressure, enterprise clients can respond by increasing investments in digitisation in part to reduce the cost of operations. An increase in tech budgets in 2023 will be driven by modernising the application portfolio by enterprises. Industry checks suggest that BFSI, tech and communication will have the majority of the deals ahead.

Exhibit 28: Growth 'still' expected ahead of long-term average: S&P500 revenue growth trajectory



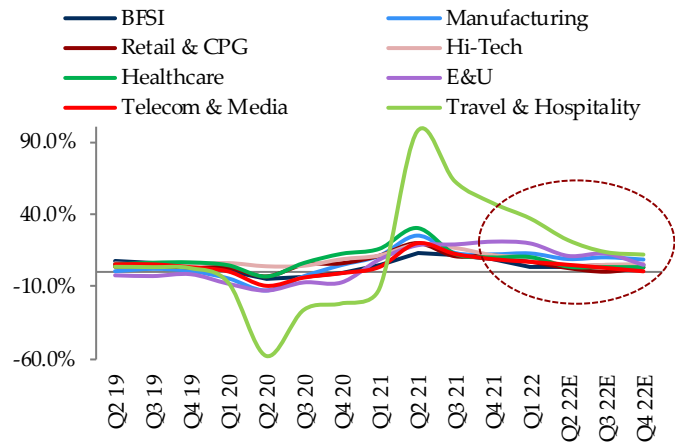
Source: Bloomberg, HSIE Research

Exhibit 29: Enterprise revenue growth trend - S&P500



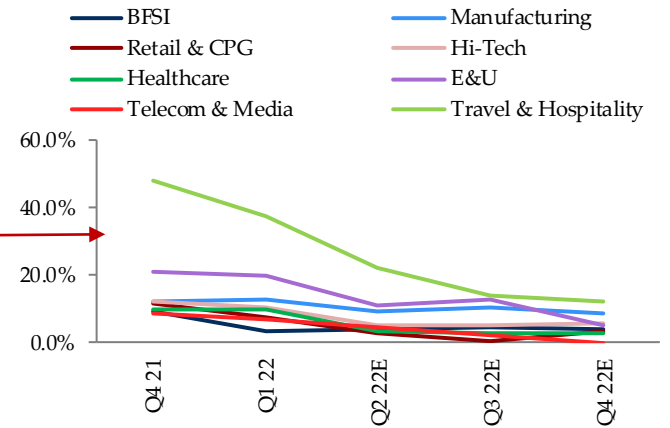
Source: Bloomberg, HSIE Research

Exhibit 30: Enterprise revenue growth rate moderating & growth dispersion reducing (US S&P500 YoY %)



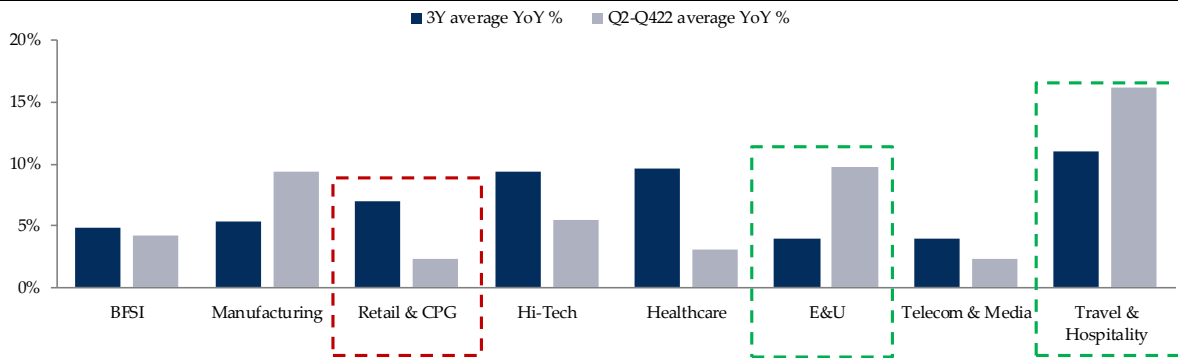
Source: Bloomberg, HSIE Research

Exhibit 31: Yet, above sea level (US S&P500 YoY %)



Source: Bloomberg, HSIE Research

Exhibit 32: Near term enterprise revenue growth trends by verticals - E&U and Travel accelerating while Retail & CPG moderating (US S&P500 YoY %)



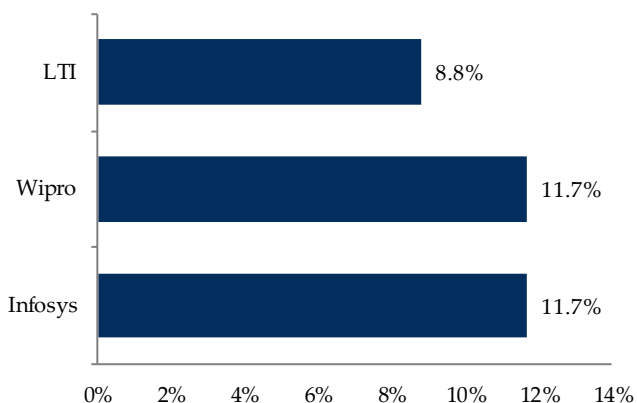
Source: Bloomberg, HSIE Research

Exhibit 33: Quarterly revenue growth trend by industries (YoY %)

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22E	Q3 22E	Q4 22E	Q1 23E
BFSI	8.0%	6.7%	6.7%	1.2%	-4.3%	-3.1%	-0.5%	5.1%	13.6%	12.1%	9.4%	3.4%	3.7%	4.6%	4.1%	7.0%
Manufacturing	0.6%	2.2%	0.7%	-4.5%	-12.9%	-3.0%	4.9%	11.3%	25.5%	13.4%	12.4%	13.0%	9.1%	10.3%	8.7%	5.2%
Retail & CPG	3.9%	4.3%	3.5%	3.3%	-2.5%	5.3%	6.2%	11.2%	19.6%	10.9%	11.4%	7.3%	3.0%	0.6%	3.4%	2.9%
Hi-Tech	6.3%	5.3%	5.6%	6.6%	4.3%	4.7%	9.2%	11.8%	19.7%	17.2%	12.2%	10.2%	5.1%	5.3%	5.9%	6.2%
Healthcare	4.9%	6.1%	6.3%	4.3%	-3.7%	5.9%	12.4%	16.0%	30.8%	12.4%	9.9%	10.1%	3.4%	3.0%	3.0%	3.0%
E&U	-2.1%	-2.7%	-1.4%	-8.0%	-12.7%	-7.1%	-7.1%	8.7%	18.6%	19.3%	21.2%	20.0%	11.3%	12.9%	5.1%	1.5%
Telecom & Media	5.0%	5.0%	2.9%	-0.1%	-10.3%	-4.5%	-1.3%	3.0%	19.9%	12.4%	8.7%	6.7%	4.6%	2.4%	0.0%	2.2%
Travel & Hospitality	3.9%	3.7%	2.9%	-7.1%	-57.7%	-25.9%	-21.4%	-11.4%	97.3%	63.0%	48.0%	37.3%	22.3%	14.1%	12.3%	8.3%
Aggregate	4.0%	4.5%	3.2%	1.1%	-5.1%	0.7%	4.5%	9.1%	21.4%	13.8%	12.2%	10.3%	5.4%	6.4%	5.5%	4.7%

Source: Bloomberg, HSIE Research. Note: Median growth by industries constituting US S&P500, Q2 22E implies Q2CY22

Exhibit 34: Energy & Utility as % of revenue



Source: Company, HSIE Research; Note: Infosys- Energy, Utilities, Resources & Services; Wipro - Energy, Natural Resources and Utilities; LTI - Energy & Utilities

Exhibit 35: Vendor ratings in upstream Oil & Gas services



Source: IDC

Exhibit 36: Recent commentary by E&U enterprises

Exxon Mobil	<p>“One of the ways we are strengthening our competitiveness is by streamlining our organizational model to better capture the benefits of technology, scale, and integration.”</p> <p>“If you look at the work we’ve been doing with our organization, the changes that we’ve made in the structure, consolidation of capabilities across the corporation, one of the changes we announced on April 1st was a technology organization that combined the technical skills and capabilities and the engineering capabilities across the corporation.”</p>
BP	<p>“In support of our leading convenience offers, we signed a global convenience partnership with Uber, aiming to make more than 3,000 retail locations available on Uber Eats by 2025. Additionally, to bring a more seamless store experience to our customers, we announced the pilot of Mashgin’s checkout-free technology at our US convenience sites.”</p>
Chevron	<p>“We’ve all used technology and other things to improve the efficiency of our operations.”</p>
Schlumberger	<p>“The industry is responding to this high commodity price environment with accelerated short-cycle investment in North America, led by the private producers, and a gradual increase in investment by the public operators, albeit tempered by capital discipline and bottlenecks in capacity and supply chain. Internationally, short-cycle investment are set to accelerate with the seasonal rebound in the second quarter and more strongly in the second half of the year, led by the Middle East and the key international offshore basin.”</p>
Halliburton	<p>“Halliburton’s execution of our technology roadmap has completely transformed our competitiveness in drilling and evaluation. We enter this upcycle with the best product portfolio in our history, and we see increased customer demand for our high-end technology and a recognition of its value.”</p> <p>“I described digitalization as one of the defining trends in our industry for this decade. Today, digital innovations permeate all segments of the oilfield services market. At Halliburton, <u>our strategy to drive digital and automation creates technological differentiation, contributes to higher international margins, and drives internal efficiencies and cost savings.</u>”</p> <p>“Third (strategic priority), we accelerate the deployment and integration of automation and digital technologies.”</p>
Baker Hughes	<p>“In Industrial Asset Management, we signed an important agreement with Accenture, C3 AI and Microsoft to collaborate on the build-out of the IAM solutions offering. The partnership will focus on creating and deploying Baker Hughes IAM solutions that use digital technologies to help improve the safety, efficiency, and emissions profile of industrial machines, field equipment, and other physical assets.”</p>

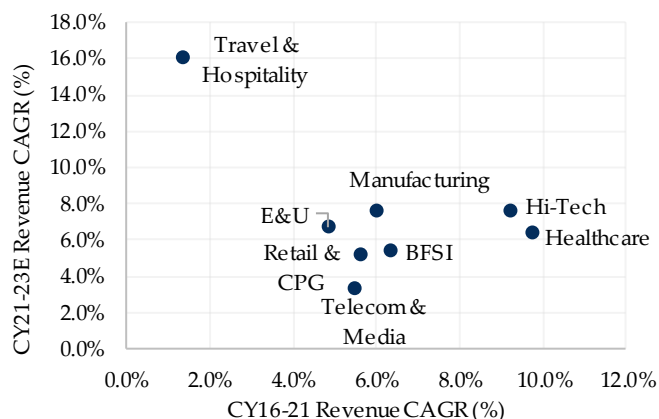
Source: Bloomberg, HSIE Research

Exhibit 37: Recent deals in E&U

TCS	Western Power	Network operations, asset operations
Infosys	E.ON	Digital workplace transformation
	BP Group	Energy as a service solution, decarbonisation
	Ausgrid	Cloud transformation
HCLT	Canadian E&U company	Digital & cyber security
	French energy company	Cloud services
Wipro	National Grid	Hybrid cloud
	Aggreko	Finance & procurement
LTI	North Americal Utility company	Core application management
	G500 Energy company	Cloud and data services

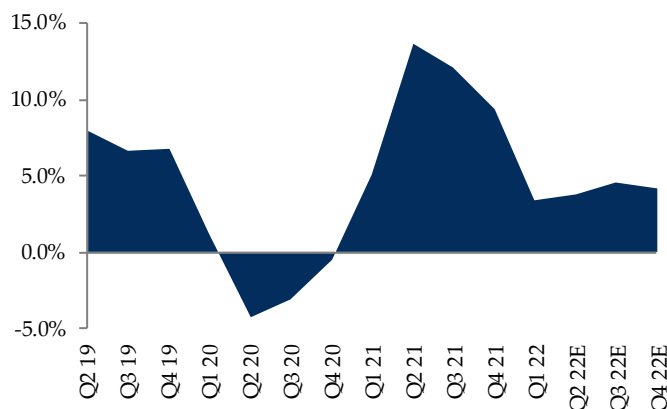
Source: Company, HSIE Research

Exhibit 38: Growth trend by industries: US S&P 500



Source: Bloomberg, HSIE Research. Note: median revenue growth across industries in US S&P500

Exhibit 39: BFSI enterprise revenue growth trend (YoY %)



Source: Bloomberg, HSIE Research. Note: median revenue growth in BFSI enterprise in US S&P500

Exhibit 40: Recent commentary on tech spend by BFSI enterprises

JPMorgan Chase	<p>"We have spent \$2.2 billion building new, cloud-based data centers. Our total expensed cost of data centers is higher than in previous years."</p> <p>"Thousands of applications (and their related databases) are being replatformed and refactored to run in the private and public cloud environment."</p> <p>"Sometimes people refer to some of these expenses as modernizing or adopting new technologies. I prefer not to talk about it that way because, effectively, we have been modernizing my entire life. Also, the term implies that once you get to a modern platform, these expenses should dramatically decrease – which is rarely the case. In fact, when we analyze these expenses, we incorporate not only the cost to build the product or service but also the cost to maintain it going forward. Furthermore, once you have built the new platforms, they generally create a whole new set of investment opportunities to be analyzed. Technology always drives change, but now the waves of technological innovation come in faster and faster."</p> <p>"In today's world, I cannot overemphasize the importance of implementing new technology."</p>
Citigroup	<p>"Added ~6.3k employees in Technology with spend up 12% YoY."</p> <p>"Across all of these buckets, we continue to invest in technology, which is up 12% for the quarter."</p>
Bank of America	<p>"We modestly increased our full year new tech initiative budget for the year to 3.6 billion."</p>
Wells Fargo	<p>"We continue to invest to improve our digital capabilities with additional enhancements planned for this year."</p> <p>"Customers have continued to migrate to digital channels and correspondingly teller transactions are down 45% from pre-pandemic levels."</p>
Goldman Sachs	<p>"Communication & Technology spend USD 424mn in March-qtr, +13% YoY"</p> <p>"Each of those investments, whether it's technology to build platforms that captures portfolio trading credit, or development of enhanced technology to automate and streamline the overall straight-through processing, all of that is subject to an ROI framework with an eye toward improving the overall client and user experience that's there."</p> <p>"We're riveted and focused on doing that so as to eliminate legacy technology, build in the cloud. And I think some of the newer businesses that we're involved in, transaction banking consumer, benefit from the absence of legacy, so that we can build new and efficiently and in the right form."</p>

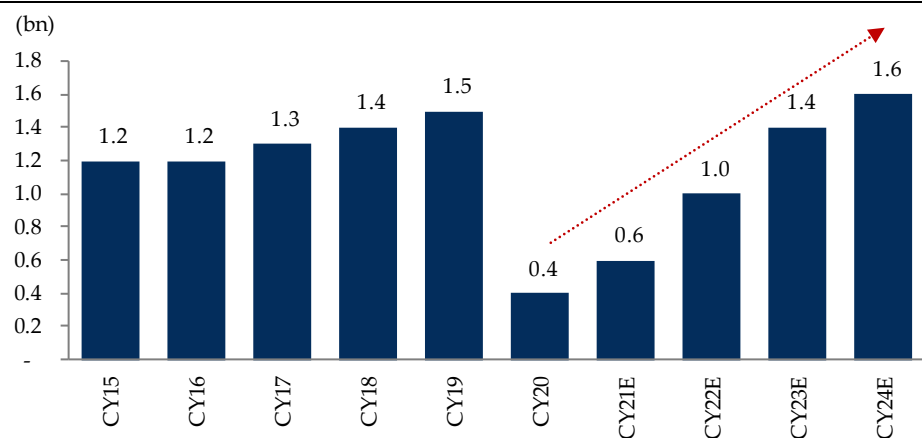
Source: Bloomberg, HSIE Research

Exhibit 41: Travel & Hospitality seeing uptick

Marriot	<p>"In the first quarter, we talked a little bit about our luxury portfolio with rate increases of nearly 30 percent. And so we're just not seeing it. Why? I think a few reasons. You touched on the first one, which is <u>there continues to be deep pockets of pent-up demand</u>. Unlike previous economic cycles and economic downturns, here, you have this added dimension, which was folks were locked down for 12 to 24 months. And on both a personal and a professional basis, they've got a lot of catching up to do."</p> <p>"The first quarter also marked our best quarter ever for direct digital bookings, which helped drive owner and franchisee profitability. Digital bookings were up 14 percent compared to the first quarter of 2019, partially driven by meaningfully higher downloads of our redesigned Bonvoy app, which were 70 percent above pre-pandemic levels."</p>
American Airlines	<p>"And while leisure demand remains very strong, as more companies return to their offices, business demand is growing quickly."</p> <p>"As for full year 2022 capacity, we now expect to be recovered to 92% to 94% of 2019 levels System business revenues were about 80% recovered versus 2019. As we look at Q2, we anticipate that number will be about 90% recovered versus 2019. The gap between 90 and 100 is really largely due to long-haul international demand and certain pockets of domestic demand, but we are continuing to see demand come in."</p>
Southwest Airlines	<p>"Total operating revenues were 91% restored to 2019 levels despite Q1 managed business revenues being only 45% restored."</p> <p>"We are very encouraged with the bookings and revenue trends we are experiencing for Q2, which indicate operating revenues will be fully restored to quarterly record levels on stronger leisure and business demand."</p>
Hilton	<p>"For the full year, we expect leisure RevPAR to exceed 2019 peak levels, given excess consumer savings, a strong job market and pent-up demand. We expect business transient to be roughly back to 2019 levels by year-end, with expectations supported by rising corporate profits, rebounding demand from big businesses, and loosening travel restrictions."</p>

Source: Bloomberg, HSIE Research

Exhibit 42: Acceleration in global travel post covid - world arrivals business & leisure



Source: TUI

Exhibit 43: S&P500 quarterly performance vs. estimates (revenue) trend (Var %)

	Q3CY19	Q4CY19	Q1CY20	Q2CY20	Q3CY20	Q4CY20	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22
BFSI	1.1%	0.3%	0.4%	2.1%	2.1%	2.0%	2.9%	3.3%	2.3%	0.8%	0.9%
Manufacturing	-0.7%	0.8%	-0.1%	3.4%	2.1%	3.2%	3.1%	2.9%	-1.1%	0.2%	1.2%
Retail & CPG	0.2%	0.7%	1.0%	1.7%	1.7%	1.2%	2.7%	4.2%	3.0%	2.6%	3.3%
Hi-Tech	0.7%	1.0%	1.7%	2.1%	2.9%	3.2%	4.0%	4.2%	1.7%	2.1%	1.6%
Healthcare	1.3%	1.3%	3.2%	3.6%	3.0%	2.4%	1.4%	3.6%	4.0%	2.2%	2.1%
Energy & Utilities	-2.7%	-1.3%	-1.3%	-10.4%	-2.9%	0.2%	3.1%	3.4%	5.1%	9.5%	1.2%
Telecom & Media	-0.5%	0.3%	-0.2%	0.8%	2.3%	1.4%	2.1%	3.0%	1.3%	1.3%	0.0%
Travel & Hospitality	-0.3%	-0.2%	1.6%	0.5%	1.0%	0.6%	0.3%	1.8%	3.0%	2.3%	1.3%
MEDIAN	-0.1%	0.5%	0.7%	1.9%	2.1%	1.7%	2.8%	3.4%	2.6%	2.1%	1.2%

Source: Bloomberg

Exhibit 44: Limited impact on sector growth due to vertical specific fluctuations - sensitivity of enterprise growth on IT sector growth

	Enterprise growth		IT sector growth		Enterprise growth		IT sector growth	
BFSI	0.0%	8.9%	Healthcare	0.0%	10.1%			
(30% of revenue)	2.5%	9.7%	(10% of revenue)	2.5%	10.3%			
	5.0%	10.4%		5.0%	10.6%			
	7.5%	11.2%		7.5%	10.8%			
Hi-Tech	0.0%	9.0%	E&U	0.0%	10.2%			
(20% of revenue)	2.5%	9.5%	(5% of revenue)	2.5%	10.3%			
	5.0%	10.0%		5.0%	10.4%			
	7.5%	10.5%		7.5%	10.6%			
Retail & CPG	0.0%	9.8%	Travel & Hospitality	0.0%	9.7%			
(15% of revenue)	2.5%	10.1%	(5% of revenue)	2.5%	9.9%			
	5.0%	10.5%		5.0%	10.0%			
	7.5%	10.9%		7.5%	10.1%			
Manufacturing	0.0%	9.8%						
(10% of revenue)	2.5%	10.0%						
	5.0%	10.3%						
	7.5%	10.5%						

Source: Bloomberg, HSIE Research; Note: assumptions include constant growth premium of 400bps (historic avg) across industries and factors consensus revenue growth estimates by industries

Cloud partnerships – the second order impact

Cloud partnerships becoming critical determinants of deals and growth and several mid-tiers have disproportionately high credentials

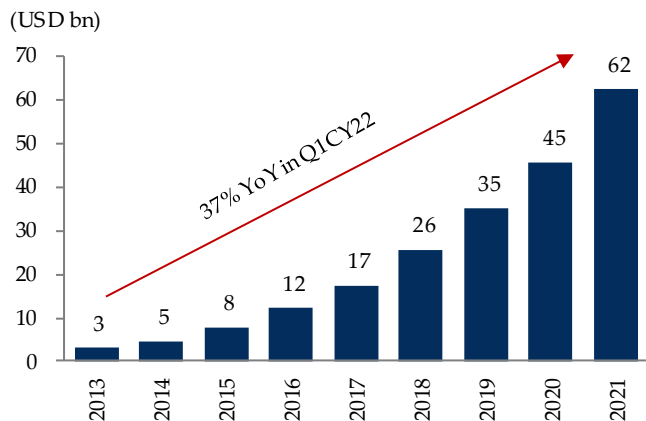
Tech value migration towards large cloud providers is underway, with T6 cloud providers or aggregate of AWS, Microsoft cloud, Salesforce, GCP, ServiceNow and Adobe (5% of global tech of USD 200bn revenue pool) contributing nearly 20% to incremental growth of global tech. As large cloud providers get this disproportionate share of tech spends, it's likely to support the growth curve for the SIs. Hyperscalers and large cloud platforms have also become the big influencers and drive the service provider ecosystem – industry estimates point to 20-25% of revenue influenced by partner ecosystem, which is expected to increase to 50-55% of revenue by 2026. As partnerships with cloud providers have started supporting pipeline generation, most large SIs have started building dedicated business units and investing in the partnerships (certifications & training) in their areas of strength and their priority verticals (AWS business units set up by TCS in Feb-21, by Wipro in Nov-20, by HCLT in Nov-21).

Building capabilities on the cloud platform are becoming critical and service providers have increased their investments in building joint solutions, dedicated sales efforts and increasing certifications. Service providers have been focused on improving certification credentials. Accenture leads the AWS certification at ~25,000; in comparison, TCS is at 8,000 certifications, Infosys is at 3,000 certifications, Wipro is at 5,000 certifications and HCLT is at 2,000 AWS certifications. Based on the growth in AWS customer launches, TCS scores high in terms of growth since last year while LTI, Persistent and Mphasis score high on growth within mid-tiers.

Our checks suggest that in the capacity and capability axis, hyperscalers have become more inclusive of service provider partners, valuing more diversity (positive for mid-tier IT). Several large mid-tiers have made inroads into large tech and ER&D pool and positioned as specialist partners (Persistent, Mindtree, and Elxsi) and challengers to tier-1s (LTI, Mphasis). We believe that the value migration seen from G10 to TWITH is likely to get replicated with mid-tier over the next decade. The factors driving potency for mid-tiers include (1) accelerated shorter duration deal activity and better bandwidth by mid-tier IT in USD 10mn deals; (2) increased digitisation in the mid-market segment beyond F500 and G2000 enterprise segments; (3) evolution of software delivery with DevOps as well as software consumption models to SaaS-based.

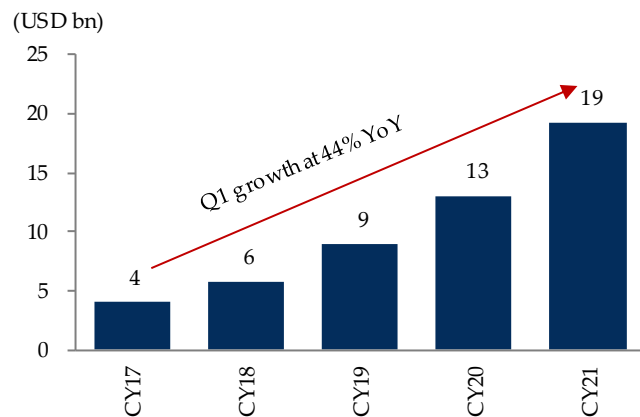
This trend is reflected in the USD 10mn+ client bucket trend and high certification/capabilities in the cloud ecosystem (also a lead indicator). Some instances that can be seen in our partnership evaluation template: (1) relative to their scale, LTI and MPHL have strong credentials in the AWS ecosystem, while Persistent and Mindtree have the same in the Salesforce ecosystem; (2) HCLT, LTI and MPHL have had the maximum increase in Salesforce certifications over the past year; (3) strong credentials of LTI in Snowflake and ServiceNow ('Elite' tiering in both and comparable to Tier-1 IT).

Exhibit 45: AWS revenue trend



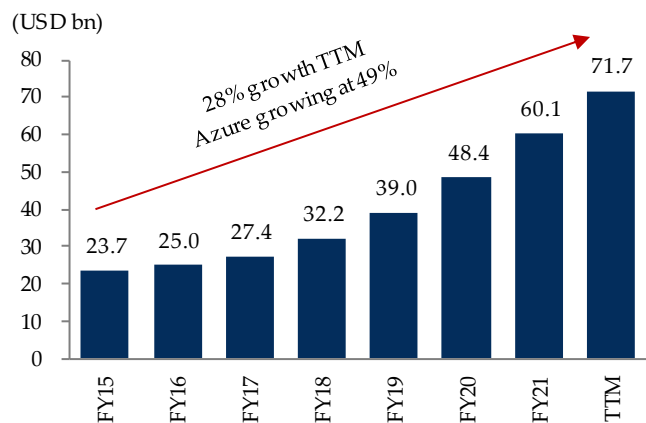
Source: Company, HSIE Research

Exhibit 46: GCP revenue trend



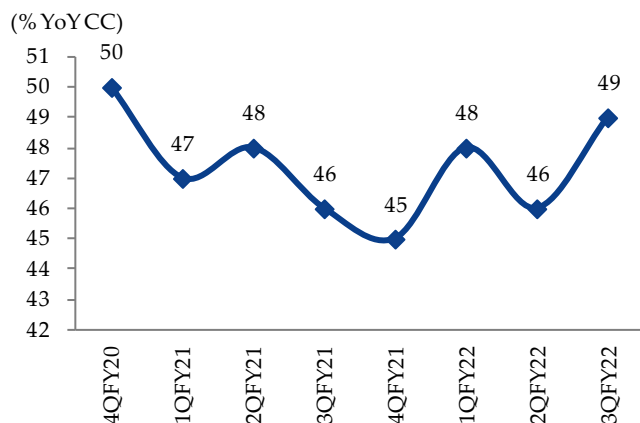
Source: Company, HSIE Research

Exhibit 47: Microsoft Intelligent Cloud revenue trend



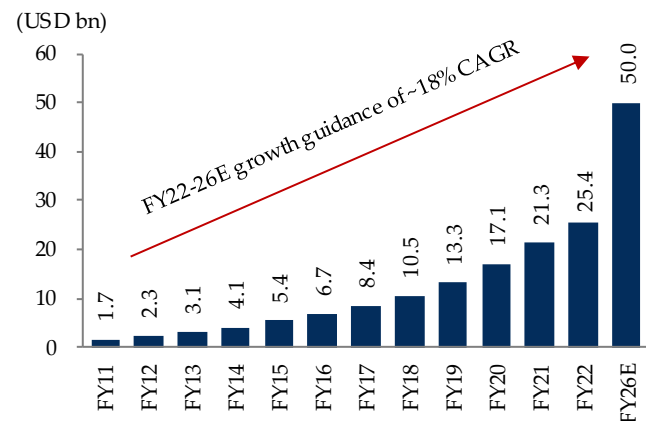
Source: Company, HSIE Research

Exhibit 48: Microsoft Azure growth trend



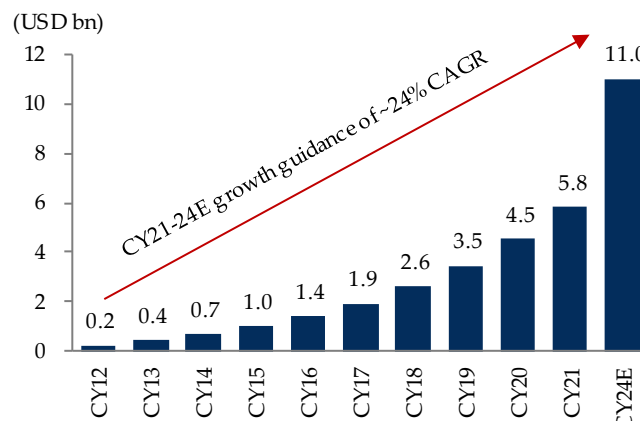
Source: Company, HSIE Research

Exhibit 49: Salesforce revenue trend



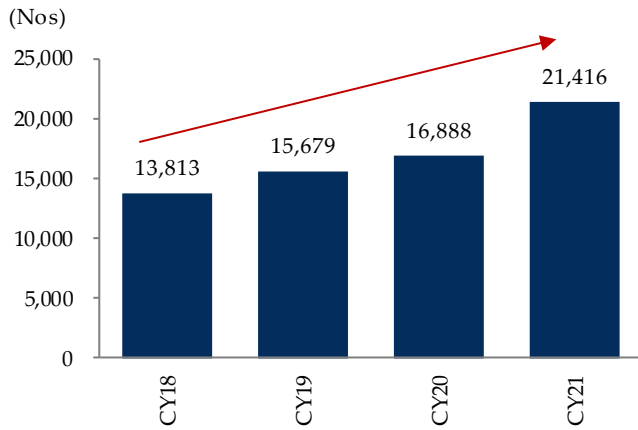
Source: Company, HSIE Research

Exhibit 50: ServiceNow revenue trend



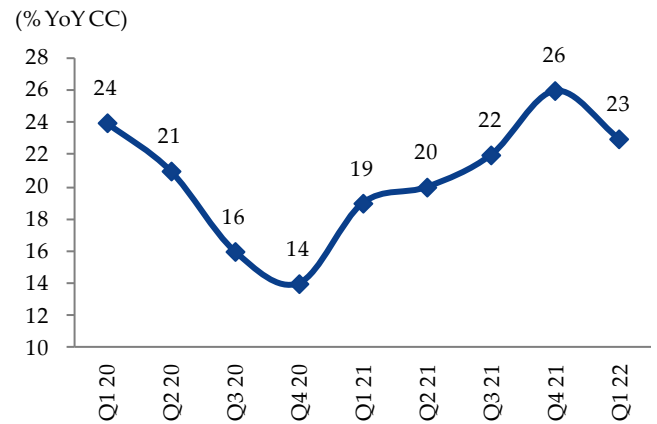
Source: Company, HSIE Research

Exhibit 51: Acceleration in SAP's cloud deals



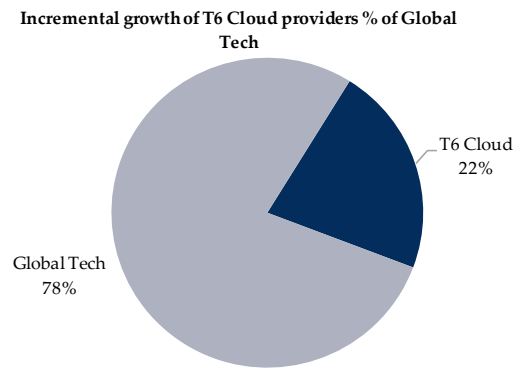
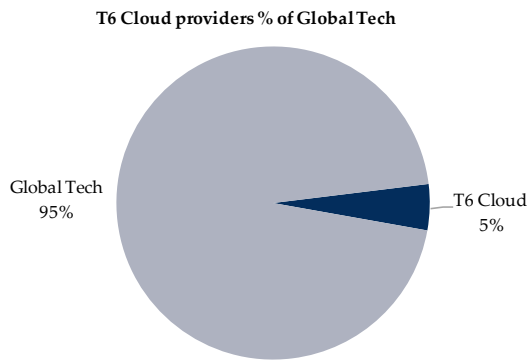
Source: Company, HSIE Research

Exhibit 52: Growth in SAP's cloud backlog



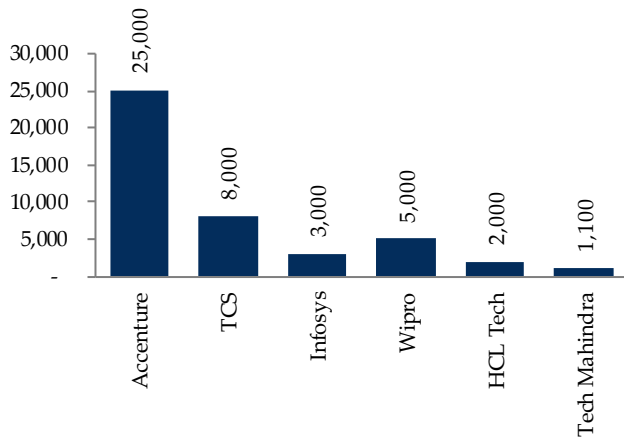
Source: Company, HSIE Research

Exhibit 53: Cloud ecosystems driving tech value migration



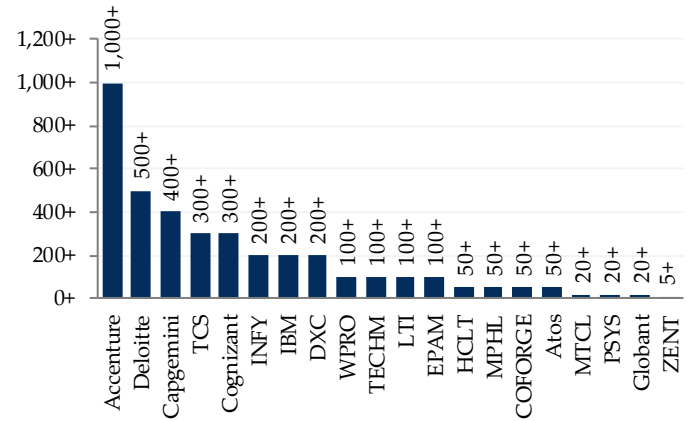
Source: Company, HSIE Research; Note: Incremental growth of 3yrs

Exhibit 54: Active AWS certifications



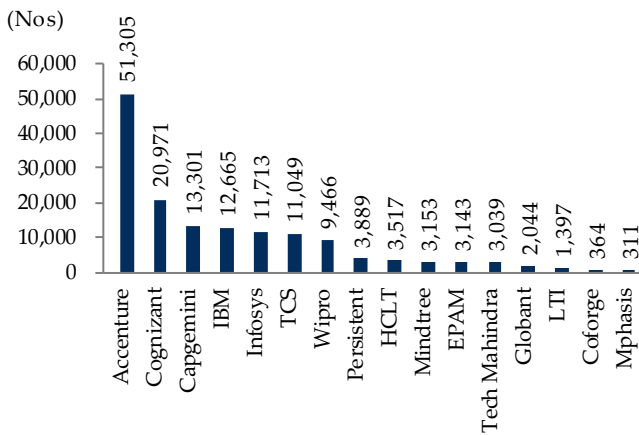
Source: Company, HSIE Research

Exhibit 55: No. of AWS customer launches indicative of scale of AWS



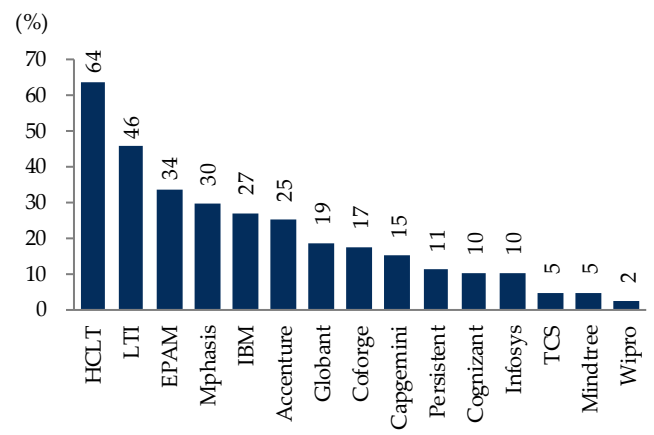
Source: Company, HSIE Research

Exhibit 56: Salesforce certifications



Source: Company, HSIE Research

Exhibit 57: Growth in Salesforce certifications



Source: Salesforce, HSIE Research Note: growth in certification since Sep 2021

Exhibit 58: Cloud ecosystems driving tech value migration

Global Elite (6)	Accenture	DXC	IBM	Deloitte	EY	KPMG
Elite (141)	Atos	Capgemini	Cognizant	HCL Tech	Infossys	LTI
	TCS	TECHM	Wipro	Mindtree		
Premier (232)	Coforge	EPAM	Genpact	Globant	Zensar	

Source: Company, HSIE Research. Note: number of partners under partner segments

Exhibit 59: Snowflake certifications

Company	Partnership	Global certifications
Accenture	Elite	290
Cognizant	Elite	251
Infossys	Elite	224
LTI	Elite	205
Deloitte	Elite	182
Wipro	Elite	158
Capgemini	Elite	155
DXC	Elite	138
TCS	Elite	116
IBM	Elite	93
HCL Tech	Elite	65
Atos	Elite	48
Mphasis (Datalytx)	Elite	17

Source: Company, HSIE Research

Mean reversion a 'favourable' outcome

In this section, we have done a stress test on earnings based on historical deviation in earnings and earnings growth & multiple divergence and convergence since GFC and estimated implied growth at current valuations across the coverage universe.

Lessons from the past in building the framework: The recent price correction has been the highest P/E de-rating since GFC with a 35% decline in multiples as compared to 40% during GFC (end 2008). The current divergence between earnings growth and P/E de-rating is at a historic high and mean reversion in prior periods points to a favourable risk-reward scenario. Now, (1) in the last nine years of the past 15 years, earnings were upgraded from the start of the year to the end; (2) in the six years that saw earnings downgrade, the average quantum was ~5%, and; (3) during GFC, earnings downgrade was ~12%, followed by a similar quantum of upgrade the following year.

Infosys most favourable within tier-1s on earnings track record: Within the tier-1 IT, Infosys has witnessed the least drawdown in EPS estimate—max drawdown of 5% for Infosys as compared to 9/11/11% for TCS/WPRO/HCLT. Infosys has seen EPS cuts in only two years of the past 15 years; in comparison, TCS has had EPS cuts in five years, Wipro in six years and HCLT in four of the last 15 years.

What's factored in the numbers? We have built IT sector (coverage universe) revenue growth at 13% and 11% for FY23/24E and a flat margin trajectory over FY22-24E, translating into 12% earnings CAGR for tier-1 and 17% earnings CAGR for mid-tier over FY22-24E. Revenue growth estimates imply 2.4% CQGR for tier-1 IT (vs. 2.2% CQGR over the past five years) and 3.8% CQGR for mid-tier IT (vs. 3.6% CQGR historically). We revise our earnings estimate to factor in the higher cross-currency impact (front-ended in FY23E) and USD-INR estimate reset to 78-79 for FY23-24E respectively. Our earnings estimates are slightly below consensus, with the exceptions of INFO, TELX and PSYS.

What's in the price? (1) IT index P/E multiples have corrected 35% from their peak of 35x in Dec-21 to 22x now. (2) Valuations are near five-year average multiples and at a 15% premium to 10-year average multiple. (3) Current valuations imply ~6.5% CAGR in USD revenue over FY22-32E for tier-1 and 12.5% CAGR in USD revenue for mid-tier IT vs. historical trajectory of 8% CAGR and 12.3% CAGR respectively. We have cut P/E multiples to factor the denominator effect of the higher cost of capital (~10% cut in multiple from 50bps increase in the cost of capital) and provided a sensitivity of WACC to implied P/E multiple (Exhibit: 60).

Exhibit 60: P/E reset on higher cost of capital

TCS	13.1%	12.1%	11.1%	10.1%	9.1%
4.0%	18x	21x	25x	30x	38x
4.5%	19x	22x	26x	32x	42x
5.0%	19x	23x	28x	35x	47x
5.5%	20x	24x	30x	39x	54x
6.0%	21x	26x	33x	44x	65x

INFO	13.4%	12.4%	11.4%	10.4%	9.4%
4.0%	17x	20x	24x	28x	35x
4.5%	18x	21x	25x	30x	39x
5.0%	19x	22x	27x	33x	43x
5.5%	20x	23x	28x	36x	49x
6.0%	21x	25x	31x	40x	58x

HCLT	14.1%	13.1%	12.1%	11.1%	10.1%
3.5%	13x	15x	17x	20x	24x
4.0%	14x	16x	18x	21x	25x
4.5%	14x	16x	19x	22x	27x
5.0%	15x	17x	20x	24x	29x
5.5%	15x	18x	21x	25x	32x

WPRO	13.4%	12.4%	11.4%	10.4%	9.4%
4.0%	13x	14x	17x	19x	24x
4.5%	13x	15x	17x	21x	26x
5.0%	14x	16x	18x	22x	28x
5.5%	14x	16x	19x	24x	31x
6.0%	15x	17x	21x	26x	35x

TECHM	8.3%	9.3%	10.3%	11.3%	12.3%
3.5%	11x	12x	14x	17x	20x
4.0%	11x	13x	15x	18x	22x
4.5%	11x	13x	16x	19x	24x
5.0%	12x	14x	17x	21x	27x
5.5%	12x	15x	18x	23x	31x

LTI	13.5%	12.5%	11.5%	10.5%	9.5%
4.0%	19x	22x	26x	31x	39x
4.5%	19x	23x	27x	33x	43x
5.0%	20x	24x	29x	36x	48x
5.5%	21x	25x	31x	40x	55x
6.0%	22x	27x	34x	44x	64x

MTCL	14.0%	13.0%	12.0%	11.0%	10.0%
4.0%	19x	22x	25x	30x	37x
4.5%	20x	23x	27x	32x	40x
5.0%	21x	24x	28x	34x	43x
5.5%	21x	25x	30x	37x	47x
6.0%	22x	26x	32x	40x	53x

MPHL	11.9%	10.9%	9.9%	8.9%	7.9%
3.5%	18x	21x	24x	30x	38x
4.0%	18x	22x	26x	32x	42x
4.5%	19x	23x	28x	35x	47x
5.0%	20x	24x	30x	39x	55x
5.5%	21x	26x	33x	44x	66x

LTTS	14.0%	13.0%	12.0%	11.0%	10.0%
4.0%	18x	21x	24x	29x	35x
4.5%	19x	22x	26x	31x	38x
5.0%	20x	23x	27x	33x	41x
5.5%	21x	24x	29x	35x	45x
6.0%	21x	25x	31x	38x	51x

PSYS	12.2%	11.2%	10.2%	9.2%	8.2%
3.5%	22x	26x	31x	38x	49x
4.0%	23x	27x	33x	41x	55x
4.5%	24x	29x	35x	45x	63x
5.0%	25x	31x	38x	51x	73x
5.5%	27x	33x	42x	58x	90x

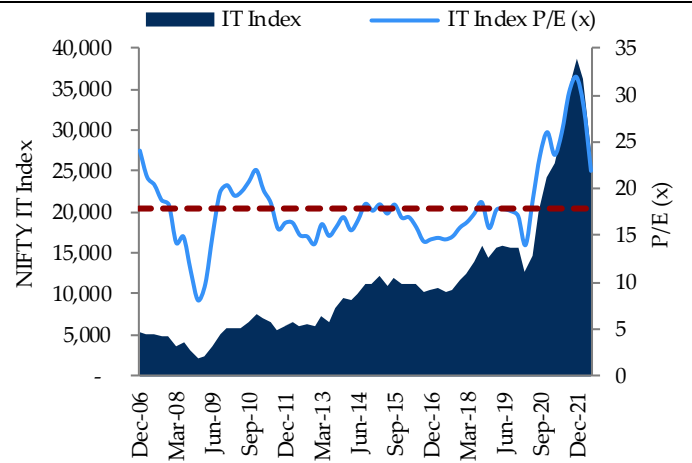
Source: Company, HSIE Research. Note: WACC and Terminal growth estimates

Exhibit 61: Implied USD revenue CAGR % based on reverse DCF

	FY15-22	Implied FY22-32E
TCS	7.5%	7.2%
INFO	9.4%	7.0%
WPRO	5.6%	5.2%
HCLT	10.2%	5.9%
TECHM	7.2%	7.8%
TIER-1 AVERAGE	8.0%	6.6%
LTI	14.6%	11.2%
MTCL	13.4%	11.1%
TELX	13.2%	22.5%
MPHL	7.8%	7.6%
LTTS	11.1%	12.3%
PSYS	13.9%	12.1%
MID TIER AVERAGE	12.3%	12.8%

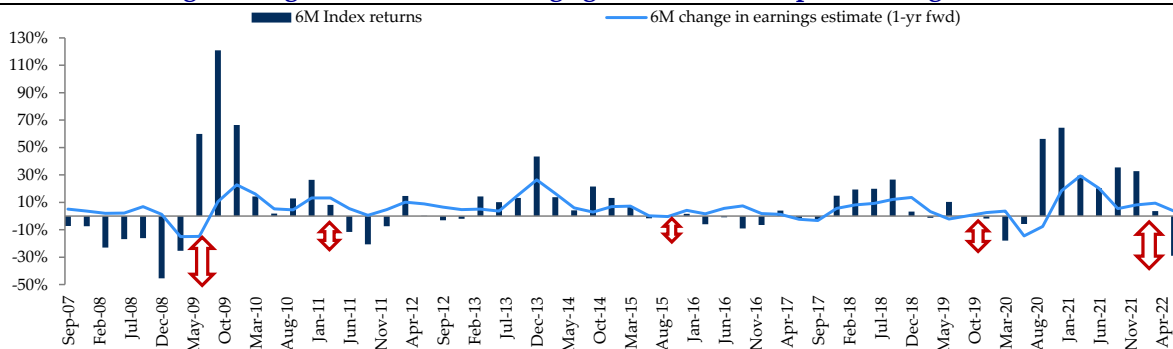
Source: HSIE Research

Exhibit 62: IT Index corrected from over +2 SD to +1 SD



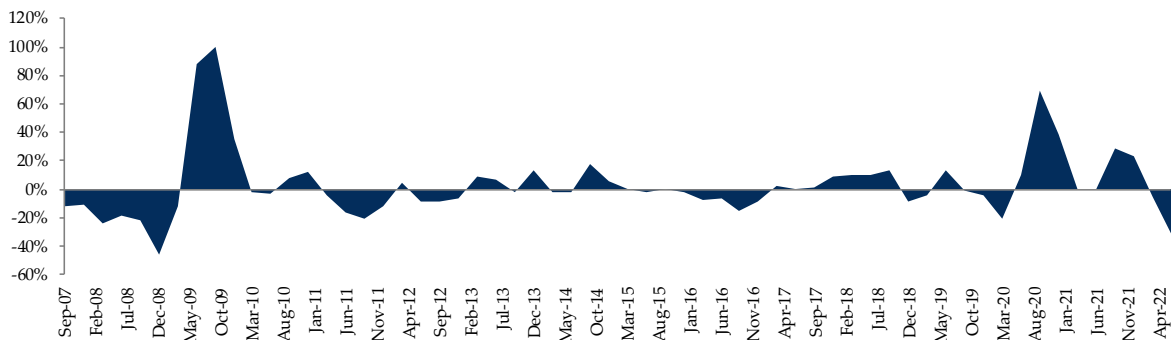
Source: Bloomberg, HSIE Research

Exhibit 63: Historical high divergence between earnings growth and multiple derating



Source: Bloomberg, HSIE Research

Exhibit 64: P/E multiple de-rating over 6M intervals – highest since GFC



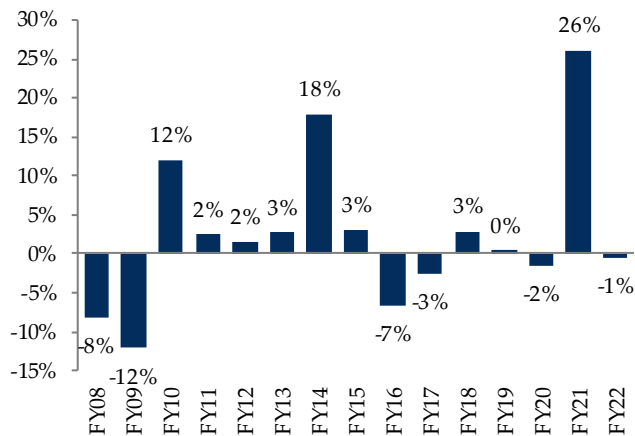
Source: Bloomberg, HSIE Research

Exhibit 65: Trend of change in EPS estimate during the year

	TCS	INFO	WPRO	HCLT	IT Index
FY07	15%	15%	6%	2%	
FY08	-2%	-3%	-8%	-4%	-8%
FY09	-9%	5%	-8%	-11%	-12%
FY10	29%	9%	24%	20%	12%
FY11	14%	0%	2%	-7%	2%
FY12	3%	4%	-3%	1%	2%
FY13	7%	-1%	1%	32%	3%
FY14	20%	11%	16%	42%	18%
FY15	-1%	6%	-2%	9%	3%
FY16	1%	3%	-2%	0%	-7%
FY17	-1%	-5%	-11%	4%	-3%
FY18	-3%	6%	4%	1%	3%
FY19	9%	2%	7%	8%	0%
FY20	-6%	1%	1%	1%	-2%
FY21	5%	20%	22%	22%	26%
FY22	-2%	1%	8%	-4%	-1%
AVG change in EPS estimate	5%	5%	4%	7%	3%
Median change in EPS estimate	2%	3%	2%	2%	2%
Maximum increase in EPS estimate	29%	20%	24%	42%	26%
Maximum cut in EPS estimate	-9%	-5%	-11%	-11%	-12%
No. of years with EPS upgrade	9	13	10	12	10
No. of years with EPS downgrade	7	3	6	4	6

Source: Bloomberg, HSIE Research. Note: Table reflects change in consensus earnings estimate from beginning of FY to the end of FY

Exhibit 66: Low frequency of earnings estimate drawdown: change in EPS estimate during the year for IT index



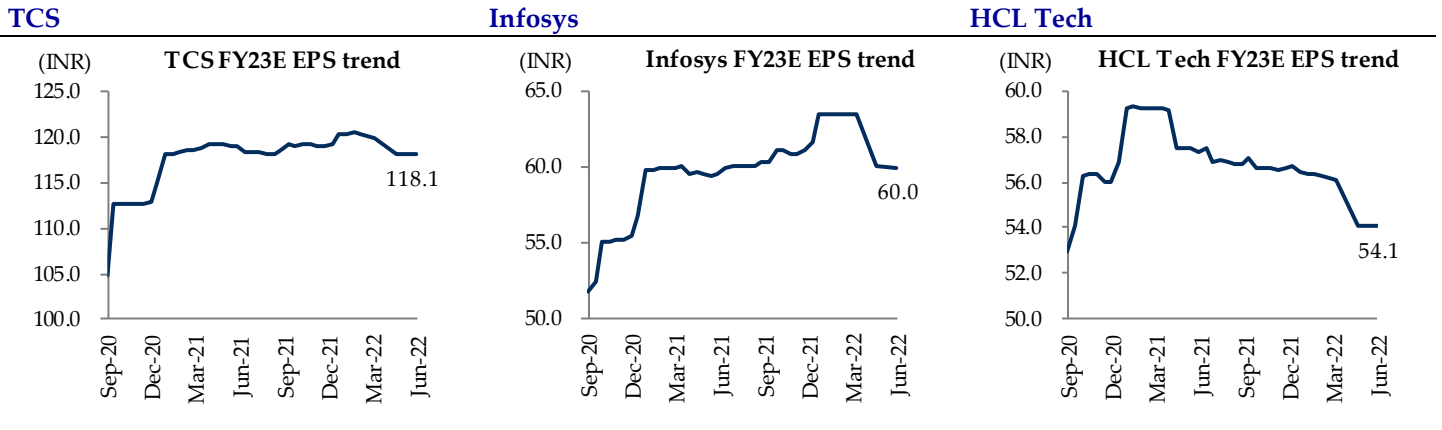
Source: Bloomberg, HSIE Research

Exhibit 67: Risk-reward favourable, downside limited in bear case

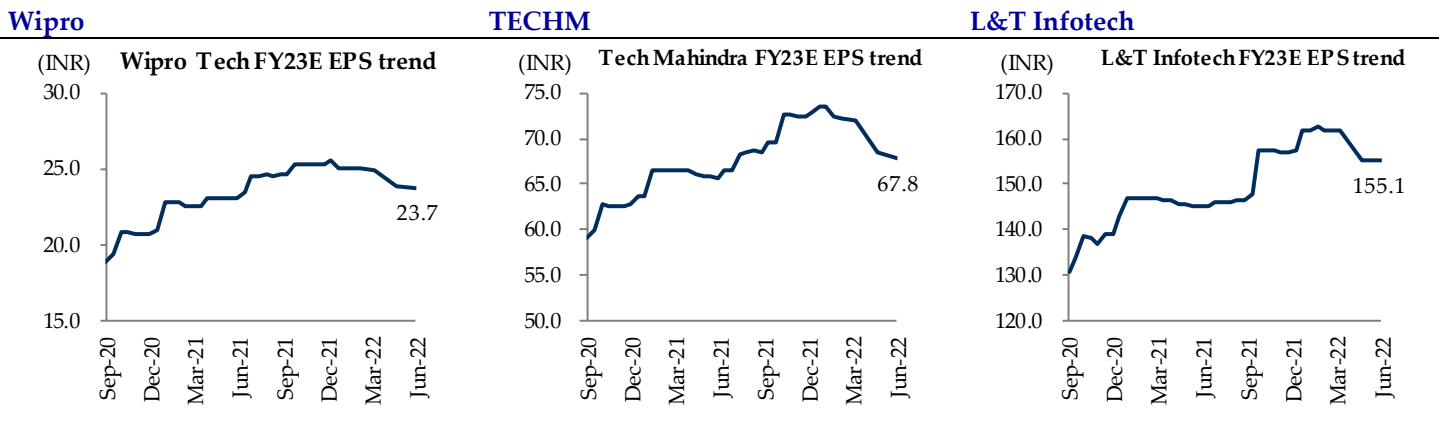
	TCS	INFO	WPRO	HCLT
Base case FY24E EPS	129.9	69.3	25.8	59.9
Target Multiple (x)	28	26	19	19
Target Price (INR)	3,640	1,800	490	1,140
Bear case FY24E EPS	118	66	23	53
10Y AVG P/E (x)	23.3	19.6	16.8	15.7
Target Price (INR)	2,741	1,287	388	839
Upside/(Downside) %	-15%	-14%	-8%	-15%

Source: Bloomberg, HSIE Research. Note: Bear case EPS impact based on maximum drawdown in estimate historically in Exhibit: 65

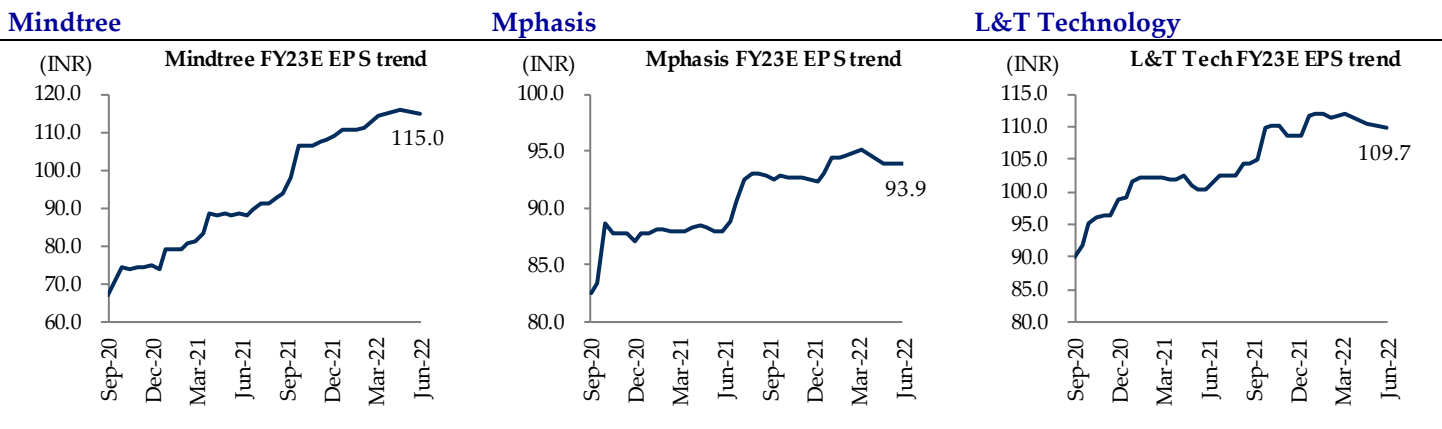
Exhibit 68: Earnings estimate trend flattened



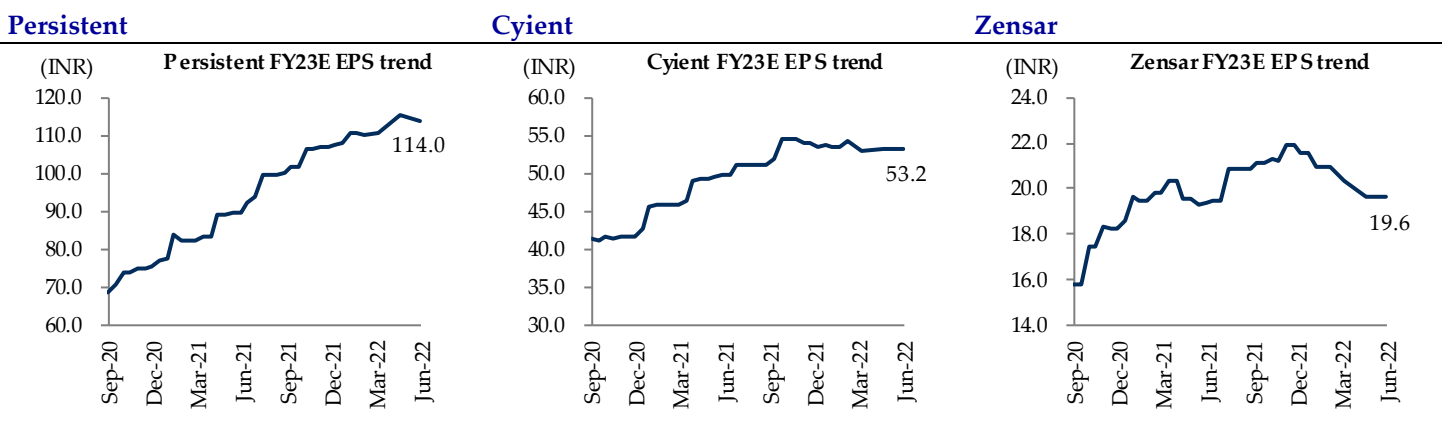
Source: Bloomberg, HSIE Research



Source: Bloomberg, HSIE Research



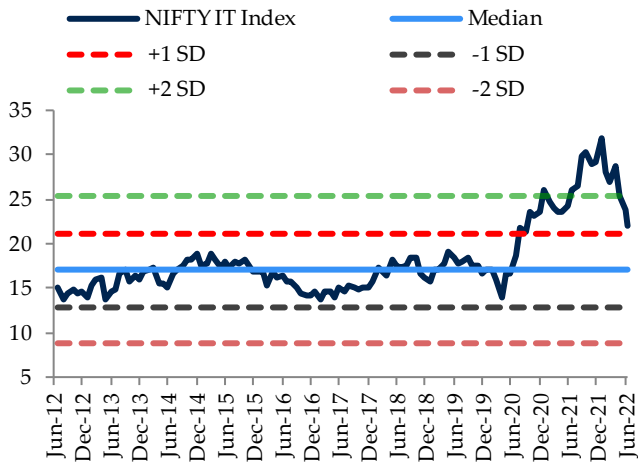
Source: Bloomberg, HSIE Research



Source: Bloomberg, HSIE Research

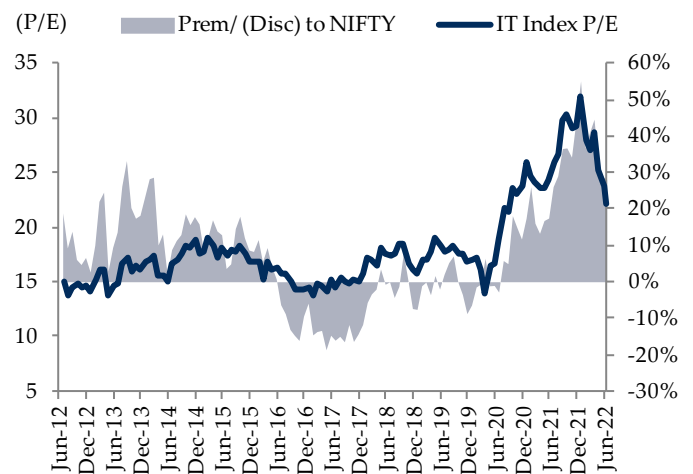
Exhibit 69: Valuation charts

NIFTY IT Index Valuation Trend (P/E 1-yr fwd)



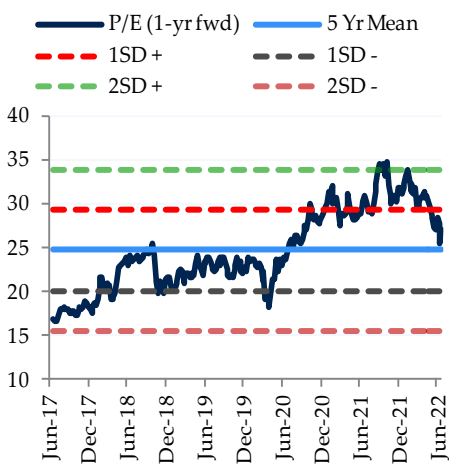
Source: Bloomberg, HSIE Research

IT Index Valuation Trend vs NIFTY

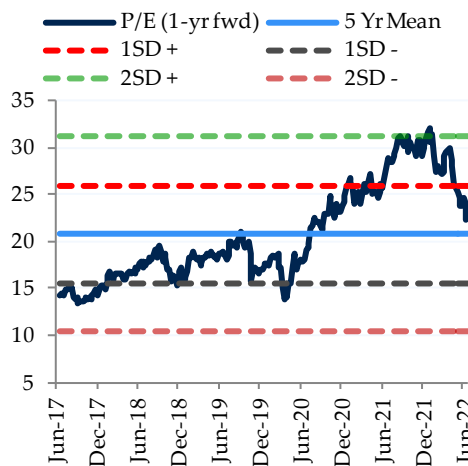


Source: Bloomberg, HSIE Research

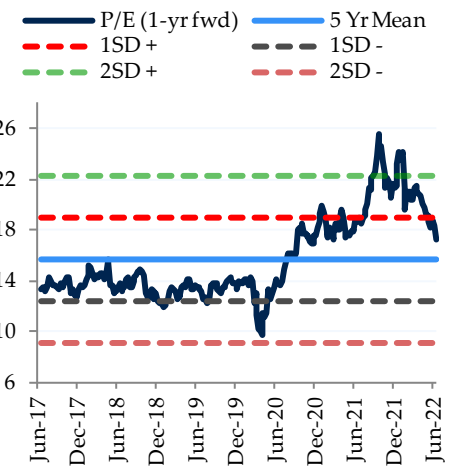
TCS P/E (1-yr fwd) Trend



Infosys P/E (1-yr fwd) Trend

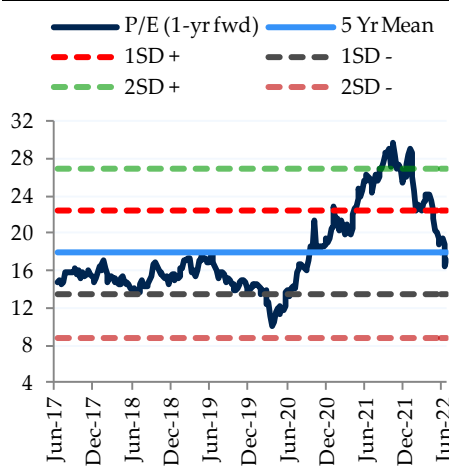


HCL Tech P/E (1-yr fwd) Trend

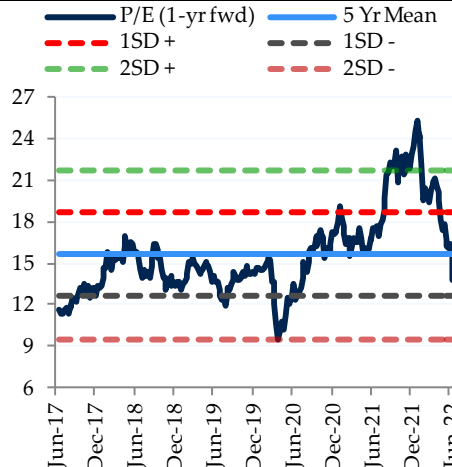


Source: Bloomberg, HSIE Research

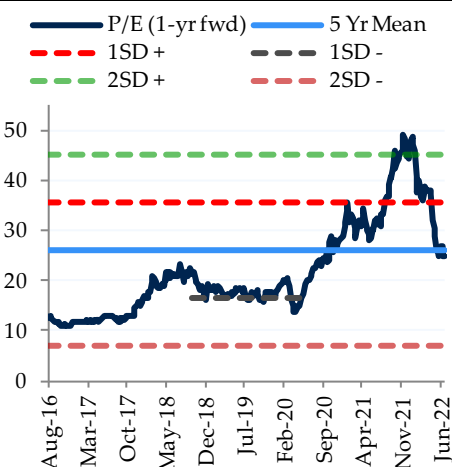
Wipro P/E (1-yr fwd) Trend



TECHM P/E (1-yr fwd) Trend

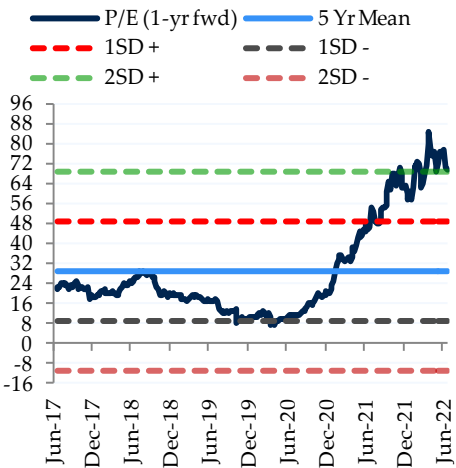


L&T Infotech P/E (1-yr fwd) Trend

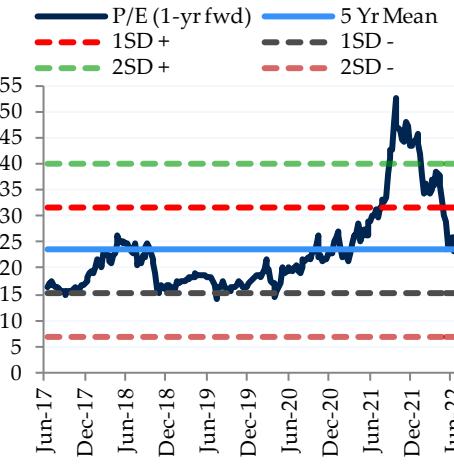


Source: Bloomberg, HSIE Research

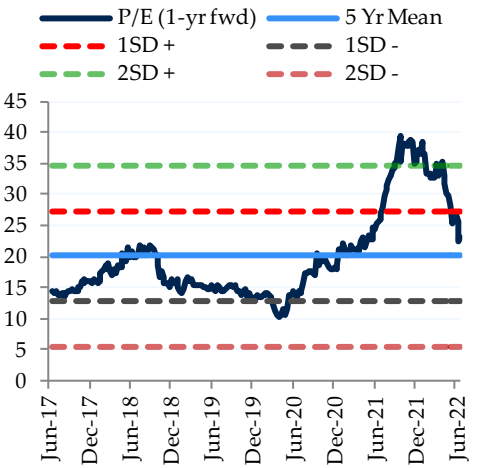
Tata Elxsi P/E (1-yr fwd) Trend



Mindtree P/E (1-yr fwd) Trend

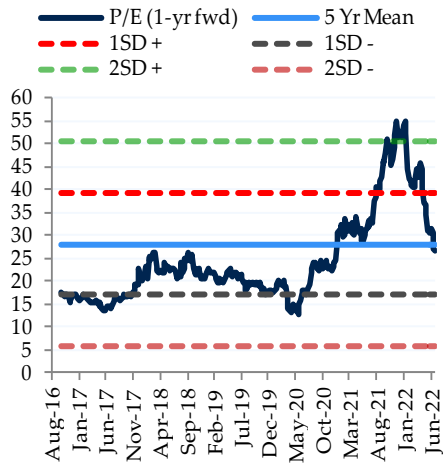


Mphasis P/E (1-yr fwd) Trend

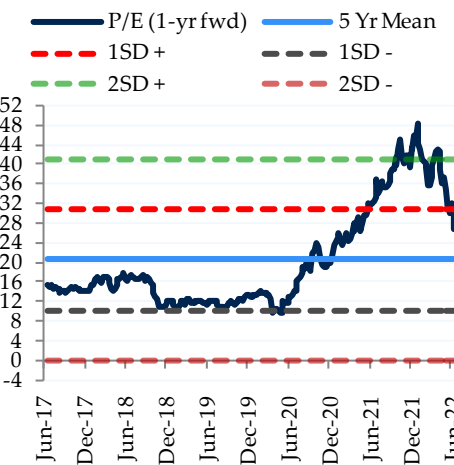


Source: Bloomberg, HSIE Research

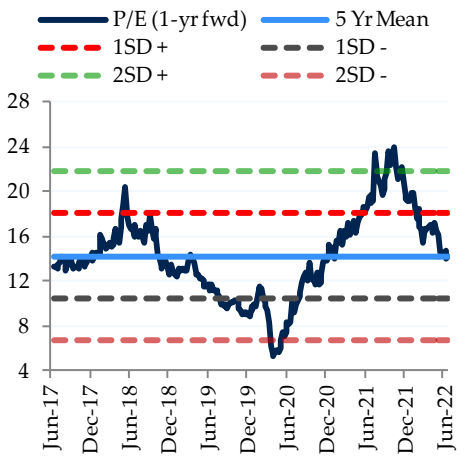
L&T Tech P/E (1-yr fwd) Trend



Persistent P/E (1-yr fwd) Trend

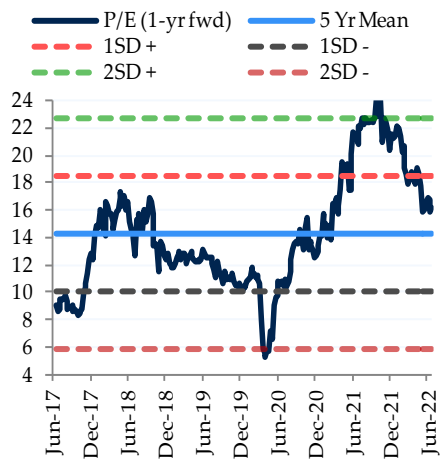


Cyient P/E (1-yr fwd) Trend

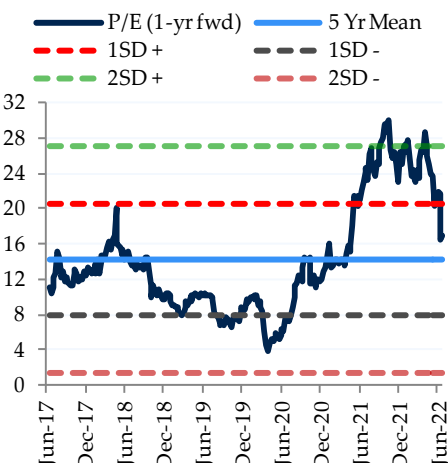


Source: Bloomberg, HSIE Research

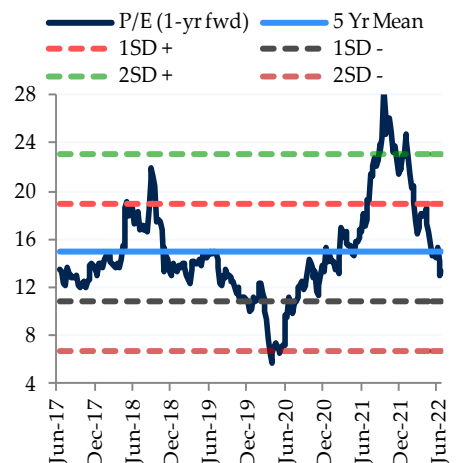
Sonata P/E (1-yr fwd) Trend



Mastek P/E (1-yr fwd) Trend



Zensar P/E (1-yr fwd) Trend



Source: Bloomberg, HSIE Research

Q1FY23E Preview estimates

Exhibit 70: IT sector: Q1FY23E Quarterly Financial Summary

	NET SALES (USD mn)			NET SALES (INR bn)			EBIT (INR bn)			EBIT Margin (%)			APAT (INR bn)			Adj. EPS (INR)		
	Q1 FY23E	QoQ (%)	YoY (%)	Q1 FY23E	QoQ (%)	YoY (%)	Q1 FY23E	QoQ (%)	YoY (%)	Q1 FY23E	QoQ (bps)	YoY (bps)	Q1 FY23E	QoQ (%)	YoY (%)	Q1 FY23E	Q4 FY22	Q1 FY22
TCS	6,744	0.7	9.6	520.61	2.9	14.6	122.23	(3.2)	5.5	23.5	-148	-204	95.66	(3.6)	6.2	26.1	27.1	24.6
Infosys	4,395	2.7	16.2	340.65	5.5	22.1	70.15	0.9	6.2	20.6	-96	-308	57.45	1.0	10.6	13.7	13.5	12.4
HCLT	3,027	1.2	11.3	233.72	3.4	16.5	41.33	1.6	5.1	17.7	-32	-191	33.42	(7.0)	4.0	12.3	13.2	11.8
Wipro	2,746	0.9	13.7	216.22	3.7	18.5	35.34	3.9	12.5	16.3	3	-86	29.98	(2.9)	(7.3)	5.5	5.6	5.9
Tech M	1,624	1.0	17.4	125.39	3.5	23.0	14.26	(11.1)	(7.7)	11.4	-187	-378	11.88	(21.1)	(12.2)	13.5	17.1	15.4
Tier-1 IT	18,537	1.3	12.7	1,436.60	3.8	17.9	283.31	(1.1)	5.7	19.7	-98	-228	228.39	(4.0)	3.8			
L&T Infotech	579	1.5	23.2	44.71	3.9	29.1	6.90	(7.3)	21.4	15.4	-187	-98	5.82	(8.6)	17.2	33.2	36.4	28.3
Tata Elxsi	94	4.2	24.6	7.28	6.9	30.5	2.12	3.2	53.4	29.1	-104	435	1.63	2.0	44.0	26.2	25.7	18.2
Mindtree	400	4.1	28.7	30.85	6.5	34.6	5.66	3.2	39.3	18.3	-59	62	4.61	(2.6)	34.2	28.0	28.7	20.8
Mphasis	444	3.0	22.3	34.25	4.5	27.3	5.31	6.9	24.4	15.5	34	-36	4.13	5.2	21.5	22.1	20.9	18.1
L&T Tech	237	2.0	15.0	18.26	4.0	20.3	3.32	1.5	26.7	18.2	-44	93	2.74	4.6	26.8	26.0	24.8	20.5
Persistent	239	9.9	43.2	18.44	12.6	50.0	2.45	6.7	47.4	13.3	-74	-23	2.05	2.0	35.6	26.8	26.3	19.8
Cyient	160	2.1	11.5	12.35	4.6	16.7	1.41	(17.3)	1.7	11.4	-302	-168	1.08	(30.1)	(6.3)	9.8	14.0	10.4
Sonata	57	1.5	27.0	16.19	10.6	27.6	1.40	47.4	53.8	8.7	216	147	0.96	(4.5)	11.0	9.3	9.7	8.3
Mastek	76	(1.2)	8.7	5.89	1.3	14.0	1.03	(4.8)	0.2	17.5	-113	-241	0.74	(7.4)	6.8	24.0	26.2	24.3
Zensar	155	1.0	21.6	11.94	3.5	27.5	1.03	(11.6)	(21.1)	8.6	-147	-529	0.89	(31.1)	(11.5)	3.9	5.7	4.4
Tier-2 IT	2,431	2.7	22.9	200.18	5.7	28.9	30.64	0.7	26.0	15.3	-77	-35	24.66	(4.8)	21.3			
Aggregate	20,968	1.5	13.8	1,636.78	4.0	19.2	313.96	(1.0)	7.4	19.2	-96	-211	253.04	(4.1)	5.3			

Source: Company, HSIE Research, Wipro USD Rev is IT services, Sonata USD rev is IITS

Exhibit 71: Change in ratings and TP

Company	M-cap (INR bn)	CMP (INR)	TP Old (INR)	New TP (INR)	Old Rating	New Rating	Old multiple (x)	New multiple (x)	DCF implied (x)	5Y Avg P/E (x)	10Y Avg P/E (x)
TCS	11,967	3,235	4,210	3,640	ADD	ADD	32	28	28	25	22
INFO	6,325	1,488	2,140	1,800	BUY	BUY	30	26	26	21	18
HCLT	2,672	985	1,290	1,140	ADD	ADD	21	19	19	16	15
WPRO	2,302	420	585	490	ADD	ADD	22	19	18	18	16
TECHM	965	1,000	1,440	1,150	ADD	ADD	18	15	16	16	14
LTI	697	3,976	6,185	5,150	BUY	BUY	34	29	29	24	NA
TELX	503	8,081	7,050	6,630	SELL	SELL	50	45	45	29	23
MTCL	471	2,862	4,855	3,860	BUY	BUY	35	28	28	20	16
MPHL	416	2,229	3,830	2,975	BUY	BUY	35	28	28	23	19
LTTS^	314	2,973	4,340	3,370	REDUCE	ADD	35	28	27	26	NA
PSYS	249	3,259	5,855	5,080	BUY	BUY	40	35	35	20	17
CYL	84	764	1,120	920	BUY	BUY	20	16	16	14	13
SSOF	68	659	950	850	BUY	BUY	20	18	17	14	11
MAST^	64	2,110	3,530	2,100	BUY	REDUCE	25	16	17	14	10
ZENT	62	272	440	325	BUY	BUY	20	16	15	15	12

Source: Company, HSIE Research, ^implies change in Rating

Exhibit 72: Change in estimates

Company	Revenue USD mn (NEW)		Change (%)		EBIT % (NEW)		Change (bps)		EPS (INR) NEW		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TCS	28,181	31,060	-3.0%	-4.1%	24.7	25.0	-26	3	115.4	129.9	-1.4%	-1.3%
INFO	18,490	20,811	-1.4%	-1.4%	22.0	22.0	-50	-94	61.1	69.3	-1.2%	-3.0%
HCLT	12,640	14,019	-2.3%	-2.3%	17.9	18.5	-98	-50	51.9	59.9	-4.5%	-2.5%
WPRO	11,461	12,494	-1.9%	-3.0%	16.0	16.7	-48	-39	22.5	25.8	-2.3%	-3.0%
TECHM	6,786	7,603	-2.1%	-2.2%	12.9	14.5	-156	-65	62.3	77.1	-7.2%	-3.9%
LTI	2,482	2,885	-1.1%	-2.2%	17.1	16.8	-14	-57	153.5	177.9	0.9%	-2.2%
TELX	412	515	-1.9%	-1.9%	29.8	29.4	97	85	117.8	147.3	4.4%	4.5%
MTCL	1,686	1,984	-0.5%	-0.5%	18.1	17.6	3	-46	117.1	138.0	1.8%	-0.6%
MPHL	1,850	2,090	-2.2%	-4.3%	15.2	15.5	-3	-5	90.4	106.3	-0.8%	-2.8%
LTTS	987	1,118	-2.1%	-3.6%	18.2	18.1	16	2	103.0	120.4	0.4%	-2.9%
PSYS	1,027	1,234	0.9%	0.9%	13.0	13.8	-45	-41	113.1	145.1	-0.5%	-0.9%
CYL	747	818	9.6%	8.2%	12.6	13.0	-67	-46	49.8	57.5	2.1%	2.8%
SSOF	236	265	-1.8%	-1.9%	7.5	7.6	-8	-8	40.1	47.2	-1.4%	-1.1%
MAST	328	378	-6.5%	-7.7%	17.7	18.4	-23	-18	106.5	132.0	-4.9%	-6.6%
ZENT	635	706	-1.8%	-2.3%	9.2	10.0	-91	-122	16.3	20.2	-6.7%	-8.1%

Source: Company, HSIE Research

Exhibit 73: HSIE earnings estimate vs consensus

Year	TCS	INFO	HCLT	WPRO	TECHM	LTI	TELX	MTCL	MPHL	LTTS	PSYS	CYL	SSOF	MAST	ZENT
FY23E	-2.2%	2.2%	-3.7%	-5.0%	-6.8%	-0.6%	11.5%	1.9%	-3.4%	-5.4%	-0.5%	-6.5%	0.6%	-7.8%	-16.7%
FY24E	-2.2%	0.4%	-2.7%	-4.4%	0.0%	-2.7%	17.7%	3.1%	-5.0%	-6.0%	5.0%	-6.3%	-0.4%	-5.3%	-13.5%

Source: Bloomberg, HSIE Research

Exhibit 74: HSIE TP vs consensus TP (INR)

	TCS	INFO	HCLT	WPRO	TECHM	LTI	TELX	MTCL	MPHL	LTTS	PSYS	CYL	SSOF	MAST	ZENT
Consensus TP (INR)	3,850	1,891	1,246	544	1,399	5,696	5,928	4,008	3,294	4,119	4,485	1,104	887	3,465	418
HSIE TP (INR)	3,640	1,800	1,140	490	1,150	5,150	6,630	3,860	2,975	3,370	5,080	920	850	2,100	325
Difference (%)	-5%	-5%	-9%	-10%	-18%	-10%	12%	-4%	-10%	-18%	13%	-17%	-4%	-39%	-22%

Source: Bloomberg, HSIE Research

Company Section

TCS

The gold standard

TCS's (TCS IN) growth drivers include (1) full-stack services portfolio including industry platforms, (2) dominance in BFSI vertical and strong global tiering with leading cloud platforms, (3) industry-leading execution and operational metrics, (4) acceleration in deal wins, including mega deals providing growth visibility (TCV of USD 34.6bn or book to bill 1.35x in FY22) and deal market-share gains vs. Accenture, and (5) calibrated focus on building upstream/consulting with org. structure changes to improve client mining (medium-term driver). Growth catalyst can be mega deal signings, including large cost optimisation or re-badging deals, large public sector contracts and multi-service vendor consolidation deals. We expect TCS to add USD 2.5bn+ incremental revenue each year in FY23-24E as compared to USD 3.5bn added in FY22, with EBITM at 25%. Implied revenue CQGR is 2.1%, which is similar to the previous five years. 11% earnings EPS CAGR over FY22-24E is in line with its 10Y CAGR and ahead of 5Y CAGR of 8%. Our TP is INR 3,640, based on 28x FY24E EPS. Current valuation implies 7.2% USD revenue CAGR over FY22-32E.

ADD

CMP (as on 4 Jul 22)	INR 3,235
Target Price	INR 3,640
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	22,032	22,174	25,707	28,181	31,060
Growth (%)	5.4	0.6	15.9	9.6	10.2
Net Revenues	1,569.49	1,641.77	1,917.54	2,192.75	2,453.72
EBITDA	421.09	465.46	530.57	596.91	675.85
EBIT	385.80	424.81	484.53	542.09	614.50
EBIT (%)	24.6	25.9	25.3	24.7	25.0
PBT	422.48	449.78	516.87	568.46	640.11
APAT	323.40	333.56	383.27	422.10	475.30
EPS (INR)	88.4	91.2	104.7	115.4	129.9

Source: Company, HSIE Research

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	439.77	497.18	545.57	592.21	638.48
Debtors	306.06	301.34	342.19	391.09	437.47
Other Current Assets	157.28	194.83	196.79	184.98	192.78
Total Current Assets	903.11	993.35	1,084.55	1,168.28	1,268.72
Net Block	189.35	187.43	184.10	197.75	210.06
Goodwill & Other Intangible Assets	19.93	22.78	28.88	28.81	28.66
Other Non-current Assets	68.32	64.72	80.53	80.61	80.68
Total Non Current Assets	277.60	274.93	293.51	307.16	319.40
Creditors	67.40	78.60	80.45	92.00	102.95
Other Current Liabilities & Provns	203.20	262.95	343.06	360.32	376.69
Total Current Liabilities	270.60	341.55	423.51	452.32	479.64
TOTAL APPLICATION OF FUNDS	910.11	926.73	954.55	1,023.12	1,108.49
Total Shareholders' Funds	841.26	864.33	891.39	958.56	1,042.35
Total Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities + Minority	68.85	62.40	63.16	64.56	66.14
TOTAL SOURCES OF FUNDS	910.11	926.73	954.55	1,023.12	1,108.49

Source: Company, HSIE Research

Cash Flow (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow	323.69	388.02	399.49	452.70	494.60
Capex + Acq	-32.49	-31.76	-29.95	-68.39	-73.51
Free Cash Flow (FCF)	291.20	356.26	369.54	384.31	421.09
Investing Cash Flow	5.86	-5.23	-1.22	-41.78	-47.46
Financing Cash Flow	-386.26	-313.01	-322.26	-364.28	-400.87
Closing Cash & Equivalents	439.77	497.18	545.57	592.21	638.48

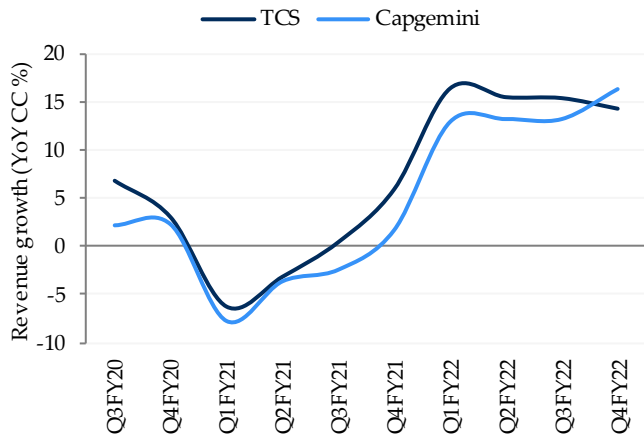
Source: Company, HSIE Research

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	37.3	39.1	43.7	45.6	47.5
RoIC (%)	67.6	70.9	86.0	96.2	101.6
Tax Rate (%)	23.2	24.9	25.6	25.5	25.5
Debtors (Billed days)	71	67	65	65	65
DPS (INR/sh)	73.0	38.0	43.0	97.0	107.0
P/E (x)	36.6	35.5	30.9	28.0	24.9
EV/EBITDA (x)	27.1	24.4	21.3	18.8	16.6
Payout Yield (Dividend+Buyback) %	3.2	2.6	2.7	3.0	3.3

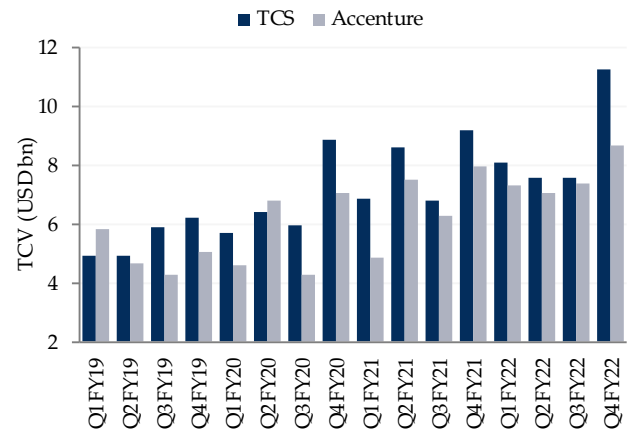
Source: Company, HSIE Research

Exhibit 1: Revenue growth trend (TCS vs Capgemini)



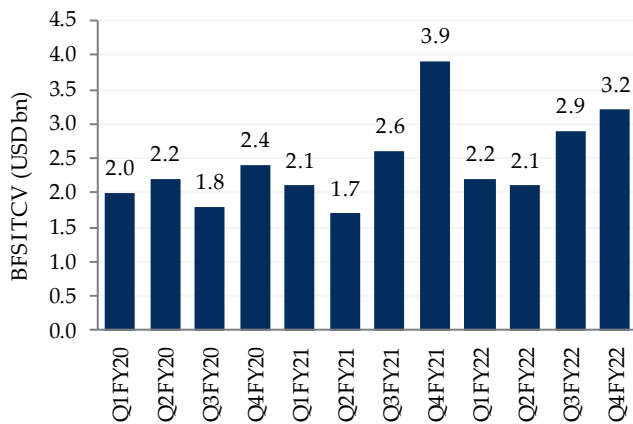
Source: Company, HSIE Research

Exhibit 2: TCV bookings ahead of Accenture outsourcing



Source: Company, HSIE Research

Exhibit 3: BFSI deal bookings consistency



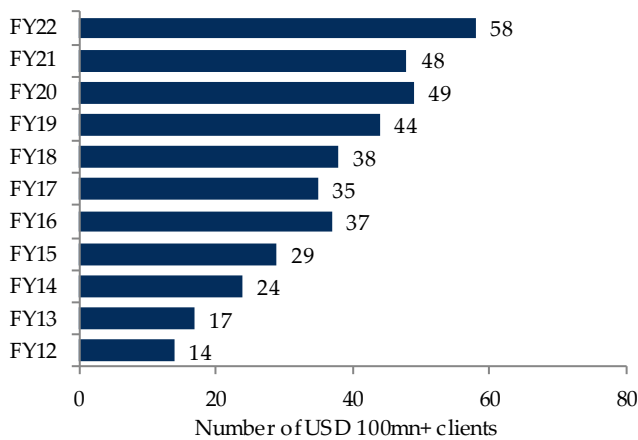
Source: Company, HSIE Research

Exhibit 4: Key recent deals

Clients	Vertical	Geography	Service
SBI	BFSI	India	TCS BaNCS
Passport Seva	Regional Markets & Others	India	E-gov
Western Power	Regional Markets & Others	Australia	Digital transformation
The IRONMAN Group	Regional Markets & Others	Australia	App Management
SODEXO	Retail & CPG	France	ERP transformation
Stellantis	Mfg	Europe	Salesforce platform
Jaguar	Mfg	UK	EV Platform
Swiss Re	BFSI	Europe	Underwriting platform
NXP Semicon	Technology & Services	Netherlands	ERP Modernisation

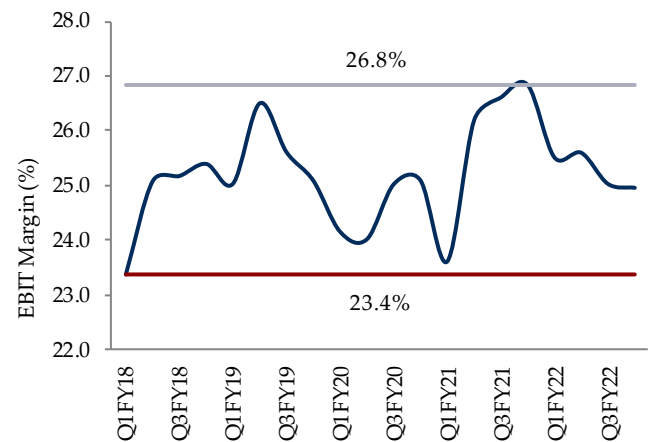
Source: Company, HSIE Research

Exhibit 5: USD 100mn+ clients 4x in 10 years



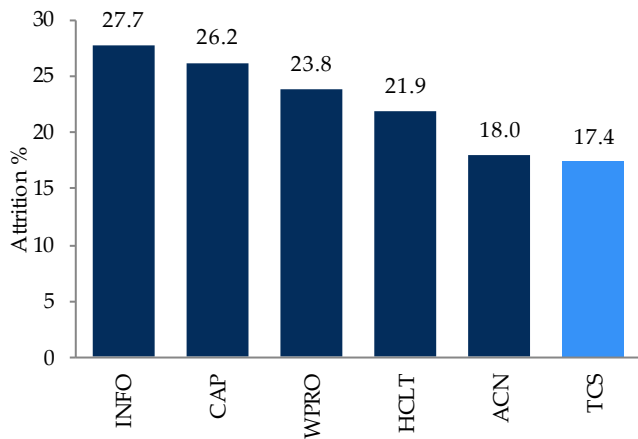
Source: Company, HSIE Research

Exhibit 6: EBITM at mid-point of recent range



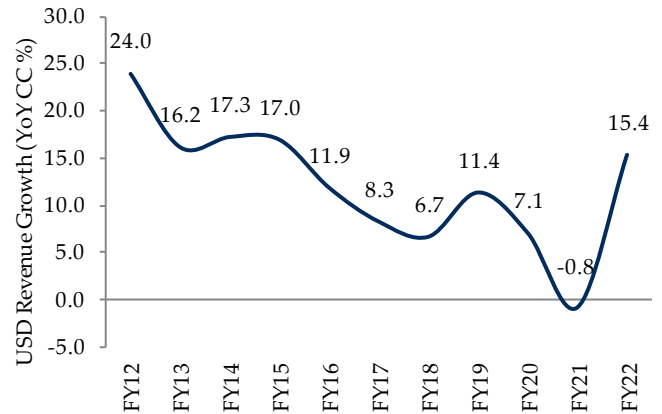
Source: Company, HSIE Research

Exhibit 7: Lowest attrition vs. peers



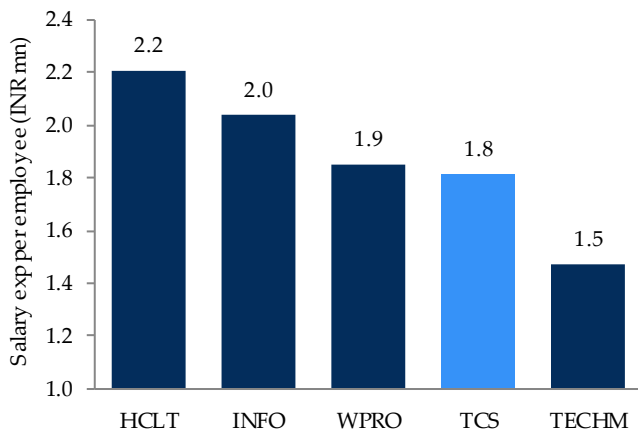
Source: Company, HSIE Research; TCS - LTM % (IT Services); INFO - Voluntary Attrition % (TTM); WPRO - Voluntary TTM; HCLT - LTM (voluntary ex-BPO)

Exhibit 8: USD revenue growth trend (YoY CC %)



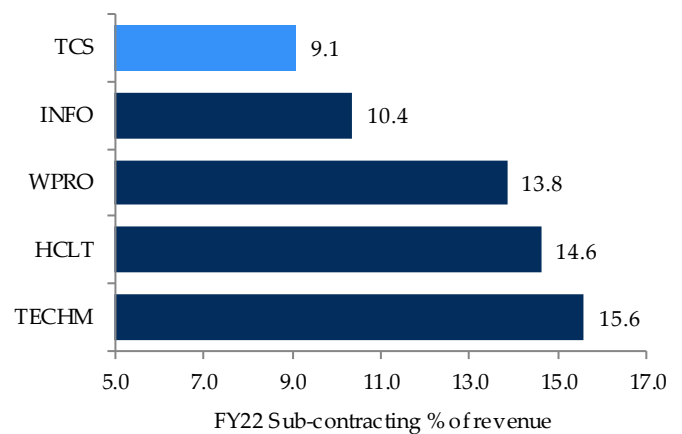
Source: Company, HSIE Research

Exhibit 9: Salary expense per employee comparison



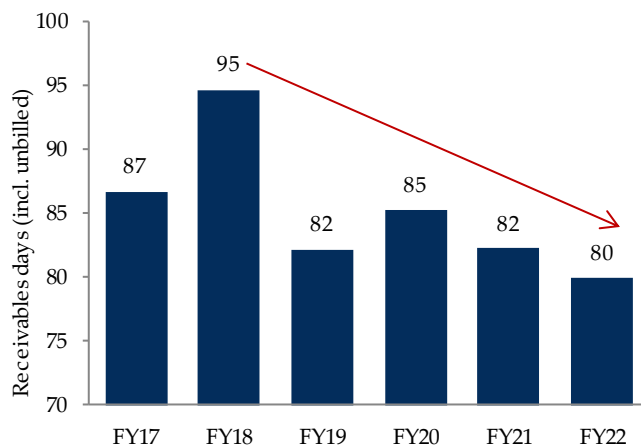
Source: Company, HSIE Research

Exhibit 10: Sub-contracting lowest vs. peers



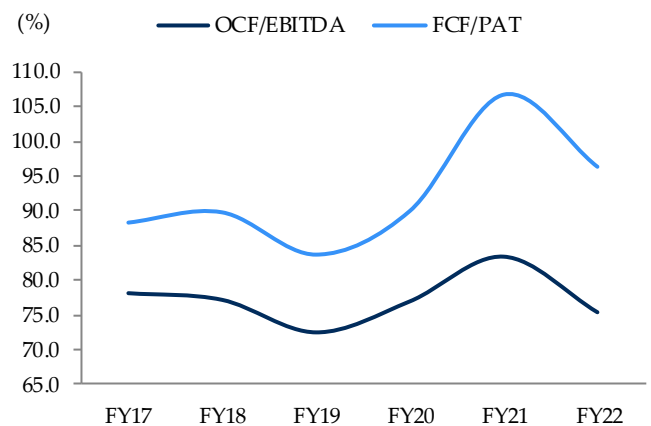
Source: Company, HSIE Research

Exhibit 11: Improving DSO trend



Source: Company, HSIE Research

Exhibit 12: OCF/EBITDA trend & FCF/APAT trend consistent



Source: Company, HSIE Research

Infosys

Growth leadership

Infosys (INFO IN) will lead the growth within tier-1 IT (incremental revenue addition >80% of TCS' incremental adds), supported by (1) prowess in large account expansion and consistent improvement in large deal engine (large deal TCX 3x in four years) and focus on creating next set of titan accounts, (2) strong digital portfolio and top tiering in cloud partnerships (improving capabilities in Salesforce, ServiceNow, Adobe supporting deals), and (3) operational efficiency, led by increased automation, offshore tier-2 expansion, and sub-contractor optimisation. Growth catalysts can be mega net new deal signings and recovery in life-science vertical. We expect INFO to add USD 2.2bn+ incremental revenue each year in FY23-24E as compared to USD 2.7bn added in FY22 and EBITM of 22%. Implied revenue CQGR for INFO is 3% as compared to 2.6% in the last five years, leading to 15% EPS CAGR over FY22-24E, ahead of 5Y/10Y CAGR of 9/10%. Key risk is relative margin underperformance on deal aggression and elevated attrition. Our TP is INR 1,800, based on 26x FY24E EPS. Current valuation implies a modest 7% USD revenue CAGR over FY22-32E and valuation is attractive at PEG of 1.4x, compared to 2x historically.

BUY

CMP (as on 4 Jul 22)	INR 1,488
Target Price	INR 1,800
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	12,781	13,562	16,310	18,490	20,811
Growth (%)	8.3	6.1	20.3	13.4	12.6
Net Revenues	907.91	1,004.73	1,216.41	1,440.02	1,644.09
EBITDA	222.68	278.90	313.50	357.65	408.96
EBIT	193.74	246.22	280.15	316.97	362.51
EBIT (%)	21.3	24.5	23.0	22.0	22.0
PBT	220.08	266.28	301.10	347.22	393.64
APAT	164.04	193.51	221.11	256.58	290.93
EPS (INR)	39.1	46.1	52.6	61.1	69.3

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	272.76	386.60	374.19	397.73	443.67
Debtors	184.87	192.94	226.98	268.71	306.78
Other Current Assets	125.46	142.24	200.94	231.10	259.57
Total Current Assets	583.09	721.78	802.11	897.54	1,010.03
Net Block	166.03	173.54	178.98	193.43	207.80
Goodwill & Other					
Intangible Assets	71.86	81.51	79.02	91.65	95.86
Other Non-current Assets	89.26	96.05	106.62	107.08	107.49
Total Non Current Assets	327.15	351.10	364.62	392.16	411.15
Creditors	28.52	26.45	41.34	48.94	55.87
Other Current Liabilities & Provns	180.04	212.20	294.69	342.47	386.07
Total Current Liabilities	208.56	238.65	336.03	391.41	441.94
TOTAL APPLICATION OF FUNDS	701.68	834.23	830.70	898.29	979.24
Total Shareholders' Funds	654.50	763.51	753.50	821.09	902.04
Total Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities + Minority	47.18	70.72	77.20	77.20	77.20
TOTAL SOURCES OF FUNDS	701.68	834.23	830.70	898.29	979.24

Source: Company, HSIE Research

Cash Flow (Consolidated)

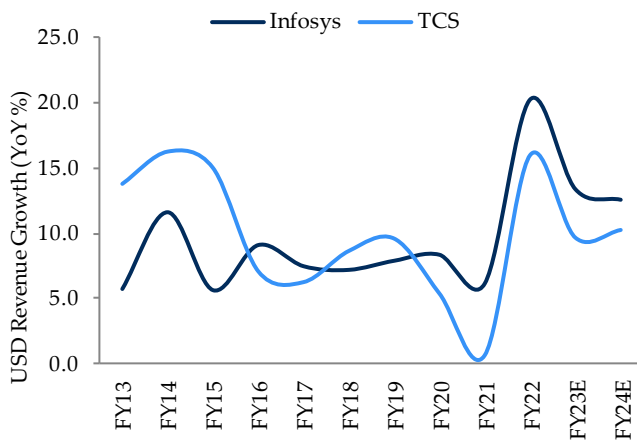
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	171.74	234.20	239.44	259.25	299.22
Capex + Acq	-51.73	-34.86	-22.14	-67.77	-65.03
Free Cash Flow (FCF)	120.01	199.34	217.30	191.49	234.19
Investing Cash Flow	-42.19	-25.30	-16.67	-44.72	-41.29
Financing Cash Flow	-177.60	-100.15	-248.40	-190.99	-211.99
Closing Cash & Equivalents	272.76	386.60	374.19	397.73	443.67

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	25.2	27.3	29.2	32.6	33.8
RoIC (%)	38.1	41.0	45.6	49.0	51.8
Tax Rate (%)	24.4	27.1	26.4	26.0	26.0
Debtors (Billed days)	74	70	68	68	68
DPS (INR/sh)	17.5	27.0	31.0	45.0	50.0
P/E (x)	38.1	32.3	28.3	24.4	21.5
EV/EBITDA (x)	26.8	21.0	18.7	16.4	14.2
Payout Yield (Dividend + Buyback) %	2.7	1.5	3.8	3.0	3.4

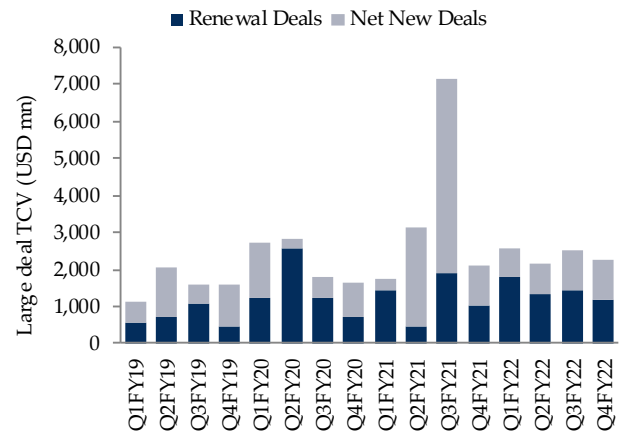
Source: Company, HSIE Research

Exhibit 1: Growth premium vs TCS to continue



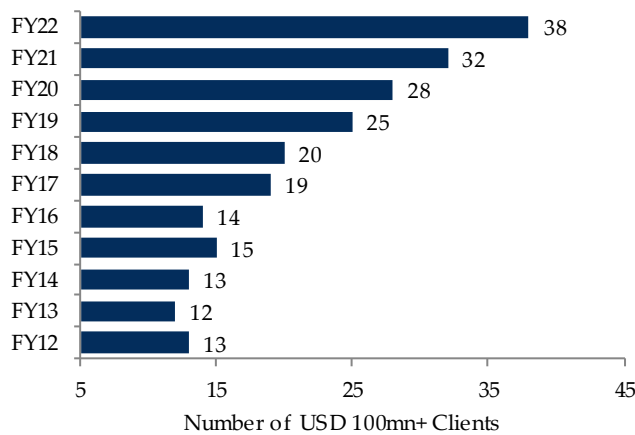
Source: Company, HSIE Research

Exhibit 2: Large deal TCV trend - split of new & renewals



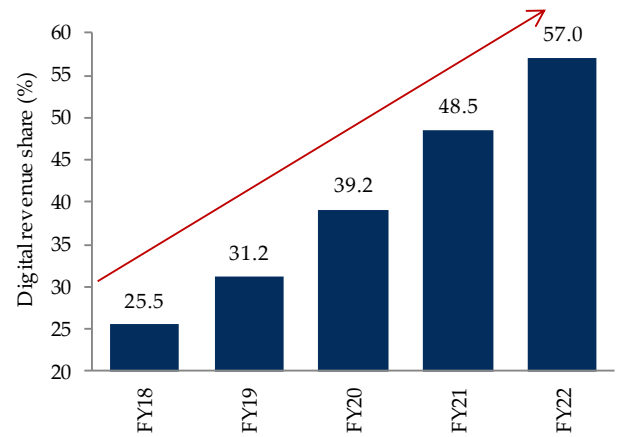
Source: Company, HSIE Research; Note Q2FY21 net new included Vanguard deal & Q3FY21 net new included Daimler deal

Exhibit 3: USD 100mn+ clients 2x in 5 years



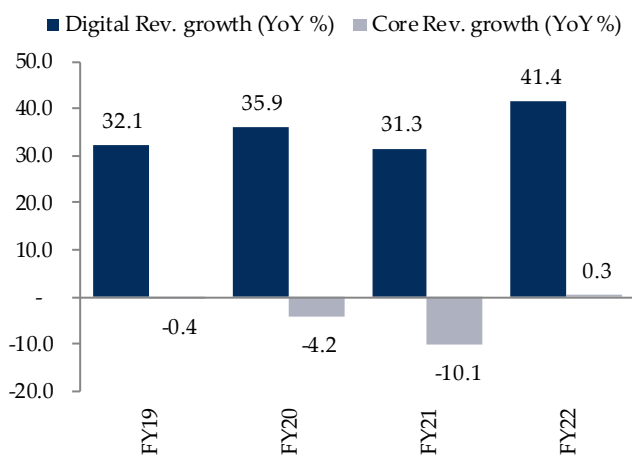
Source: Company, HSIE Research

Exhibit 4: Increasing share of digital revenue



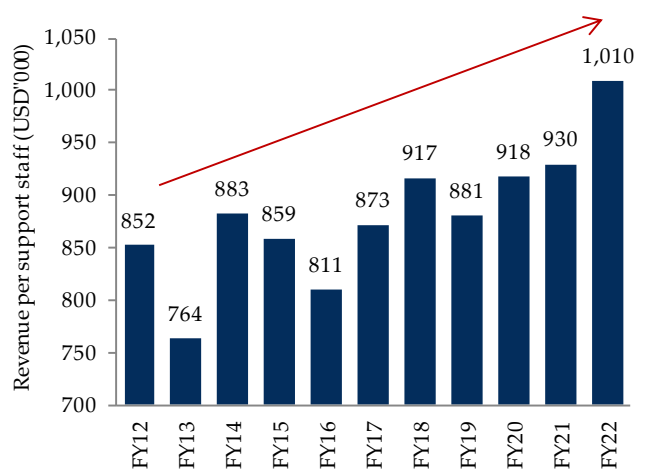
Source: Company, HSIE Research

Exhibit 5: Growth in digital services vs. growth in core services



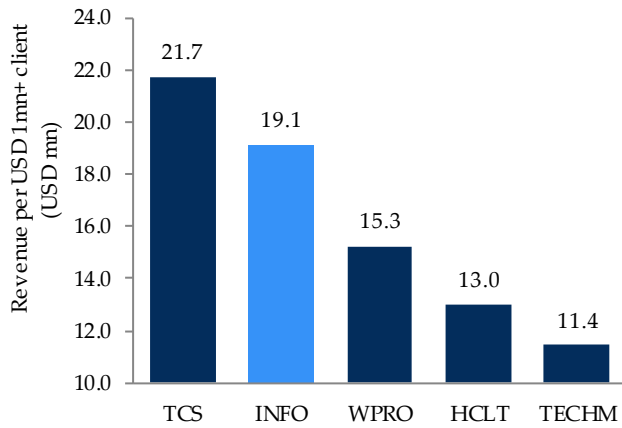
Source: Company, HSIE Research

Exhibit 6: Improvement in sales efficiency - revenue per sales & support staff



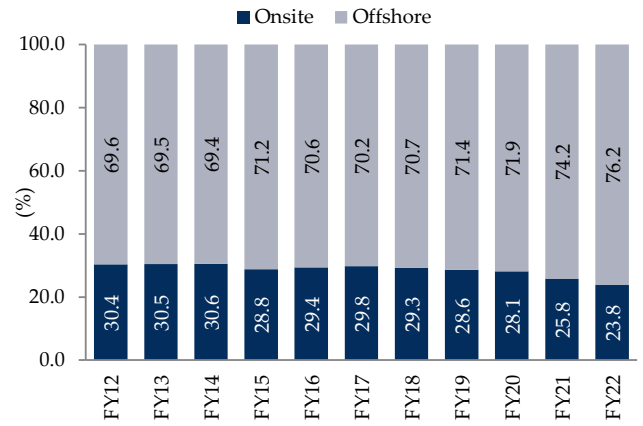
Source: Company, HSIE Research

Exhibit 7: Revenue per USD 1mn+ client vs. peers



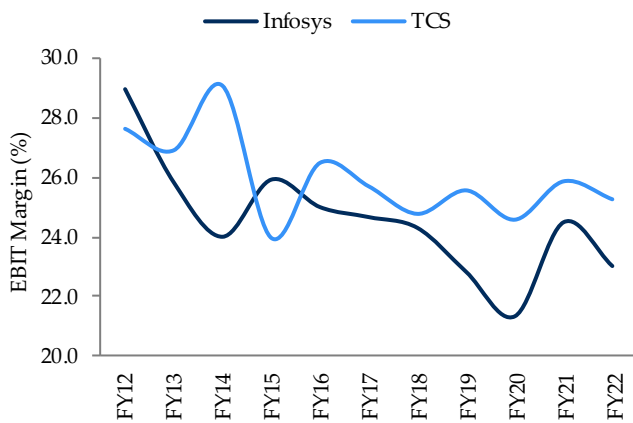
Source: Company, HSIE Research

Exhibit 8: Onsite-Offshore effort mix trend



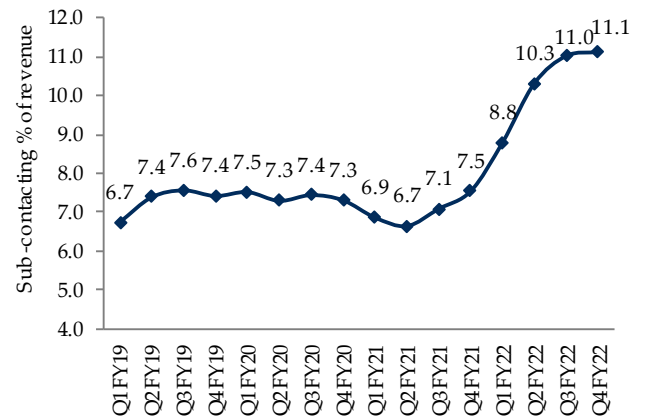
Source: Company, HSIE Research

Exhibit 9: Operating margin trend vs. TCS



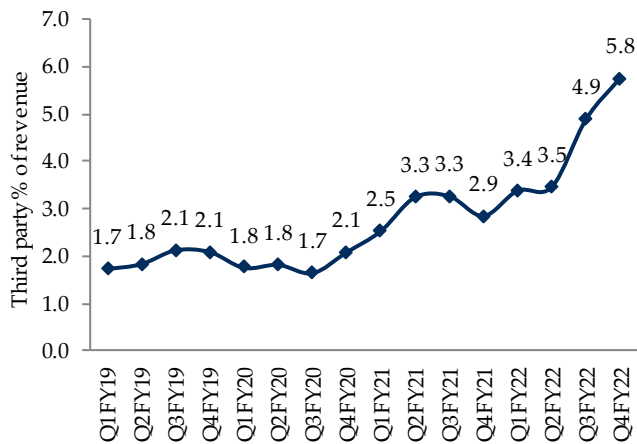
Source: Company, HSIE Research

Exhibit 10: Scope for sub-contracting rationalisation



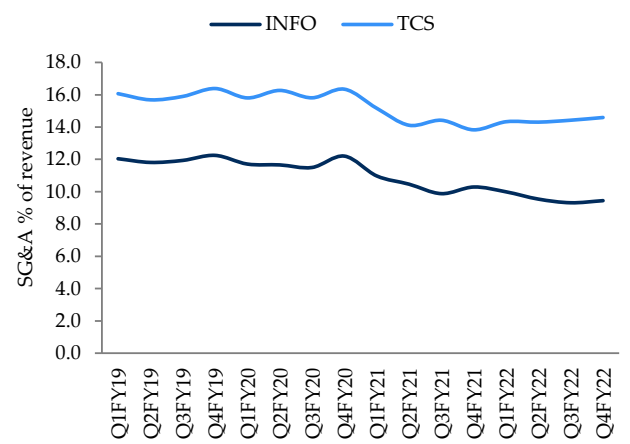
Source: Company, HSIE Research

Exhibit 11: Increase in pass through component



Source: Company, HSIE Research

Exhibit 12: SG&A% of revenue vs TCS



Source: Company, HSIE Research

HCL Technologies

Multiple growth drivers

HCL Tech (HCLT IN) has leading global credentials in ER&D services and infrastructure services with a large product & platform portfolio. The company's growth is expected to be driven by (1) mode-2 services driving IT & BS revenue, (2) integrated large deals across services, (3) services cross-sell into P&P customer base (8,000+), (4) strong hyperscaler partnerships, especially in cloud infra services, (5) large ER&D opportunity coupled with scale advantage and Europe expansion. Catalysts for HCLT can be vendor consolidation and mode-1 services deals and key risk is disproportionate impact on ERS portfolio due to macro weakening. We expect HCLT to deliver at guidance mid-point of 12-14% CC for FY23E and EBITM at the lower end of the 18-20% band. FY22-24E EPS CAGR is at 10% (in line with 5Y CAGR). Our TP is INR 1,140, valuing HCLT at 19x FY24E EPS (vs. 5Y/10Y average at 17x/16x). Current valuation of HCLT implies a modest 5.9% USD revenue CAGR over FY22-32E.

ADD

CMP (as on 4 Jul 22)	INR 985
Target Price	INR 1,140
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	9,936	10,176	11,481	12,640	14,019
<i>Growth (%)</i>	15.1	2.4	12.8	10.1	10.9
Net Revenues	706.78	753.79	856.51	983.46	1,107.49
EBITDA	166.93	200.56	205.30	220.01	254.58
EBIT	138.53	160.71	162.04	176.43	205.27
<i>EBIT (%)</i>	19.6	21.3	18.9	17.9	18.5
PBT	140.32	167.28	169.51	187.35	217.21
APAT	110.62	124.62	134.99	140.94	162.67
EPS (INR)	40.8	45.9	49.7	51.9	59.9

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	119.65	156.61	188.89	194.26	218.12
Debtors	141.31	136.63	154.76	179.71	202.97
Other Current Assets	123.24	137.27	136.90	137.56	137.71
Total Current Assets	384.20	430.51	480.55	511.53	558.80
Net Block	81.42	80.52	79.17	87.35	87.35
Goodwill & Other Intangible Assets	293.48	290.93	271.60	249.93	232.71
Other Non-current Assets	69.96	59.98	59.01	58.10	58.10
Total Non Current Assets	444.86	431.43	409.78	395.38	378.17
Creditors	11.66	17.26	22.97	22.52	25.36
Other Current Liabilities & Provns	207.19	156.57	164.16	160.76	160.76
Total Current Liabilities	218.85	173.83	187.13	183.28	186.12
TOTAL APPLICATION OF FUNDS	610.21	688.11	703.20	723.63	750.85
Total Shareholders' Funds	514.21	600.82	620.06	639.13	666.35
Total Debt	46.93	38.28	39.85	38.28	38.28
Other Liabilities + Minority	49.07	49.01	43.29	46.22	46.22
TOTAL SOURCES OF FUNDS	610.21	688.11	703.20	723.63	750.85

Source: Company, HSIE Research

Cash Flow (Consolidated)

	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	133.59	196.18	169.00	155.58	183.46
Capex + Acq	-82.52	-96.33	-20.16	-30.09	-32.10
Free Cash Flow (FCF)	51.07	99.85	148.84	125.49	151.37
Investing Cash Flow	-80.70	-89.05	-14.06	-19.74	-21.04
Financing Cash Flow	-28.73	-46.62	-125.85	-126.81	-138.81
Closing Cash & Equivalents	119.65	156.61	188.89	194.26	218.12

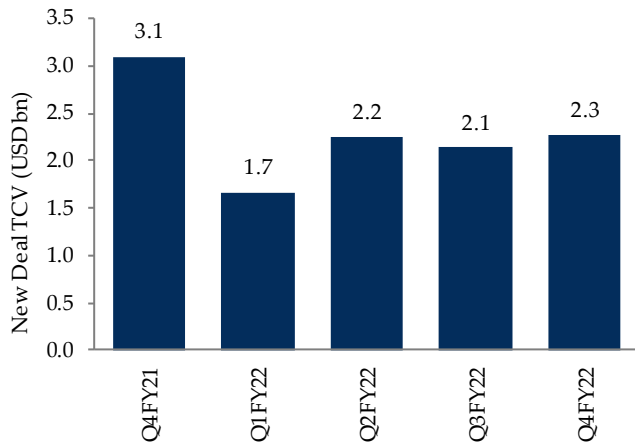
Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	23.8	22.4	22.1	22.4	24.9
RoIC (%)	25.5	24.6	24.7	25.5	29.0
Tax Rate (%)	20.9	21.9	20.2	24.6	25.0
Debtors (Billed days)	73	66	66	67	67
DPS (INR/sh)	14.0	26.0	44.0	45.0	50.0
P/E (x)	24.2	21.4	19.8	19.0	16.4
EV/EBITDA (x)	15.6	12.7	12.3	11.4	9.8
Payout Yield (Dividend + Buyback) %	0.6	1.2	4.2	4.5	5.0

Source: Company, HSIE Research

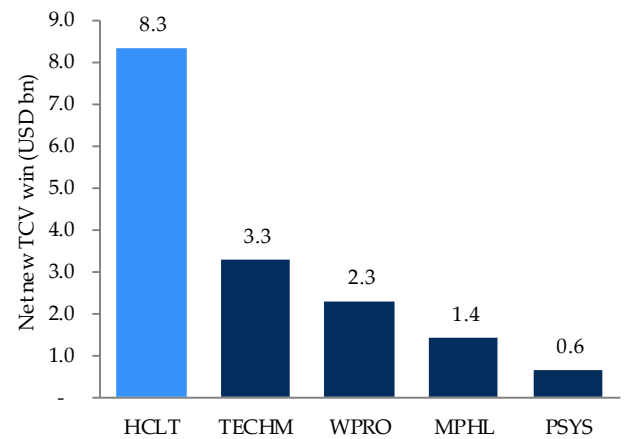
IT : Sector Thematic

Exhibit 1: Strong new deal TCV provides growth visibility



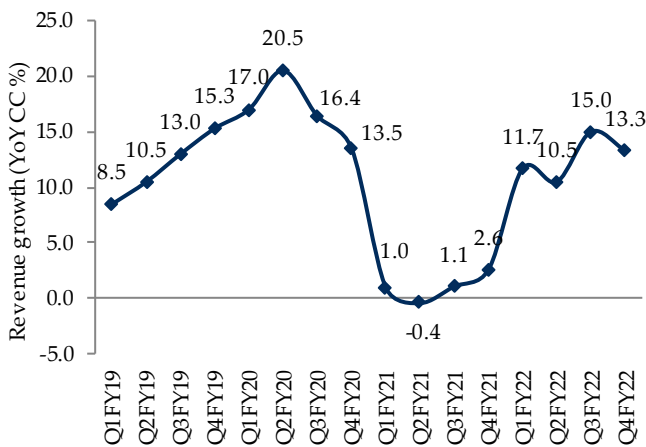
Source: Company, HSIE Research

Exhibit 2: Share of new TCV vs peers (TTM basis)



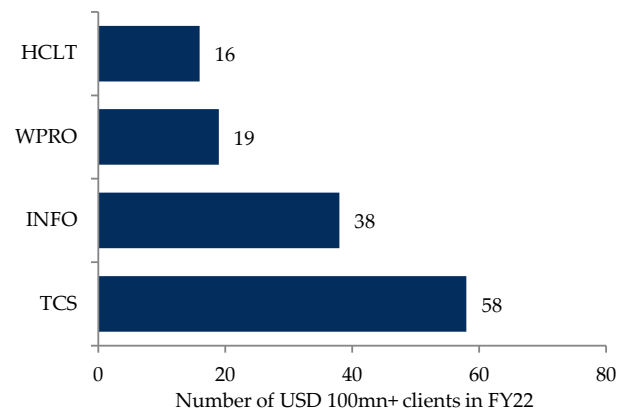
Source: Company, HSIE Research

Exhibit 3: HCLT's revenue YoY CC trend



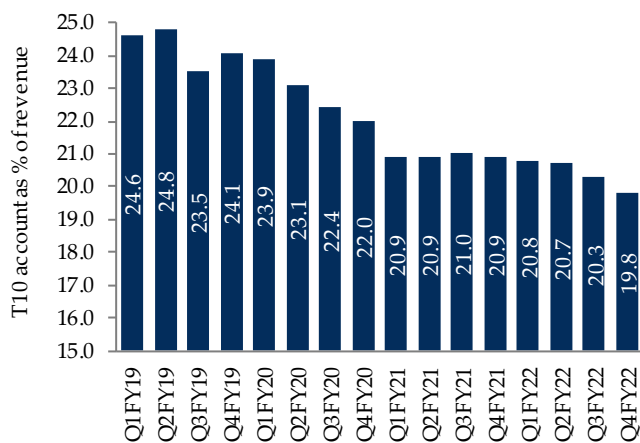
Source: Company, HSIE Research

Exhibit 4: Share of USD 100mn+ accounts vs peers



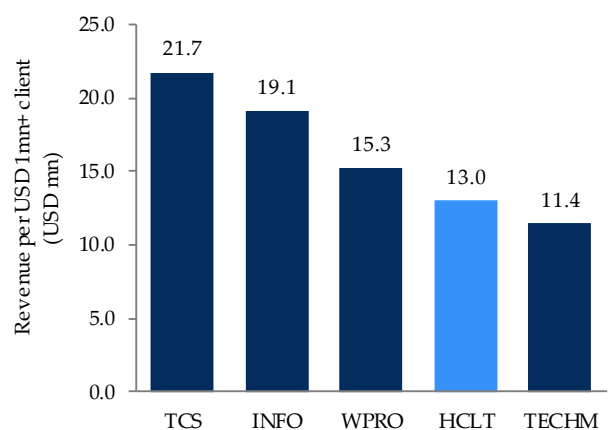
Source: Company, HSIE Research

Exhibit 5: Reducing client concentration risk - T10 % of revenue



Source: Company, HSIE Research

Exhibit 6: Revenue per USD 1mn+ client vs peers



Source: Company, HSIE Research

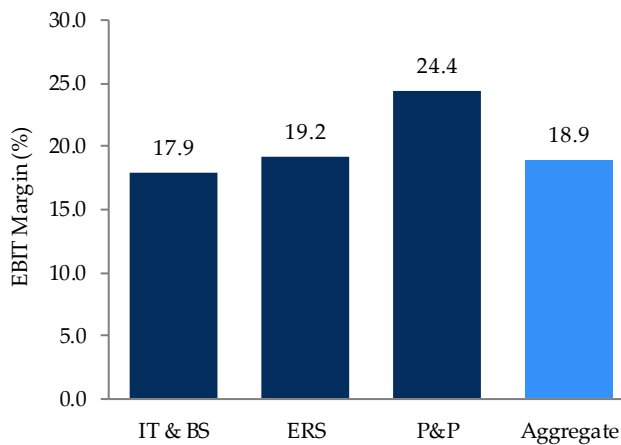
IT : Sector Thematic

Exhibit 7: Recent deal wins

Client Name	Vertical	Geography	Service
Euroclear	Financial Services	Belgium	Agile transformation
CEMEX	Mfg	Mexico	Apps & Infra
Husqvarna	Mfg	Sweden	Digital transformation
OSRAM	Technology & Services	Germany	ERP, CRM
Novo Nordisk	Life science & Healthcare	Denmark	IT operations
VELUX	Mfg	Denmark	IT transformation

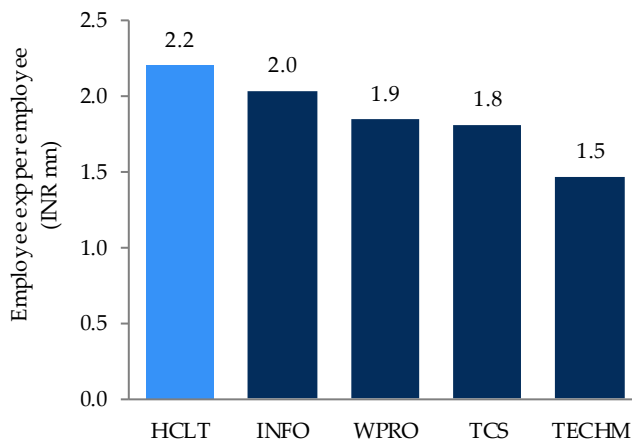
Source: Company, HSIE Research

Exhibit 9: Segmental margin - IT & BS, ERS, P&P



Source: Company, HSIE Research. Note: FY22 data

Exhibit 11: Employee expense/employee vs. peers



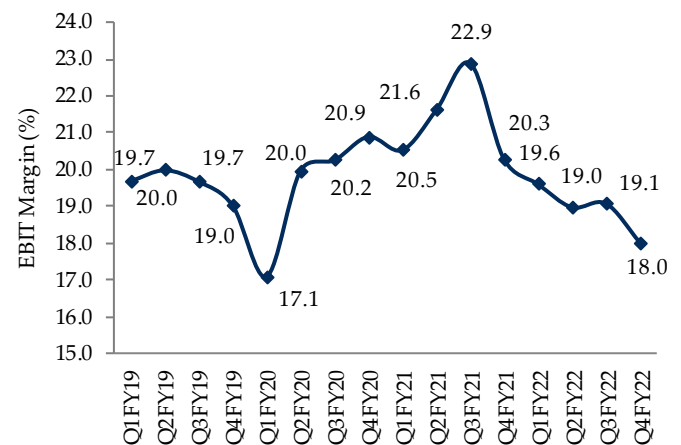
Source: Company, HSIE Research. Note: FY22 data & also impacted by sub-contractor dependence

Exhibit 8: Recent acquisition details

Date	Acquisition	Area of Operation	Purchase consideration (USD mn)	EV/Rev (x)
Sep-20	DWS Limited	IT Services	111	0.9
Dec-21	Gesellschaft	IT Consulting	0.1	NA
Jan-22	Starschema	Data Engineering	42	3.1
May-22	Confinale AG	IT Services for BFSI sector	55	3.0
May-22	Quest Informatics	ERP Software (IT)	2	1.1

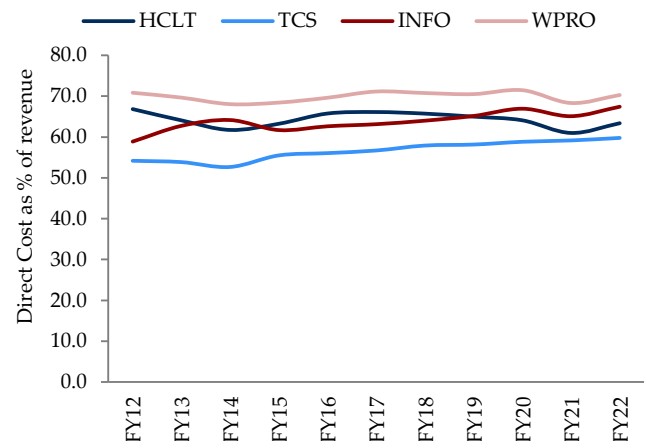
Source: Company, HSIE Research

Exhibit 10: EBITM trending at lower-end



Source: Company, HSIE Research

Exhibit 12: Direct cost as % of revenue



Source: Company, HSIE Research

Wipro

Improving consistency in growth

Wipro's (WPRO IN) trajectory is supported by (1) simplification of its operating structure, investments in global account executives and leadership diversity supporting large accounts (USD 100mn+ client count doubled in three years), (2) investments to scale the consulting business and inorganic acceleration to improve capabilities, and (3) strengthened BFSI portfolio and accelerated investments in alliances (SAP, hyperscalers). While WPRO's growth consistency has improved, the operating profile has slipped, which provides adequate room for improvement in the medium term. Growth catalysts for WPRO can be large synergy wins with Capco/Rizing and moderation in sub-contracting, supported by Topcoder. Key risk includes integration of recent acquisitions and cost impact from accelerated local hiring. WPRO's FY23E performance will lag tier-1 peers, leading to a soft 7% EPS CAGR over FY22-24E. Our TP is INR 490, 19x FY24E EPS (in-line with 5Y average). Current valuation of WPRO implies 5.2% USD revenue CAGR over FY22-32E.

ADD

CMP (as on 4 Jul 22)	INR 420
Target Price	INR 490
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	8,256	8,137	10,356	11,461	12,494
<i>Growth (%)</i>	1.7	-1.4	27.3	10.7	9.0
Net Revenues	610.23	619.43	790.93	909.42	1,004.69
EBITDA	122.28	147.80	164.66	178.72	202.90
EBIT	101.42	120.14	133.75	145.87	167.74
<i>EBIT (%)</i>	16.6	19.4	16.9	16.0	16.7
PBT	122.51	139.01	151.28	160.25	184.21
APAT	97.22	107.95	122.19	123.21	141.64
EPS (INR)	17.8	19.7	22.3	22.5	25.8

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	334.13	345.50	345.49	355.50	407.38
Debtors	104.47	94.30	115.22	129.56	143.13
Other Current Assets	81.24	83.39	160.04	116.86	129.10
Total Current Assets	519.85	523.19	620.75	601.92	679.62
Net Block	93.88	95.39	137.04	209.55	214.57
Goodwill & Other Intangible Assets	151.36	158.44	263.28	263.28	263.28
Other Non-current Assets	45.96	52.76	55.82	58.61	61.54
Total Non Current Assets	291.21	306.58	456.13	531.43	539.39
Creditors	78.13	78.87	99.03	118.46	130.03
Other Current Liabilities & Provsns	58.50	67.63	105.01	87.14	98.82
Total Current Liabilities	136.63	146.50	204.04	205.60	228.85
TOTAL APPLICATION OF FUNDS	674.43	683.27	872.84	927.75	990.16
Total Shareholders' Funds	557.46	553.10	658.16	713.00	775.32
Total Debt	97.39	106.81	178.89	178.89	178.89
Other Liabilities + Minority	19.58	23.37	35.80	35.86	35.94
TOTAL SOURCES OF FUNDS	674.43	683.27	872.84	927.75	990.16

Source: Company, HSIE Research

Cash Flow (Consolidated)

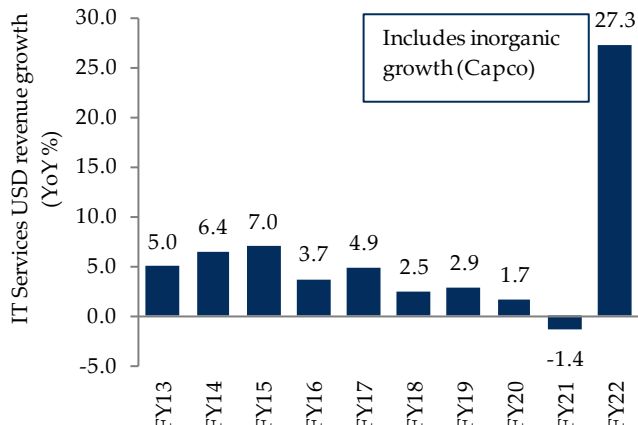
	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	108.00	152.77	116.18	172.20	157.12
Capex + Acq	-24.77	-28.70	-149.26	-105.36	-40.19
Free Cash Flow (FCF)	83.23	124.07	-33.08	66.84	116.93
Investing Cash Flow	-2.11	-12.56	-162.77	-88.57	-20.44
Financing Cash Flow	-151.00	-128.84	46.59	-73.62	-84.80
Closing Cash & Equivalents	334.13	345.50	345.49	355.50	407.38

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	17.3	19.4	20.2	18.0	19.0
RoIC (%)	23.8	27.8	20.5	19.6	22.2
Tax Rate (%)	21.9	20.2	21.8	19.1	23.0
Debtors (Billed days)	62	56	53	52	52
DPS (INR/sh)	1.0	1.0	11.0	12.5	14.5
P/E (x)	23.7	21.3	18.9	18.7	16.3
EV/EBITDA (x)	16.8	13.9	13.0	11.9	10.2
Payout Yield (Dividend + Buyback) %	4.9	5.3	0.3	3.0	3.4

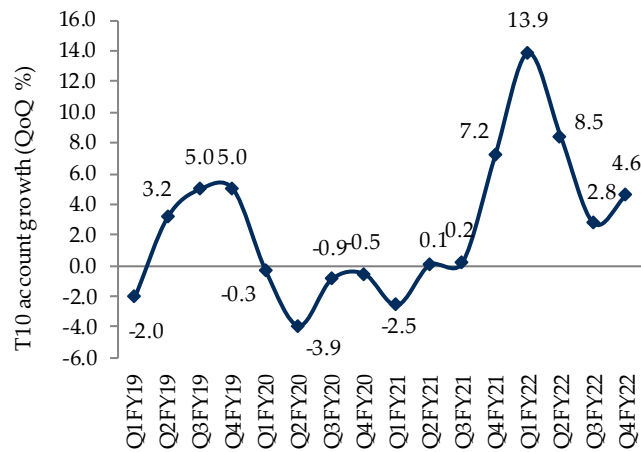
Source: Company, HSIE Research

Exhibit 1: WPRO's revenue growth trend



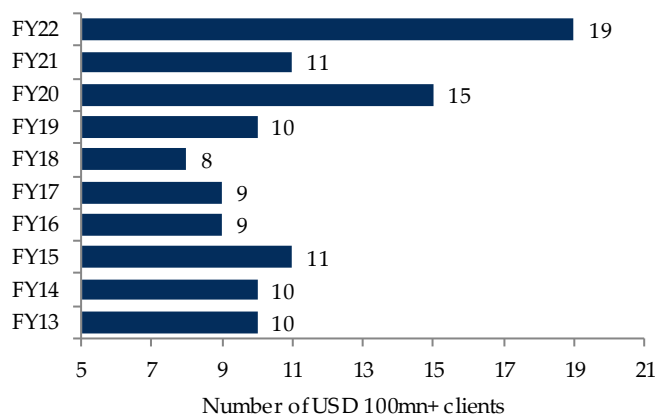
Source: Company, HSIE Research. Note: >12% in FY22 from Capco & Ampion

Exhibit 3: Improvement in client mining - T10 growth trend



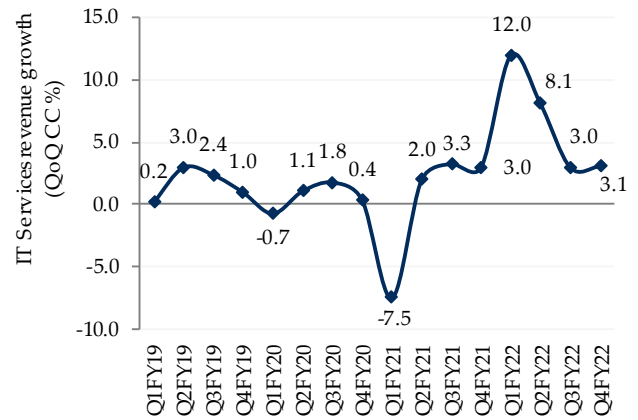
Source: Company, HSIE Research

Exhibit 5: USD 100mn+ client trend



Source: Company, HSIE Research

Exhibit 2: Revenue growth trend - quarterly QoQ CC



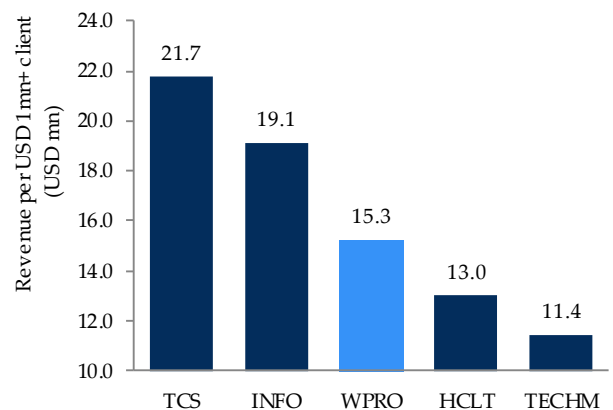
Source: Company, HSIE Research

Exhibit 4: Recent acquisitions

Date	Acquisition	Area of Operation	Purchase consideration (USD mn)	EV/Rev (x)
Mar-21	Capco	Consulting	1,450	2.0
Apr-21	Ampion	Cybersecurity, DevOps and quality eng. services	117	1.4
Dec-21	LeanSwift	Infor Implementation services	21	1.2
Dec-21	Edgile	Cybersecurity & Implementation	230	5.2
Apr-22	Convergence Acceleration Solutions (CAS)	Consulting & program management	80	2.8
Apr-22	Rizing	SAP consulting	540	2.9

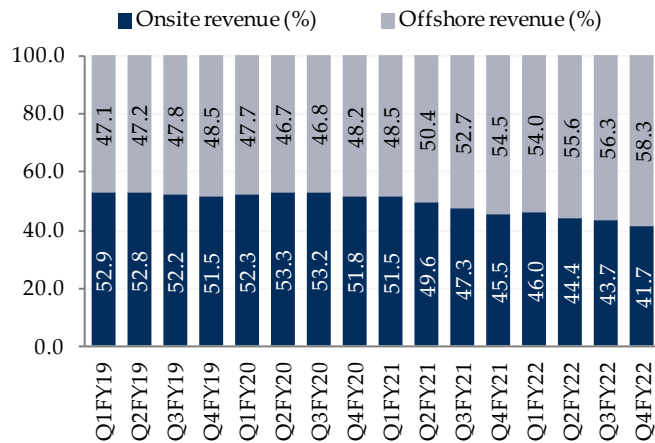
Source: Company, HSIE Research

Exhibit 6: Revenue per USD 1mn+ account vs. peers - FY22



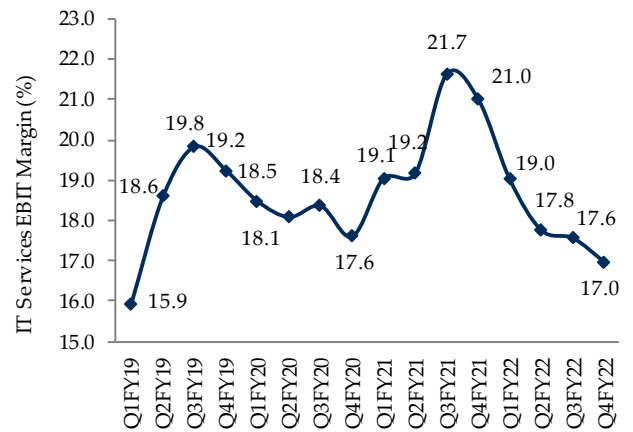
Source: Company, HSIE Research

Exhibit 7: Onsite-offshore revenue mix



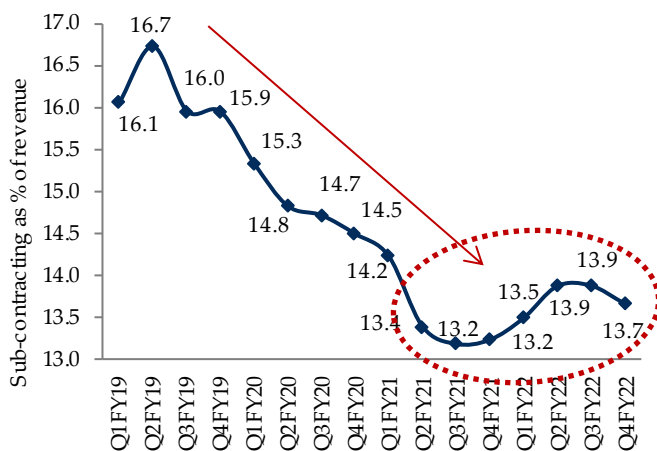
Source: Company, HSIE Research

Exhibit 8: IT Services EBIT margin trend



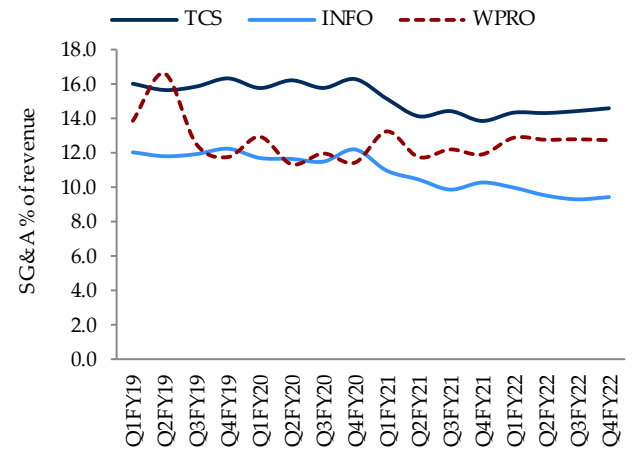
Source: Company, HSIE Research

Exhibit 9: Sub-contracting as % of revenue trend



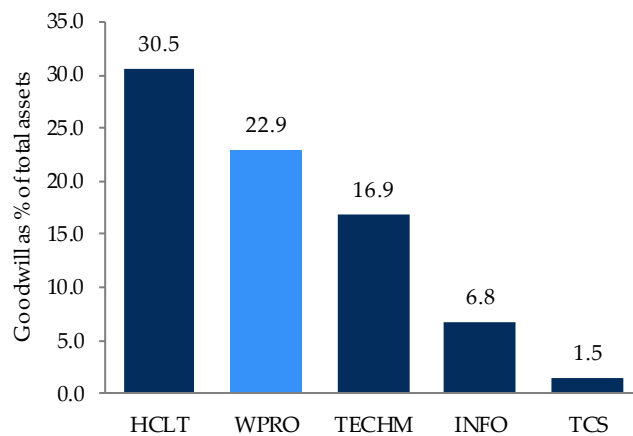
Source: Company, HSIE Research

Exhibit 10: SG&A % of revenue trend vs TCS, INFY



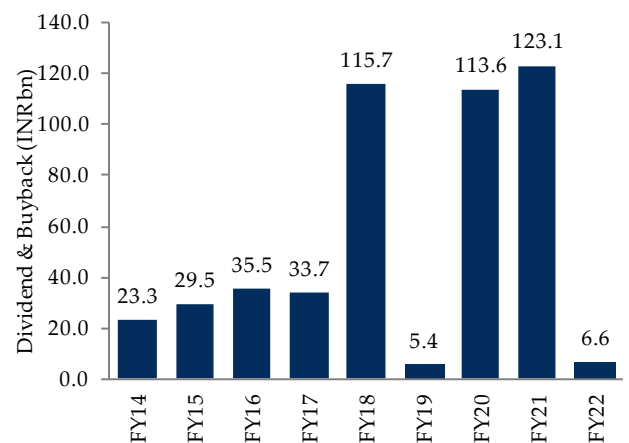
Source: Company, HSIE Research

Exhibit 11: Goodwill % of Total Asset vs peers



Source: Company, HSIE Research. Note: FY22 data

Exhibit 12: Dividend & Buyback trend



Source: Company, HSIE Research

Tech Mahindra

Acquisitions augmenting capabilities

Tech Mahindra (TECHM IN) has strong competitive and scale advantage in the communication vertical, amplified by the 5G uptick. Its growth would be led by (1) scale-up of sub-segments within enterprise division, (2) consistency in deal wins (USD 700mn+ quarterly TCV), and (3) improved capability and synergies from acquisitions (design & engineering). Key risks are operational underperformance, impacted by high dependence on sub-contracting, sub-optimal subsidiary profitability and delivery-mix, and acquisition intensity and its integration. Catalysts for TECHM include large deal wins in CME and BFSI verticals. FY23E EPS decline is expected on acquisition intensity and margin moderation; FY22-24E EPS CAGR at 10% factors in margin recovery in FY24E, compared to 11% CAGR over the past 10Y. Our TP is INR 1,150, valuing TECHM at 15x FY24E EPS (vs. 5Y/10Y average at 17x/15x).

ADD

CMP (as on 4 Jul 22)	INR 1,000
Target Price	INR 1,150
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	5,182	5,111	5,998	6,786	7,603
Growth (%)	4.3	-1.4	17.3	13.1	12.0
Net Revenues	368.68	378.55	446.46	527.98	600.61
EBITDA	57.26	68.47	80.20	87.99	108.19
EBIT	42.80	53.89	65.00	68.26	87.06
EBIT (%)	11.6	14.2	14.6	12.9	14.5
PBT	50.63	59.52	74.49	76.10	93.73
APAT	42.51	44.79	55.66	54.92	67.98
EPS (INR)	48.2	50.8	63.1	62.3	77.1

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	89.97	130.73	88.58	85.72	80.93
Debtors	75.77	64.73	119.33	130.19	148.10
Other Current Assets	68.35	62.85	41.12	52.23	57.96
Total Current Assets	234.08	258.31	249.04	268.14	286.99
Net Block	54.84	50.10	73.58	72.33	72.22
Goodwill & Other Intangible Assets	33.88	40.08	74.26	74.26	74.26
Other Non-current Assets	42.29	39.15	43.64	47.60	51.92
Total Non Current Assets	131.01	129.34	191.48	194.18	198.40
Creditors	32.57	27.85	40.95	48.22	53.96
Other Current Liabilities & Provs	54.20	59.97	69.70	71.34	73.09
Total Current Liabilities	86.76	87.82	110.65	119.56	127.05
TOTAL APPLICATION OF FUNDS	278.33	299.83	329.87	342.76	358.33
Total Shareholders' Funds	218.13	248.65	268.86	278.80	291.10
Total Debt	24.28	16.62	15.82	15.82	15.82
Other Liabilities + Minority	35.92	34.56	45.19	48.15	51.41
TOTAL SOURCES OF FUNDS	278.33	299.83	329.87	342.76	358.33

Source: Company, HSIE Research

Cash Flow (Consolidated)

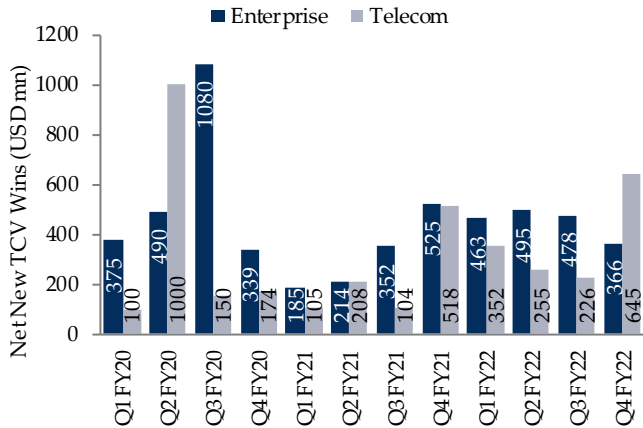
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	43.64	80.94	52.85	52.76	65.23
Capex + Acq	-13.77	-17.07	-54.24	-18.48	-21.02
Free Cash Flow (FCF)	29.86	63.87	-1.39	34.28	44.21
Investing Cash Flow	-8.57	-20.17	-53.25	-8.38	-11.99
Financing Cash Flow	-42.31	-26.71	-42.19	-47.24	-58.03
Closing Cash & Equivalents	89.97	130.73	88.58	85.72	80.93

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	20.2	19.2	21.5	20.1	23.9
RoIC (%)	20.3	22.1	23.9	20.3	24.1
Tax Rate (%)	22.0	26.7	24.5	26.0	26.0
Debtors (Billed days)	75	62	98	90	90
DPS (INR/sh)	24.1	17.0	45.0	43.6	53.9
P/E (x)	20.8	19.7	15.8	16.1	13.0
EV/EBITDA (x)	14.3	11.3	10.1	9.3	7.6
Payout Yield (Dividend + Buyback) %	4.8	2.0	4.5	5.0	6.2

Source: Company, HSIE Research

Exhibit 1: Deal trajectory - Enterprise & CME



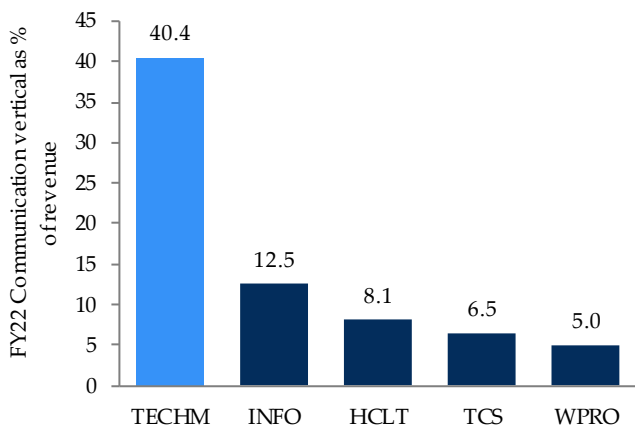
Source: Company, HSIE Research

Exhibit 3: Recent acquisitions

Date	Acquisition	Area of Operation	Purchase Consideration (USD mn)	EV/Rev (x)
Apr-21	DigitalOnUs, Inc.	Cloud & DevOps	120	3.9
Apr-21	Eventus Solutions Group	BPS, CX	44	1.3
Jun-21	Brainscale	Cloud consulting	29	2.9
Oct-21	Beris consulting	Consulting, CX (Automotive)	8	0.7
Oct-21	Lodestone/Infostar LLC	Product engineering & quality assurance	105	2.4
Oct-21	WMW	Design agency	13	2.0
Dec-21	Activus Connect	CX & customer care solutions	62	1.4
Dec-21	Allyis	Consulting & managed services	125	2.5
Jan-22	Com Tec Co IT Ltd (CTC)	Digital engineering services	354	3.9
Feb-22	Geomatic.ai Pty	Energy and Utilities	4	NA
Mar-22	Thirdware Solutions	ERP Solutions	42	1.2

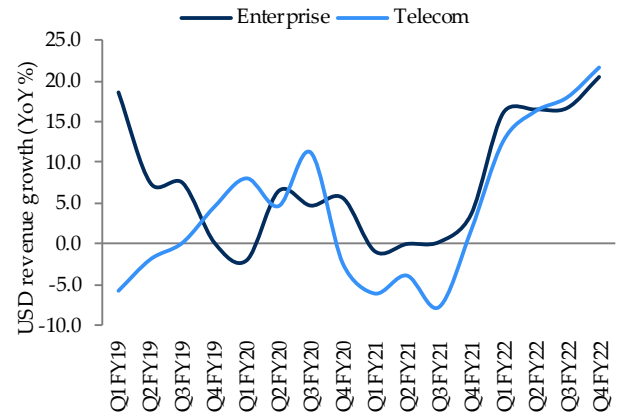
Source: Company, HSIE Research

Exhibit 5: Dominant CME vertical vs. peers



Source: Company, HSIE Research; TECHM - Communications, Media & Entertainment (CME); INFO - Communication; HCLT - Communication; TCS - Communication & Media; WPRO - Communications

Exhibit 2: Enterprise & CME growth trend - YoY %



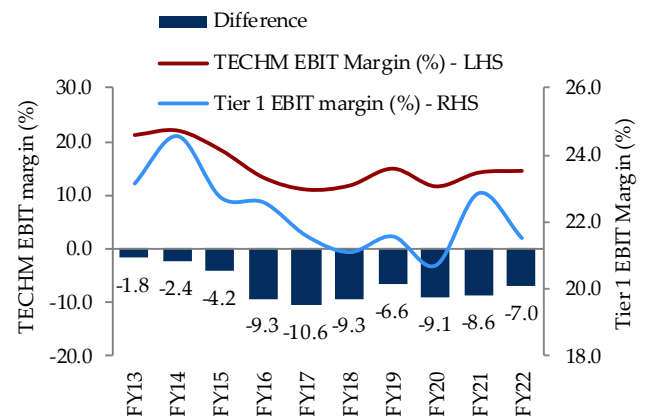
Source: Company, HSIE Research

Exhibit 4: Key deals wins

Client Name	Vertical	Geography	Service
Bharti Airtel	CME	India	5G Innovation Lab
Aska	Technology, Media & Entertainment	US	Electric drive
Yellow.ai	Technology, Media & Entertainment	US	ERP, HRMS, SCM, and CRM
Nokia	CME	Finland	Managed services
Freemans Grattan Holdings	Retail, Transport & Logistics	UK	Digital Transformation
Communis	Others	US	ERP Transformation

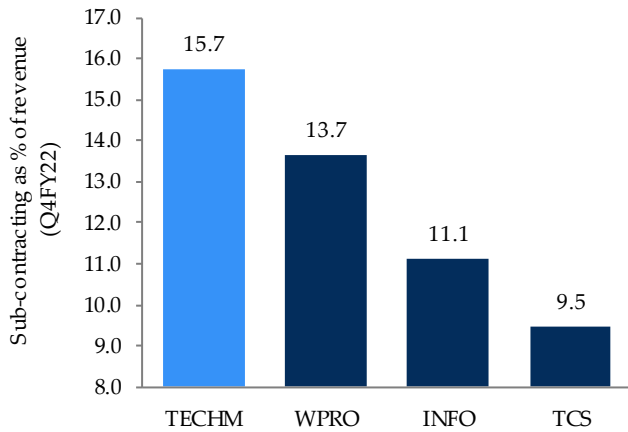
Source: Company, HSIE Research

Exhibit 6: EBITM trend & differential vs. Tier-1 aggregate



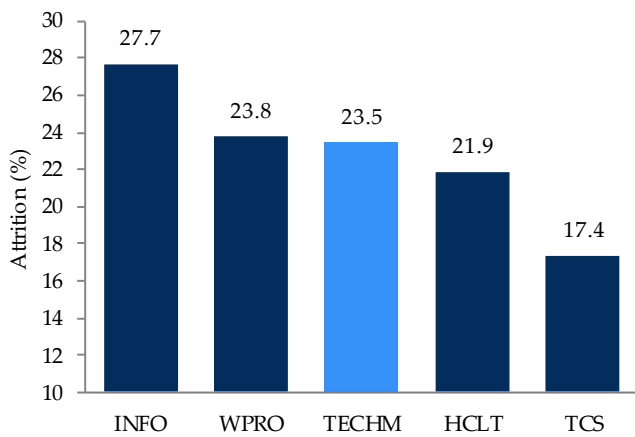
Source: Company, HSIE Research

Exhibit 7: Sub-contracting % higher than peers



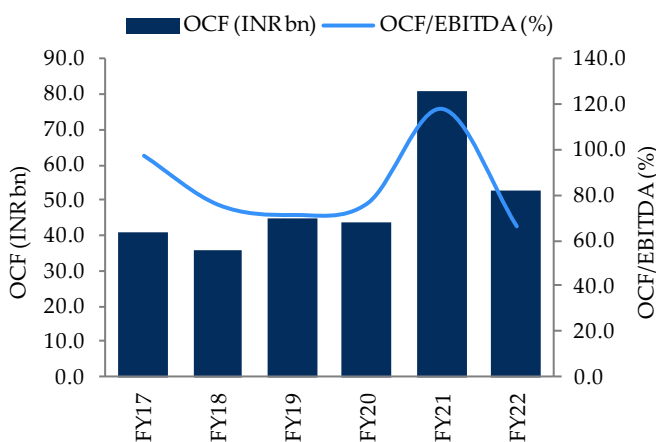
Source: Company, HSIE Research. Note: Q4FY22 data

Exhibit 9: Attrition vs. peers



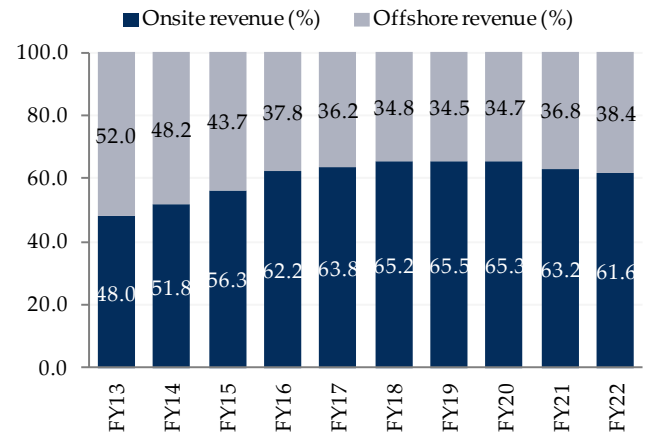
Source: Company, HSIE Research; TCS - LTM % (IT Services); INFO - Voluntary Attrition % (Annualized - IT Services); WPRO - Voluntary TTM; HCLT - LTM (voluntary ex-BPO); TECHM - LTM basis

Exhibit 11: OCF & OCF/EBITDA trend



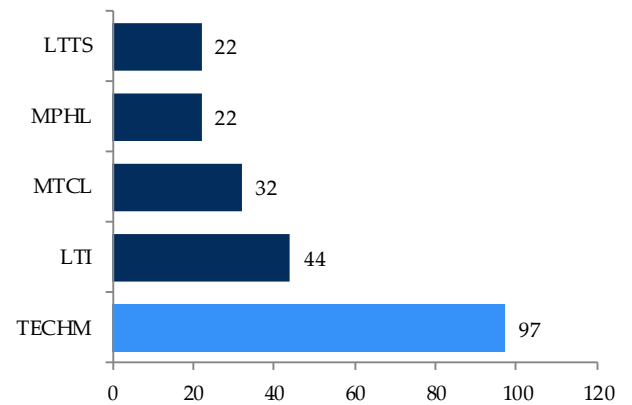
Source: Company, HSIE Research

Exhibit 8: Scope to improve offshore-mix



Source: Company, HSIE Research

Exhibit 10: USD 10mn+ clients (Nos) vs. mid-tier peers



Source: Company, HSIE Research. Note Q4FY22 data

Exhibit 12: P/E correction to historical average - 1 yr Fwd P/E trend



Source: Company, HSIE Research

L&T Infotech

Challenger to tier-1s

L&T Infotech (LTI IN) has (1) a strong track record of account mining, (2) nearly doubled deal pipeline in three years, reflecting growth in competency, (3) strength in BFSI vertical and a diversified vertical base, (4) solution expertise, supported by prior acquisitions and improved tiering with hyperscalers, and (5) scope to increase base of pyramid to improve efficiency. Seasonality of stronger H2, scale-up in advisory-led deal channel, and consistency in APAT margin are likely to drive growth. Growth catalysts for LTI are large deal wins, supported by joint GTM with Mindtree, and uptick in insurance vertical. Key risks are top client (BFSI) concentration, senior management attrition, and increase in DSO (higher than peers). Our TP is INR 5,150, at 29x FY24E EPS (vs. 26x and 24x at 5Y/10Y average). FY22-24E EPS CAGR is at 16.5%, compared to ~17% CAGR over the last 5Y/10Y.

BUY

CMP (as on 4 Jul 22)	INR 3,976
Target Price	INR 5,150
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	1,525	1,670	2,103	2,482	2,885
Growth (%)	13.0	9.5	25.9	18.0	16.2
Net Revenues	108.79	123.70	156.69	193.10	227.88
EBITDA	20.29	27.25	30.58	37.31	43.25
EBIT	17.56	23.93	27.04	33.06	38.23
EBIT (%)	16.1	19.3	17.3	17.1	16.8
PBT	20.03	25.88	30.97	36.12	41.85
APAT	15.21	18.93	22.99	26.91	31.18
EPS (INR)	86.8	108.0	131.2	153.5	177.9

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	27.44	43.88	39.14	48.24	58.66
Debtors	23.12	20.84	28.34	34.92	41.21
Other Current Assets	12.73	16.60	21.18	26.10	30.81
Total Current Assets	63.29	81.31	88.66	109.26	130.68
Net Block	13.04	12.75	14.52	15.15	16.26
Goodwill & Other Intangible Assets	6.37	6.57	6.90	6.90	6.90
Other Non-current Assets	3.33	5.91	14.07	14.07	14.07
Total Non Current Assets	22.74	25.23	35.49	36.12	37.23
Creditors	6.95	8.28	8.03	9.89	11.68
Other Current Liabilities & Provsns	16.04	17.63	20.64	25.37	28.96
Total Current Liabilities	22.99	25.91	28.66	35.26	40.63
TOTAL APPLICATION OF FUNDS	63.04	80.64	95.48	110.12	127.28
Total Shareholders' Funds	54.04	73.03	88.15	102.76	119.90
Total Debt	0.32	0.41	0.52	0.52	0.52
Other Liabilities + Minority	8.68	7.19	6.82	6.84	6.86
TOTAL SOURCES OF FUNDS	63.04	80.64	95.48	110.12	127.28

Source: Company, HSIE Research

Cash Flow (Consolidated)

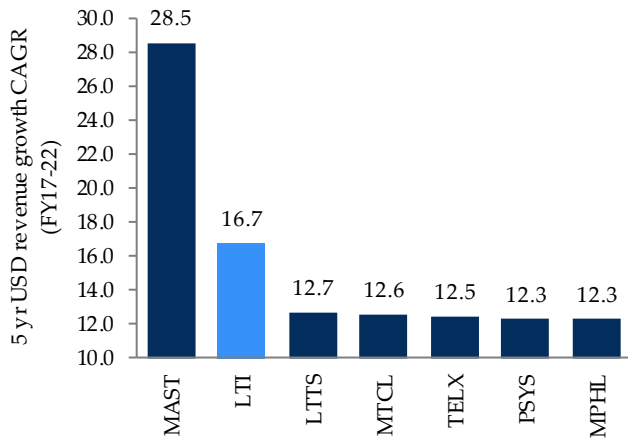
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	16.44	24.00	16.52	24.16	28.07
Capex + Acq	-2.57	-3.13	-9.02	-4.88	-6.12
Free Cash Flow (FCF)	13.87	20.87	7.50	19.28	21.94
Investing Cash Flow	-1.85	-0.82	-7.94	-2.04	-2.86
Financing Cash Flow	-8.90	-5.09	-10.46	-13.02	-14.78
Closing Cash & Equivalents	27.44	43.88	39.14	48.24	58.66

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	29.5	29.8	28.5	28.2	28.0
RoIC (%)	42.5	49.5	43.1	41.7	43.7
Tax Rate (%)	24.1	25.1	25.8	25.5	25.5
Debtors (Billed days)	78	61	66	66	66
DPS (INR/sh)	28.0	40.0	55.0	70.0	80.0
P/E (x)	45.8	36.8	30.3	25.9	22.4
EV/EBITDA (x)	33.0	24.0	21.5	17.4	14.8
Payout Yield (Dividend + Buyback) %	0.8	0.8	1.2	1.7	2.0

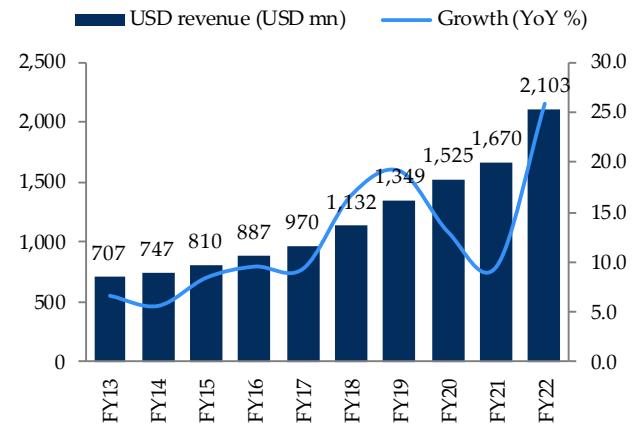
Source: Company, HSIE Research

Exhibit 1: 5Y growth CAGR vs. peers



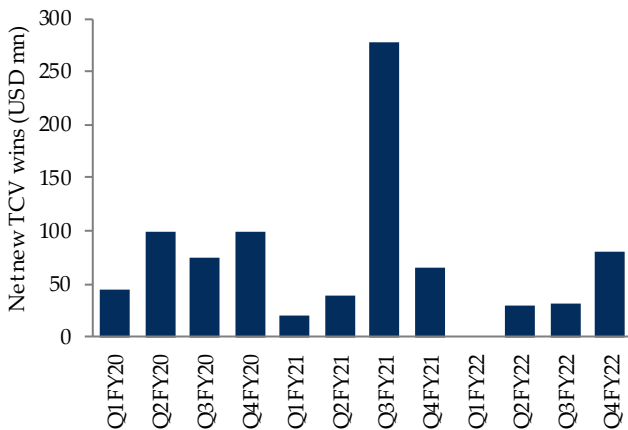
Source: Company, HSIE Research

Exhibit 2: USD revenue & revenue growth trend



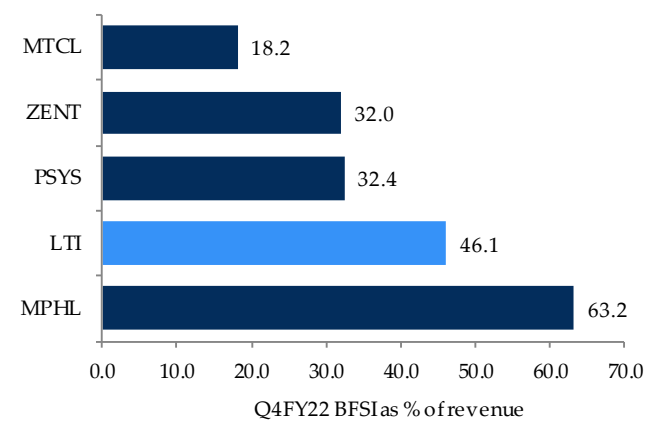
Source: Company, HSIE Research

Exhibit 3: Large deal net new TCV trend



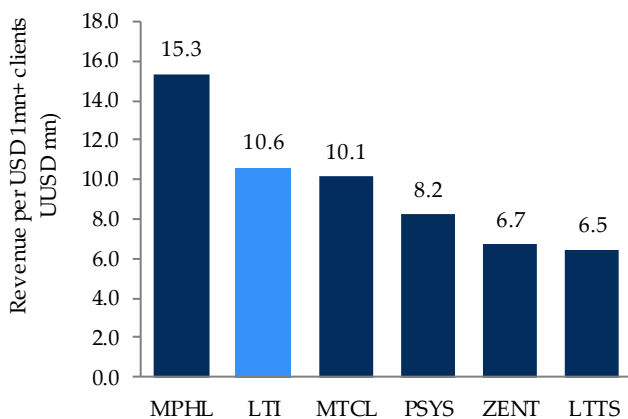
Source: Company, HSIE Research; Note: only net new deals > USD 15mn TCV

Exhibit 4: BFSI % of revenue vs. peers



Source: Company, HSIE Research; MPHL – Banking, Financial Services & Insurance; LTI – BFS & Insurance; PSYS – BFSI; MTCL – BFSI; ZENT – Banking & Insurance

Exhibit 5: Revenue per USD 1mn+ client vs. peers



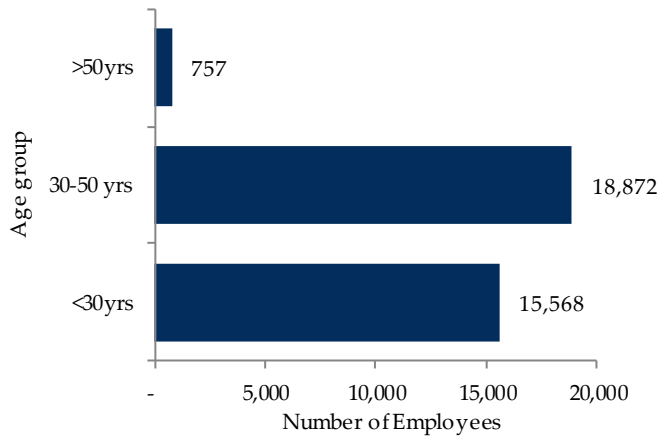
Source: Company, HSIE Research

Exhibit 6: Key acquisitions

Date	Acquisition	Area of Operation	Purchase Consideration (USD mn)	EV/Rev (x)
17-Jul-19	Lymbyc	AI led predictive insights platform	4.9	5.4
17-Oct-19	Powerupcloud	Cloud & managed services	15.0	4.3
16-Jun-21	Cuelogic	Digital product engineering	8.4	1.5

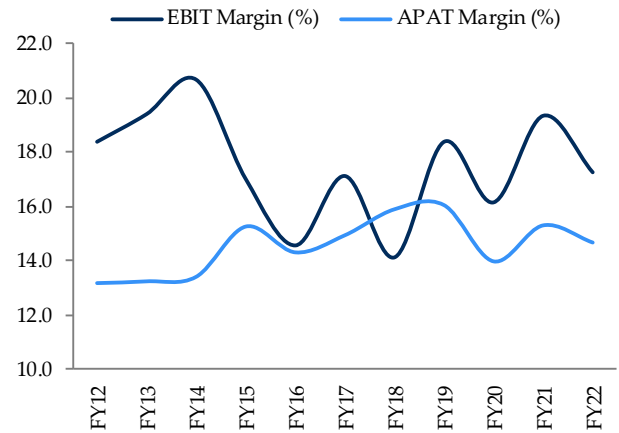
Source: Company, HSIE Research

Exhibit 7: Employee pyramid (headcount by age)



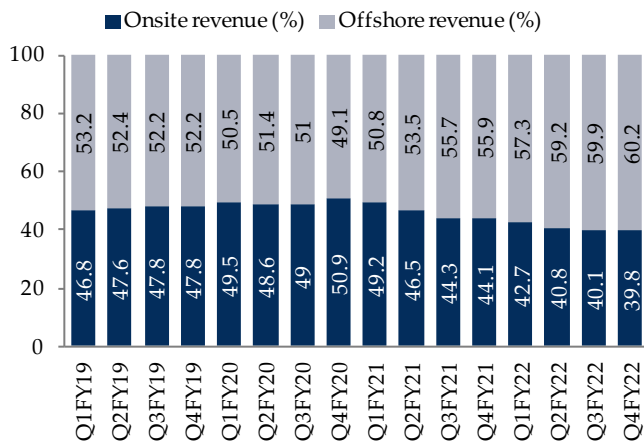
Source: Company, HSIE Research. Note: FY21 data

Exhibit 8: EBITM & APATM Trend



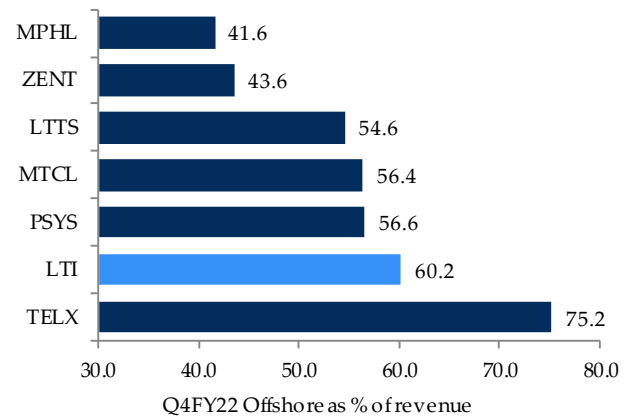
Source: Company, HSIE Research

Exhibit 9: Onsite-offshore revenue mix trend



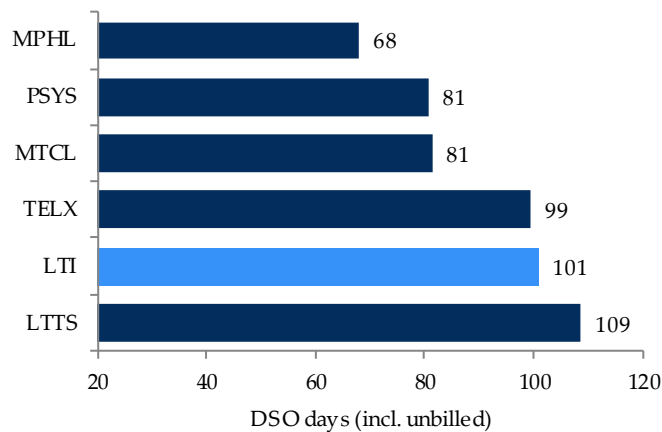
Source: Company, HSIE Research

Exhibit 10: Offshore mix vs. peers



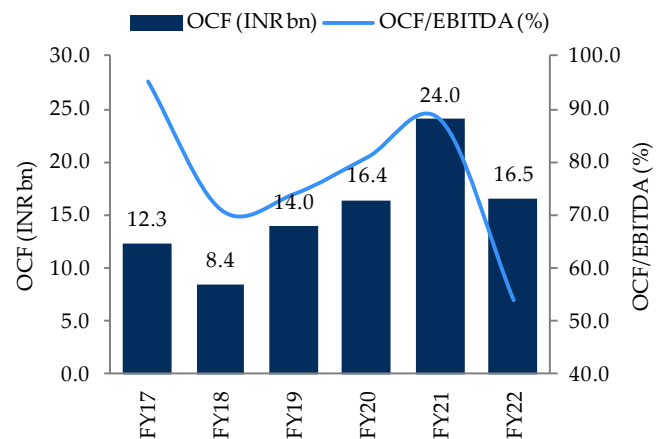
Source: Company, HSIE Research. Note: Q4FY22 data

Exhibit 11: DSO (incl. unbilled) vs. peers - FY22



Source: Company, HSIE Research

Exhibit 12: OCF & OCF/EBITDA trend



Source: Company, HSIE Research

Tata Elxsi

Growth leadership, but valuation constraints

Tata Elxsi (TELX IN) is a niche ER&D and design services provider with industry leading growth and operating profile. Its outperformance has been led by (1) increase in project duration and scale-up in multi-million deals; (2) building sub-verticals/adjacencies such as off-highway, rail within transportation and OTT & new media within broadcast & communication, which have supported growth and operational fungibility; (3) superior delivery metrics among peers with highest offshoring, low sub-contractor dependence and low attrition. Key risks include client concentration with two large accounts contributing a quarter of revenue, volatility in IDV business and increase in investments onshore. Over the past two years, TELX has doubled its profit (FCF up >75%), with EBITDAM catapulting from 21% in FY20 to 31% in FY22, led by superior delivery metrics (offshore-led and lower sub-con dependence). From here, we expect the EPS to double in three years (revenue-led) with steady margins and ~40% RoCE. Yet, these base case assumptions seems adequately priced-in and there's low margin of safety at 55x FY24E; implied USD revenue growth rate over FY22-32E is ~22% CAGR at current valuation. Our TP for TELX is INR 6,630, based on 45x FY24E EPS (vs. 5Y average at 36x), with 29% EPS CAGR over FY22-24E.

SELL

CMP (as on 4 Jul 22)	INR 8,081
Target Price	INR 6,630
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	227	247	331	412	515
Growth (%)	-0.9	8.8	34.3	24.4	24.8
Net Revenues	16.10	18.26	24.71	32.09	40.66
EBITDA	3.43	5.22	7.66	10.31	12.88
EBIT	3.00	4.78	7.10	9.57	11.94
EBIT (%)	18.6	26.2	28.8	29.8	29.4
PBT	3.52	5.12	7.45	9.98	12.48
APAT	2.71	3.68	5.50	7.33	9.17
EPS (INR)	43.6	59.1	88.3	117.8	147.3

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	6.64	9.62	11.04	13.29	16.17
Debtors	3.92	4.02	5.54	7.30	9.47
Other Current Assets	1.45	1.29	1.77	2.30	2.91
Total Current Assets	12.01	14.93	18.34	22.88	28.55
Net Block	1.35	1.58	2.73	2.80	3.05
Goodwill & Other Intangible Assets	0.13	0.19	0.20	0.19	0.21
Other Non-current Assets	0.31	0.36	0.33	0.56	0.56
Total Non Current Assets	1.79	2.13	3.26	3.55	3.83
Creditors	0.47	0.56	0.84	1.09	1.39
Other Current Liabilities & Provns	1.70	2.08	3.26	4.17	5.23
Total Current Liabilities	2.17	2.64	4.10	5.27	6.62
TOTAL APPLICATION OF FUNDS	11.63	14.42	17.50	21.17	25.75
Total Shareholders' Funds	10.90	13.52	16.01	19.68	24.26
Total Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities + Minority	0.73	0.90	1.49	1.49	1.49
TOTAL SOURCES OF FUNDS	11.63	14.42	17.50	21.17	25.75

Source: Company, HSIE Research

Cash Flow (Consolidated)

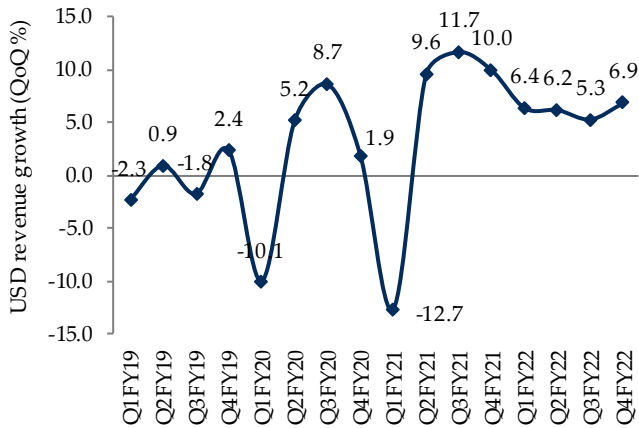
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	2.56	4.37	4.83	6.50	8.10
Capex + Acq	-0.23	-0.39	-0.71	-0.81	-1.19
Free Cash Flow (FCF)	2.33	3.99	4.12	5.69	6.91
Investing Cash Flow	0.13	-0.26	-0.50	-0.27	-0.52
Financing Cash Flow	-1.08	-1.09	-3.08	-3.79	-4.71
Closing Cash & Equivalents	6.64	9.62	11.04	13.29	16.17

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	26.7	30.1	37.2	41.1	41.8
RoIC (%)	46.7	70.2	93.0	98.1	100.5
Tax Rate (%)	27.3	28.1	26.3	26.5	26.5
Debtors (Billed days)	89	80	82	83	85
DPS (INR/sh)	16.5	24.0	66.5	58.9	73.6
P/E (x)	185.4	136.7	91.6	68.6	54.9
EV/EBITDA (x)	144.8	94.5	64.3	47.5	37.8
Payout Yield (Dividend + Buyback) %	0.2	0.2	0.6	0.7	0.9

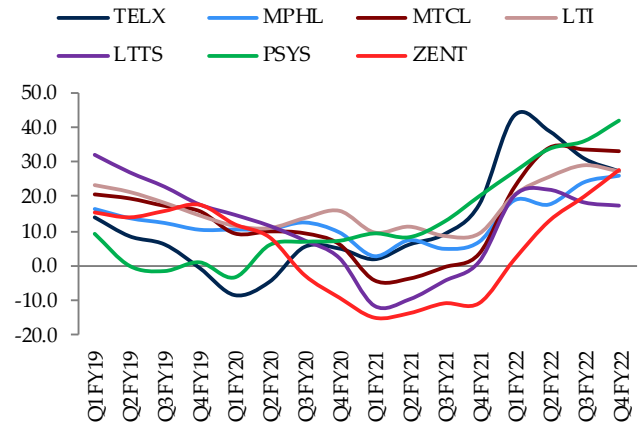
Source: Company, HSIE Research

Exhibit 1: TELX' sequential revenue growth trend



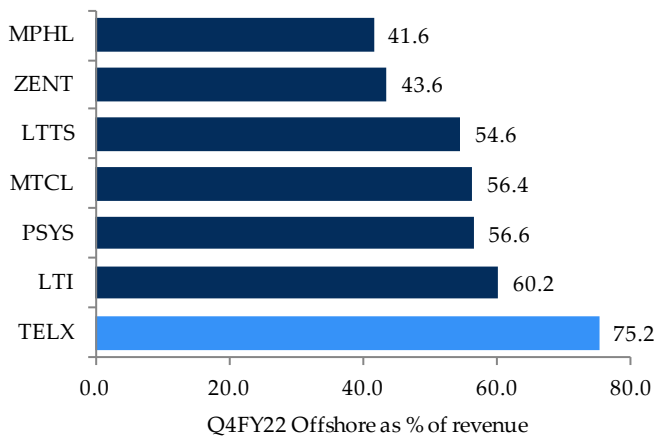
Source: Company, HSIE Research

Exhibit 2: YoY % growth trend vs mid tier peers



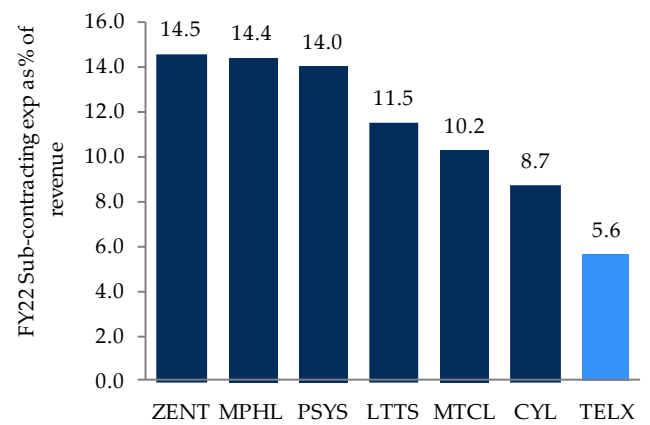
Source: Company, HSIE Research

Exhibit 3: Highest offshore % of revenue vs. peers



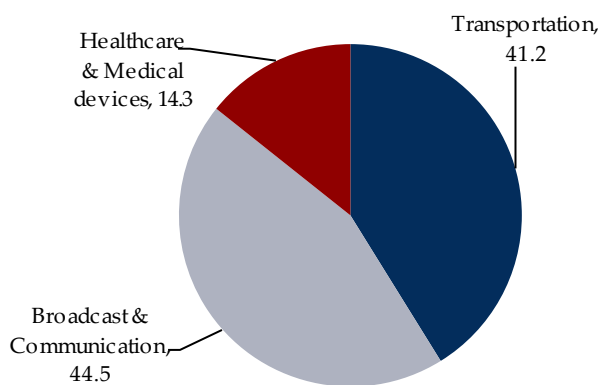
Source: Company, HSIE Research

Exhibit 4: Lowest sub-con % vs peers - FY22



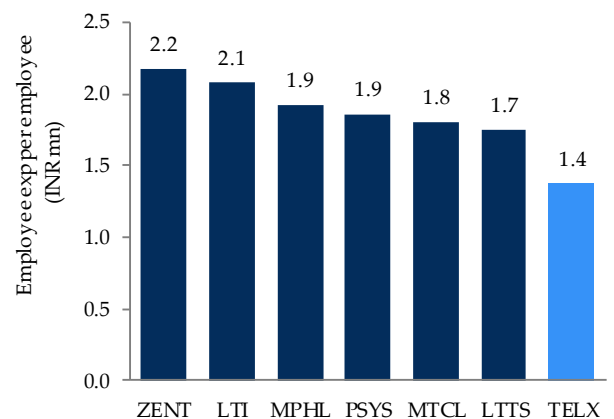
Source: Company, HSIE Research

Exhibit 5: Revenue mix – EPD Segment



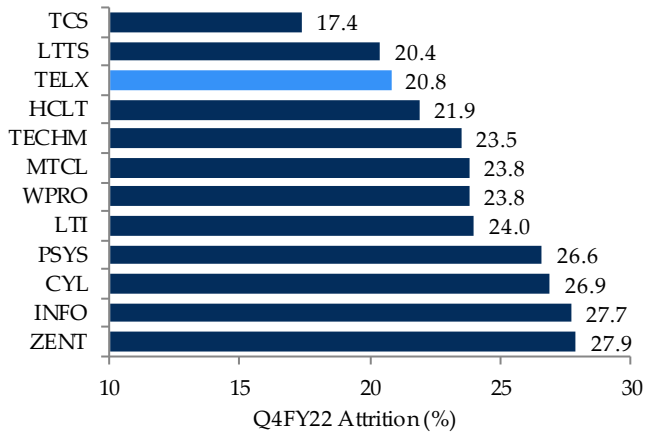
Source: Company, HSIE Research. Note: FY22 data

Exhibit 6: Employee expense per employee vs. peers



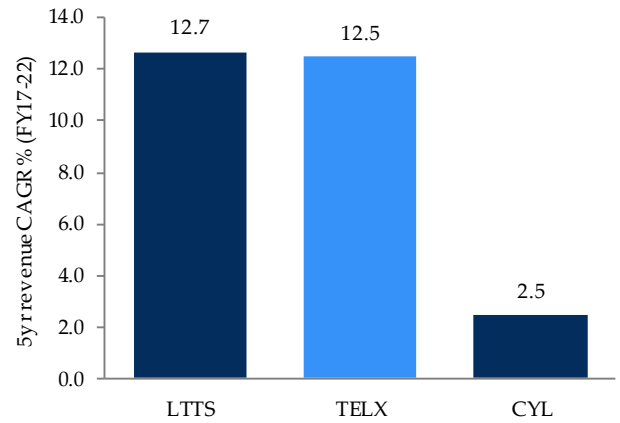
Source: Company, HSIE Research. Note: FY22 data

Exhibit 7: Attrition vs. peers



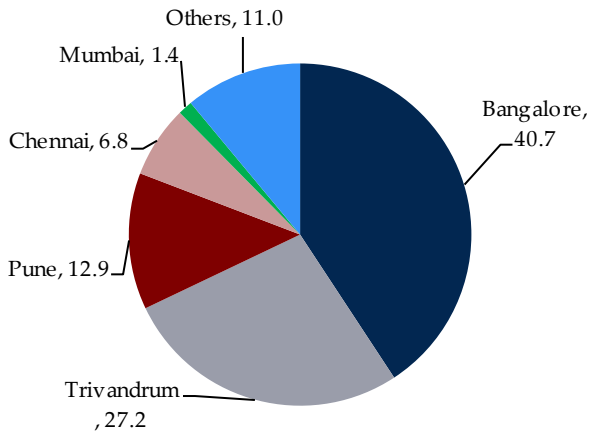
Source: Company, HSIE Research; Note: TCS - LTM % (IT Services); INFO - Voluntary Attrition % (TTM); WPRO - Voluntary TTM; HCLT - LTM (voluntary ex-BPO); LTTS, CYL & ZENT - Voluntary Attrition % (LTM); TELX, MTCL, LTI & PSYS - LTM basis

Exhibit 8: 5 year revenue CAGR vs. ER&D peers



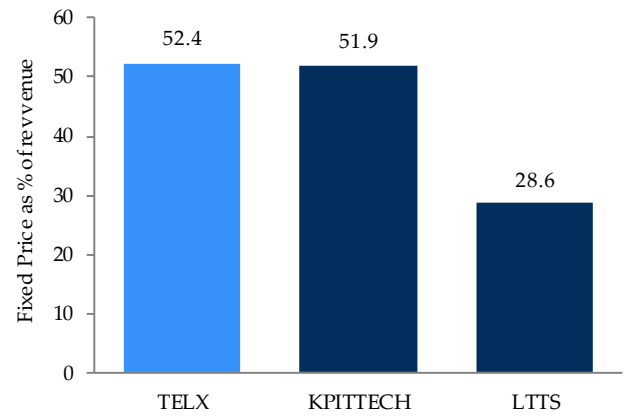
Source: Company, HSIE Research

Exhibit 9: Headcount mix (%) by location



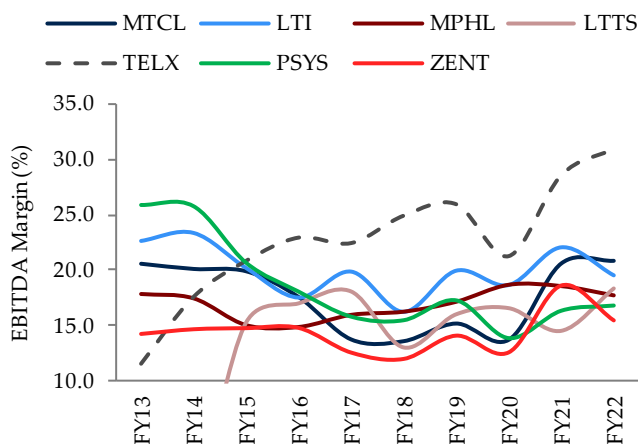
Source: Company, HSIE Research. Note: FY21 data

Exhibit 10: Fixed Price % of revenue vs. ER&D peers



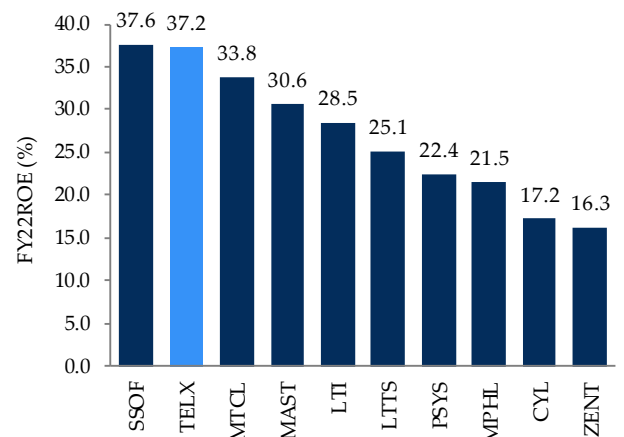
Source: Company, HSIE Research

Exhibit 11: EBITDAM trend vs peers



Source: Company, HSIE Research

Exhibit 12: RoE vs peers - FY22



Source: Company, HSIE Research

Mindtree

Improved cross-sell

Mindtree's (MTCL IN) growth is led by (1) strong credentials in hi-tech and travel & hospitality verticals, (2) strength in digital front-end and scale-up in partner ecosystem (Salesforce, Adobe), (3) focus on building full-stack services, cross-sell/upsell focus and reducing growth dependence on top account, (4) expansion in Continental Europe. Key risks include increase in sub-contracting to backfill high attrition and T1 account concentration (to reduce after the merger with LTI). Growth catalysts include recovery in RCM vertical large win, supported by GTM with LTI. Our TP is INR3,860, based on 28x FY24E EPS (5Y/10Y average at 26x/21x). Valuation is expected to trail the swap ratio with LTI (100 shares of Mindtree for 73 shares of LTI).

BUY

CMP (as on 4 Jul 22)	INR 2,862
Target Price	INR 3,860
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	1,089	1,077	1,411	1,686	1,984
Growth (%)	8.7	-1.1	31.1	19.5	17.7
Net Revenues	77.64	79.68	105.25	131.16	156.75
EBITDA	10.62	16.43	21.96	26.90	31.36
EBIT	7.87	13.83	19.54	23.80	27.64
EBIT (%)	10.1	17.4	18.6	18.1	17.6
PBT	8.29	14.98	22.11	25.89	30.51
APAT	6.66	11.57	16.53	19.29	22.73
EPS (INR)	40.4	70.3	100.3	117.1	138.0

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	13.62	28.07	36.02	46.05	59.01
Debtors	14.39	12.74	17.31	21.57	25.78
Other Current Assets	5.35	6.11	10.52	12.66	14.27
Total Current Assets	33.35	46.92	63.86	80.28	99.06
Net Block	9.36	8.03	9.02	9.83	10.45
Goodwill & Other Intangible Assets	4.73	4.73	4.73	4.73	4.73
Other Non-current Assets	2.29	3.59	3.97	3.97	3.97
Total Non Current Assets	16.38	16.35	17.72	18.53	19.14
Creditors	2.55	2.68	5.36	6.72	8.12
Other Current Liabilities & Provs	10.68	13.25	16.65	20.15	23.65
Total Current Liabilities	13.24	15.93	22.01	26.87	31.77
TOTAL APPLICATION OF FUNDS	36.50	47.34	59.57	71.94	86.43
Total Shareholders' Funds	31.57	43.19	54.74	67.11	81.61
Total Debt	0.00	0.00	0.00	0.00	0.00
Other Liabilities + Minority	4.93	4.15	4.83	4.83	4.83
TOTAL SOURCES OF FUNDS	36.50	47.34	59.57	71.94	86.43

Source: Company, HSIE Research

Cash Flow (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	8.25	19.96	15.37	19.42	23.51
Capex + Acq	-1.24	-0.68	-3.06	-3.91	-4.33
Free Cash Flow (FCF)	7.01	19.28	12.31	15.51	19.18
Investing Cash Flow	-1.10	0.37	-1.98	-2.49	-2.33
Financing Cash Flow	-6.96	-4.23	-5.96	-7.40	-8.72
Closing Cash & Equivalents	13.62	28.07	36.02	46.05	59.01

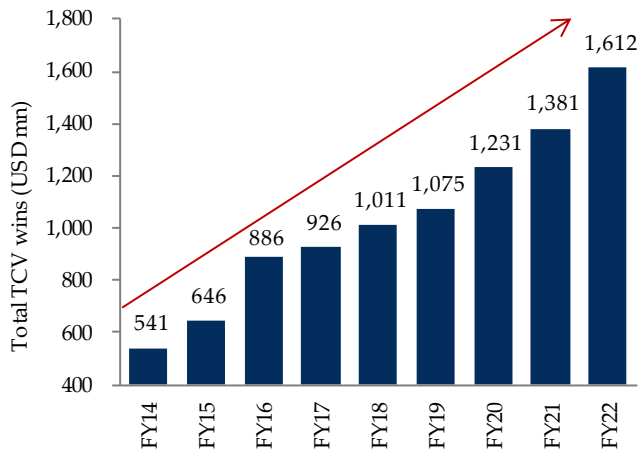
Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	20.6	31.0	33.8	31.7	30.6
RoIC (%)	26.5	48.6	68.2	71.7	77.3
Tax Rate (%)	23.9	25.9	25.2	25.5	25.5
Debtors (Billed days)	68	58	60	60	60
DPS (INR/sh)	33.0	25.0	37.0	42.0	50.0
P/E (x)	70.8	40.7	28.5	24.4	20.7
EV/EBITDA (x)	43.1	27.0	19.8	15.8	13.1
Payout Yield (Dividend + Buyback) %	1.3	0.6	1.0	1.5	1.7

Source: Company, HSIE Research

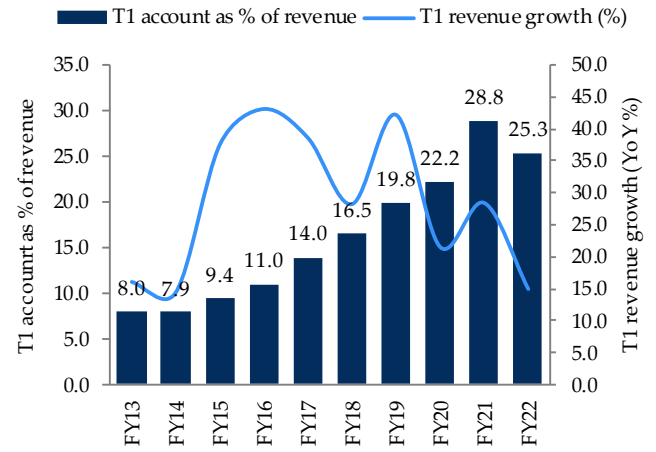
IT : Sector Thematic

Exhibit 1: Deal TCV Trend



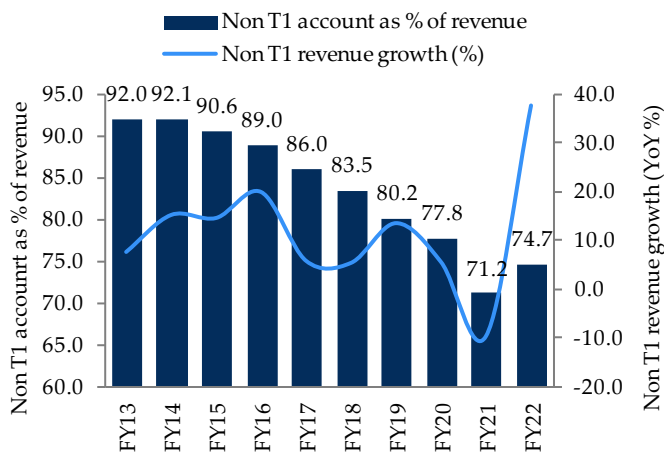
Source: Company, HSIE Research

Exhibit 2: T1 account growth & % of revenue



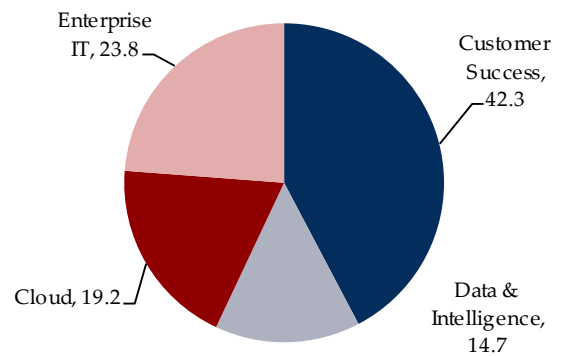
Source: Company, HSIE Research

Exhibit 3: Non T1 growth & % of revenue



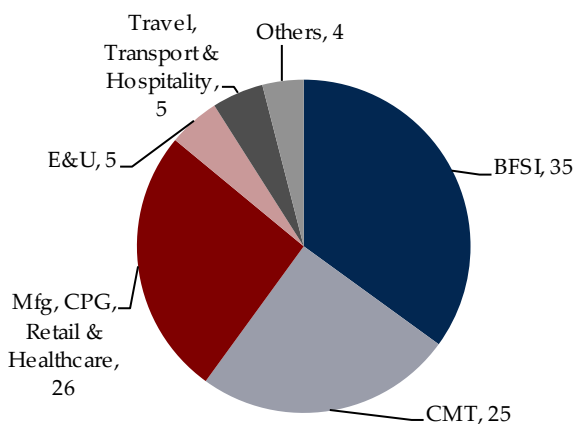
Source: Company, HSIE Research

Exhibit 4: Service-line mix - FY22



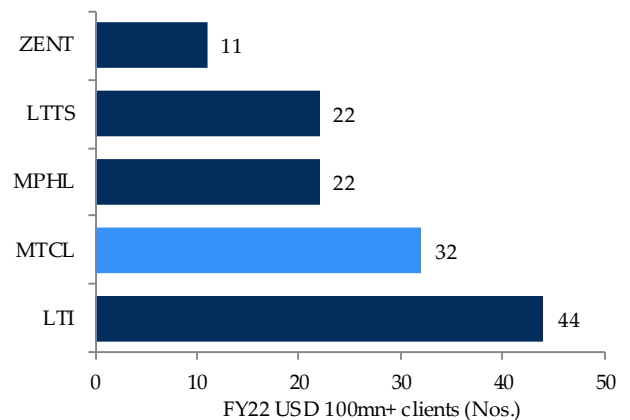
Source: Company, HSIE Research

Exhibit 5: Combined vertical - MTCL LTI



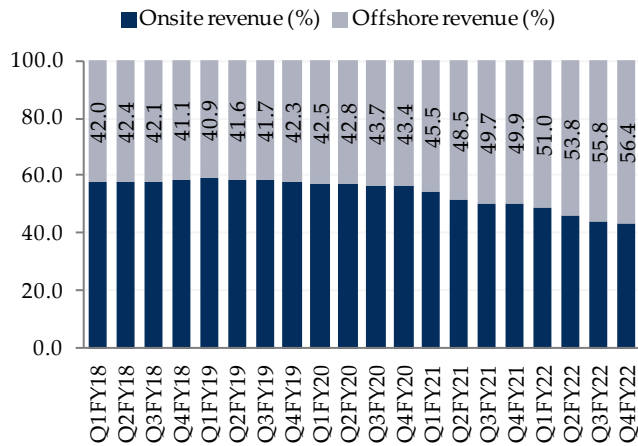
Source: Company, HSIE Research

Exhibit 6: Trend of USD 10mn+ client nos vs. peers



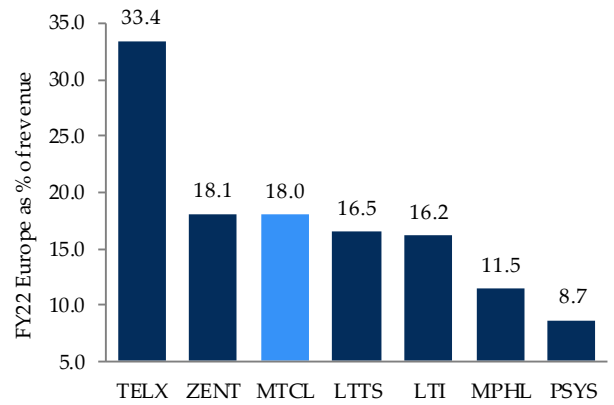
Source: Company, HSIE Research

Exhibit 7: Onsite offshore volume trend



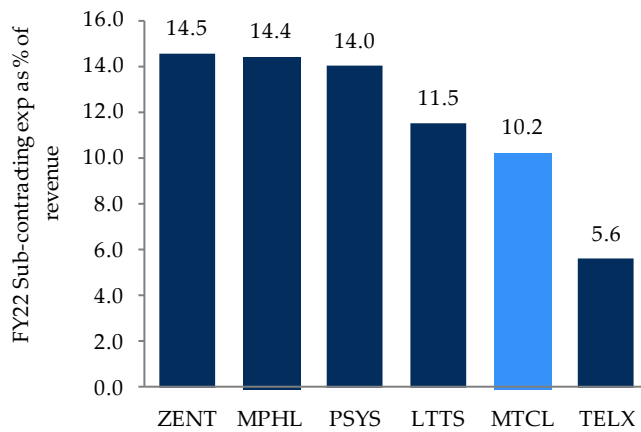
Source: Company, HSIE Research

Exhibit 8: Europe % of revenue vs. peers



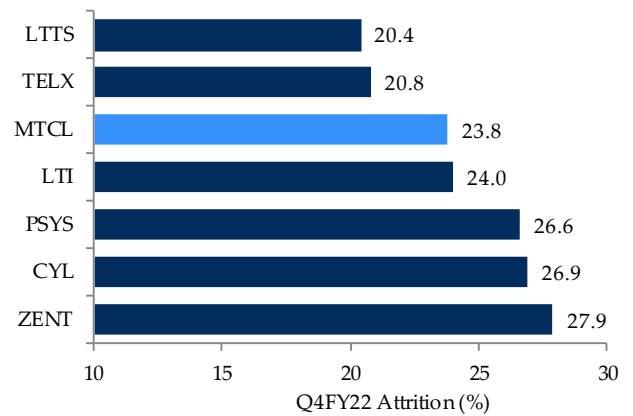
Source: Company, HSIE Research

Exhibit 9: Sub-contracting exp % of revenue vs. peers - FY22



Source: Company, HSIE Research

Exhibit 10: Attrition vs. peers – Q4FY22



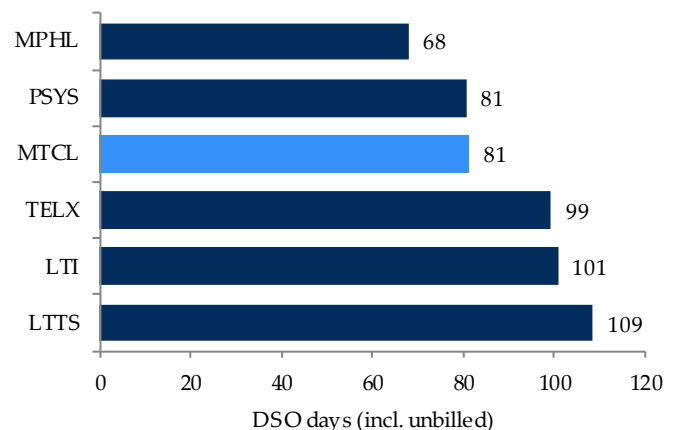
Source: Company, HSIE Research; LTTS, CYL & ZENT - Voluntary Attrition % (LTM); TELX, MTCL, LTI & PSYS – LTM basis

Exhibit 11: Mindtree key personnel

Name	Designation	# years in company
Debashis Chatterjee	CEO & MD (to lead the combined entity)	2.8
Dayapatra Nevatia	COO	2.2
Vinit Teredesai	CFO	1.9
Subhodh Shetty	Company Secretary	1.5
Venkat Pery	Chief Strategy Officer	1.7
Aan Chauhan	Chief Technology Officer	0.9
Paneesh Rao	Global Head of Sustainability	2.7
Suresh Bethavandu	Chief People Officer	0.8
Sreedhar Bhagavatheeswaran	Global head of Consulting	4.8
Vijay Ram	Chief Business Officer - Communications, Media & Technology	2.6
Venu Lambu	Head of Global Markets	1.8

Source: Company, HSIE Research

Exhibit 12: Receivables (incl unbilled) vs. peers - FY22



Source: Company, HSIE Research

Mphasis

Account mining prowess

Mphasis' (MPHL IN) growth is based on (1) direct vertical business momentum, led by strategic accounts, new logo addition and PE portfolio channel; (2) strong prowess in BFSI vertical and account coverage in addition to positive tech spend commentary by enterprise clients; (3) acceleration in Europe geography (increased sales efforts); (4) organic momentum due to healthy deal intake (USD 1.4bn net-new TCV in FY22 including 12 large deals); (5) negligible portfolio risk from decline in DXC channel. Key risks include high concentration of BFSI vertical, supply-side risk with increased dependence on fresher and lateral as compared to DXC workforce refactoring historically, and interest rate increase impact on the digital risk business. Our TP is INR 2,975, based on 28x FY24E EPS (5Y average at 22x), supported by 17% EPS CAGR over FY22-24E (vs. 12% CAGR over last 5Y). Current valuation implies 7.6% USD revenue growth over FY22-32E.

BUY

CMP (as on 4 Jul 22)	INR 2,229
Target Price	INR 2,975
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	1,240	1,309	1,593	1,850	2,090
Growth (%)	10.8	5.6	21.7	16.2	12.9
Net Revenues	88.44	97.22	119.62	143.96	165.07
EBITDA	16.50	18.03	21.18	25.36	29.36
EBIT	14.19	15.61	18.27	21.88	25.51
EBIT (%)	16.0	16.1	15.3	15.2	15.5
PBT	15.15	16.31	19.13	22.70	26.69
APAT	11.42	12.17	14.46	16.91	19.89
EPS (INR)	61.1	65.0	77.3	90.4	106.3

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	24.51	29.08	27.62	30.25	35.87
Debtors	8.35	9.29	9.68	11.65	13.36
Other Current Assets	14.74	16.14	23.64	28.45	32.62
Total Current Assets	47.61	54.52	60.94	70.35	81.85
Net Block	8.82	8.87	10.39	13.07	13.77
Goodwill & Other Intangible Assets	21.40	21.33	27.35	27.35	27.35
Other Non-current Assets	7.54	8.02	7.27	7.27	7.27
Total Non Current Assets	37.77	38.21	45.00	47.68	48.39
Creditors	6.67	5.96	8.50	10.22	11.72
Other Current Liabilities & Provsns	9.29	10.34	15.33	17.70	19.76
Total Current Liabilities	15.96	16.30	23.83	27.93	31.49
TOTAL APPLICATION OF FUNDS	69.42	76.43	82.12	90.10	98.75
Total Shareholders' Funds	58.30	65.27	69.43	76.97	85.62
Total Debt	5.71	5.13	5.27	5.71	5.71
Other Liabilities + Minority	5.41	6.02	7.41	7.41	7.41
TOTAL SOURCES OF FUNDS	69.42	76.43	82.12	90.10	98.75

Source: Company, HSIE Research

Cash Flow (Consolidated)

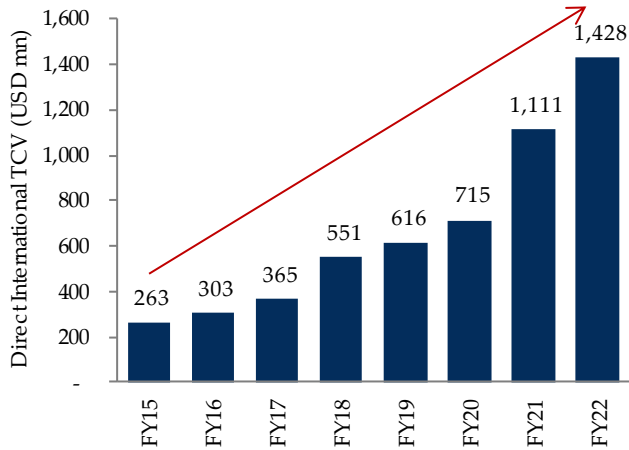
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	13.21	14.54	17.16	17.27	20.71
Capex + Acq	-1.26	-2.07	-6.42	-6.16	-4.56
Free Cash Flow (FCF)	11.95	12.48	10.74	11.11	16.15
Investing Cash Flow	0.27	-1.07	-5.22	-5.06	-3.16
Financing Cash Flow	-8.25	-7.73	-12.78	-9.58	-11.92
Closing Cash & Equivalents	24.51	29.08	27.62	30.25	35.87

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	20.6	19.7	21.5	23.1	24.5
RoIC (%)	26.5	25.3	26.8	28.5	31.0
Tax Rate (%)	21.8	25.4	25.2	25.5	25.5
Debtors (Billed days)	73	69	68	68	68
DPS (INR/sh)	35.0	65.0	46.0	50.0	60.0
P/E (x)	36.5	34.3	28.8	24.7	21.0
EV/EBITDA (x)	24.1	21.8	18.7	15.5	13.2
Payout Yield (Dividend + Buyback) %	1.5	1.6	2.9	2.2	2.7

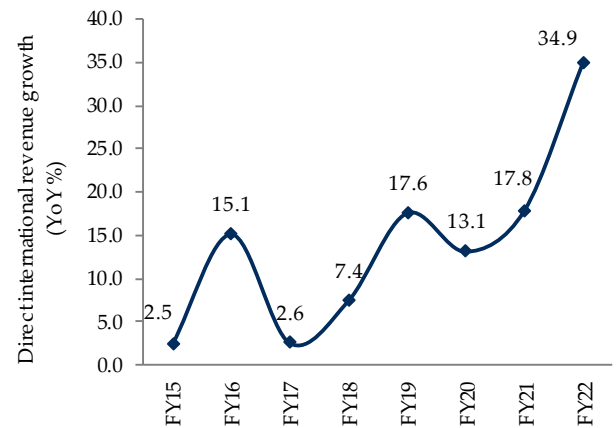
Source: Company, HSIE Research

Exhibit 1: Direct International TCV trend



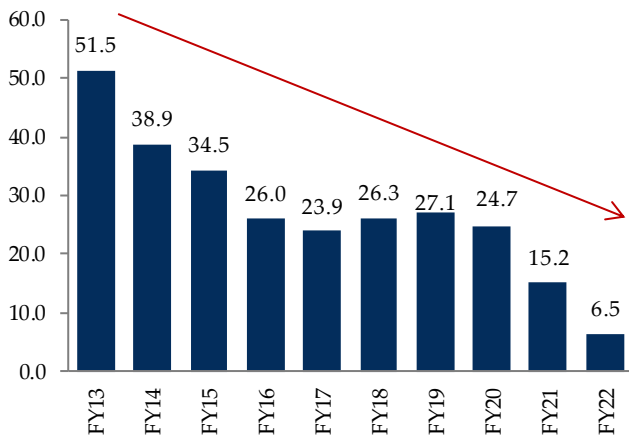
Source: Company, HSIE Research

Exhibit 2: Direct international growth trend



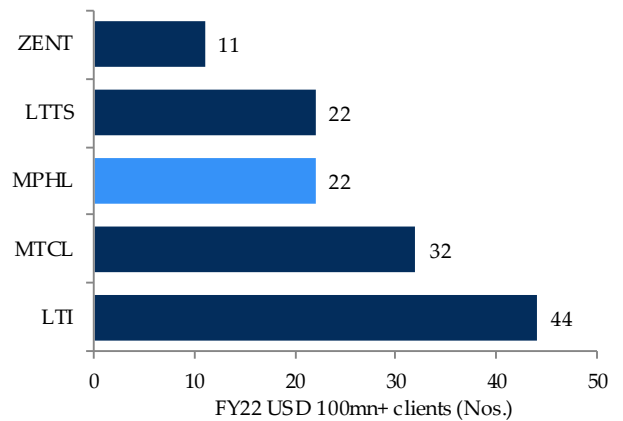
Source: Company, HSIE Research

Exhibit 3: DXC channel % of revenue



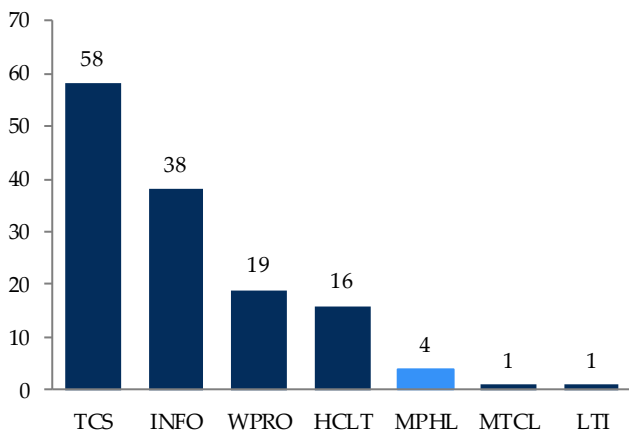
Source: Company, HSIE Research

Exhibit 4: USD 10mn+ clients (Nos)



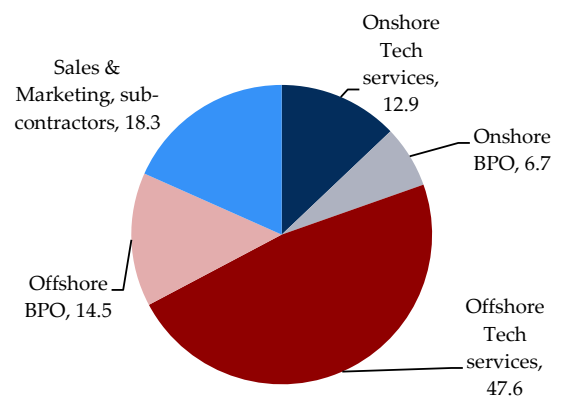
Source: Company, HSIE Research

Exhibit 5: USD 100mn+ clients (Nos)



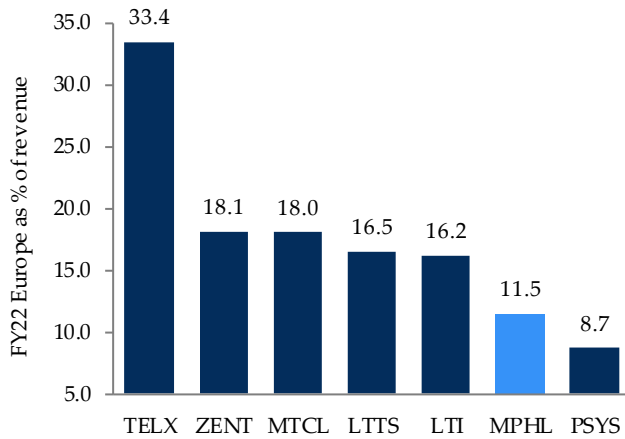
Source: Company, HSIE Research

Exhibit 6: Headcount split (%)



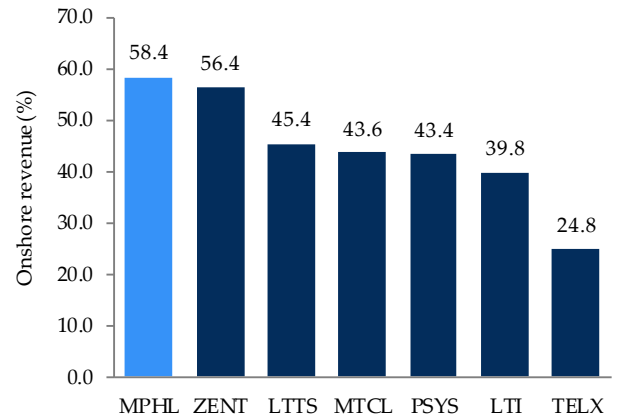
Source: Company, HSIE Research

Exhibit 7: Europe % of revenue vs. peers - FY22



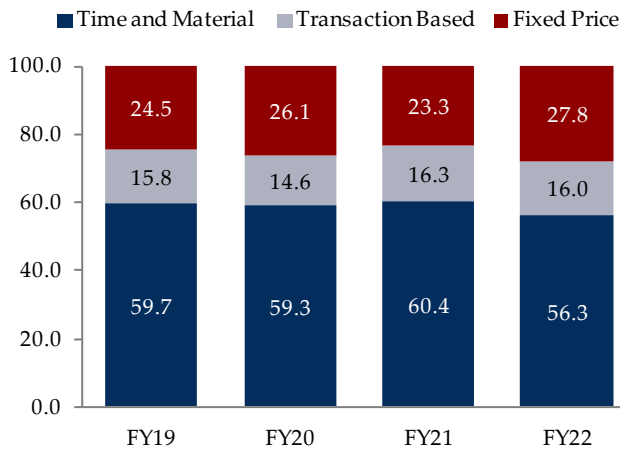
Source: Company, HSIE Research

Exhibit 8: Onshore mix vs. peers - Q4FY22



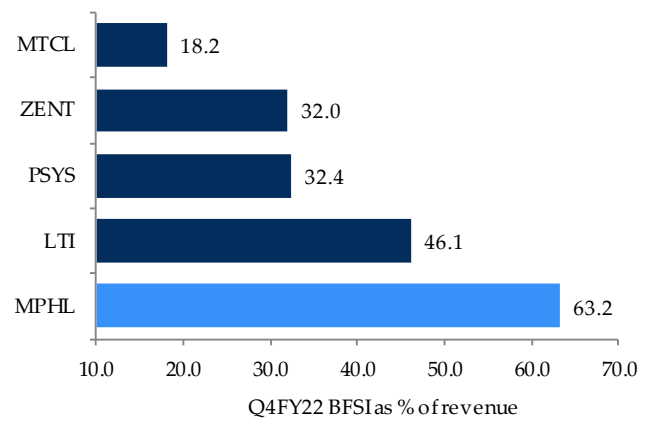
Source: Company, HSIE Research. Note: high onshore mix impacted by Digital Risk

Exhibit 9: Revenue by contract



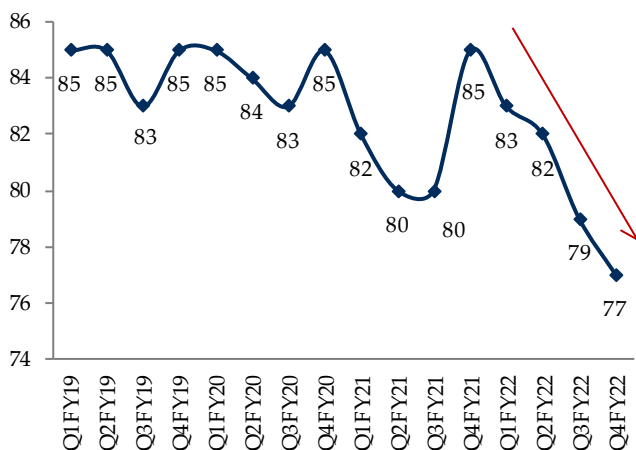
Source: Company, HSIE Research

Exhibit 10: BFSI % of revenue vs. peers - Q4FY22



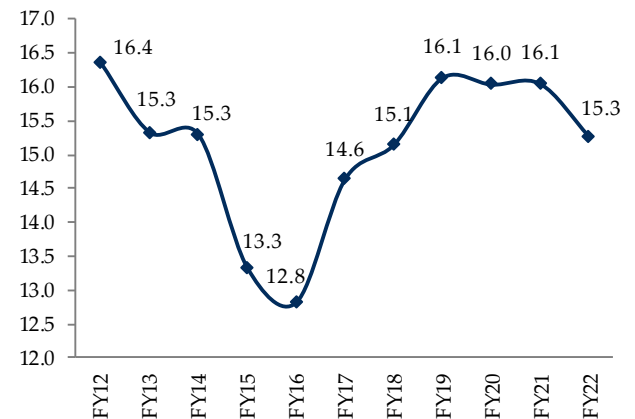
Source: Company, HSIE Research; MPHL – Banking, Financial Services & Insurance; LTI – BFS & Insurance; PSYS – BFSI; MTCL – BFSI; ZENT – Banking & Insurance

Exhibit 11: Scope to improve offshore utilisation



Source: Company, HSIE Research

Exhibit 12: EBIT margin trend



Source: Company, HSIE Research

L&T Technology Services

Diversified ER&D portfolio

L&T Technology Services (LTTTS IN) has established itself as a leading pureplay ER&D service provider with a diversified industry vertical base. Industry tailwinds emanating from the current low ER&D penetration (industrial products, medical devices) and growth drivers in key strategic areas of EACV, digital manufacturing, and sustainability can get offset by higher sensitivity (shorter duration projects and discretionary spend) to macro weakness. Near-term growth momentum in transportation vertical and plant engineering will be supported by large deals and digital engineering. Key risk to operating profile is the impact due to heterogeneous performance across verticals and high variability of growth due to client specific factors; we see downside risk to the growth guidance of 13.5-15.5% for FY23E. Our TP is INR 3,370, valuing LTTTS at 28x FY24E EPS (in line with its 5Y average of 29x). The upgrade to ADD (REDUCE earlier) follows a steep 50% de-rating of multiples YTD. Current valuation implies USD revenue CAGR of 12.5% over FY22-24E.

ADD

CMP (as on 4 Jul 22)	INR 2,973
Target Price	INR 3,370
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	786	737	880	987	1,118
Growth (%)	8.7	-6.3	19.5	12.1	13.3
Net Revenues	56.19	54.50	65.70	76.79	88.32
EBITDA	11.11	10.07	14.15	16.24	18.71
EBIT	9.28	7.89	12.01	13.94	15.97
EBIT (%)	16.5	14.5	18.3	18.2	18.1
PBT	11.00	8.97	13.09	14.85	17.35
APAT	7.51	6.27	9.57	10.87	12.70
EPS (INR)	71.1	59.4	90.7	103.0	120.4

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	8.55	17.48	20.66	25.39	30.92
Debtors	13.81	12.35	16.96	19.82	22.80
Other Current Assets	6.75	5.20	5.63	5.63	5.63
Total Current Assets	29.10	35.03	43.25	50.85	59.35
Net Block	5.59	6.26	6.40	6.41	6.99
Goodwill & Other Intangible Assets	6.15	6.56	6.43	6.74	6.78
Other Non-current Assets	1.89	2.81	4.69	4.69	4.69
Total Non Current Assets	13.62	15.64	17.52	17.85	18.46
Creditors	1.98	2.35	1.72	2.01	2.31
Other Current Liabilities & Provsns	8.11	8.63	12.07	12.07	12.07
Total Current Liabilities	10.09	10.98	13.79	14.08	14.38
TOTAL APPLICATION OF FUNDS	32.64	39.68	46.98	54.62	63.43
Total Shareholders' Funds	27.69	34.73	41.63	49.21	57.98
Total Debt	0.30	0.00	0.00	0.00	0.00
Other Liabilities + Minority	4.65	4.95	5.36	5.41	5.45
TOTAL SOURCES OF FUNDS	32.64	39.68	46.98	54.62	63.43

Source: Company, HSIE Research

Cash Flow (Consolidated)

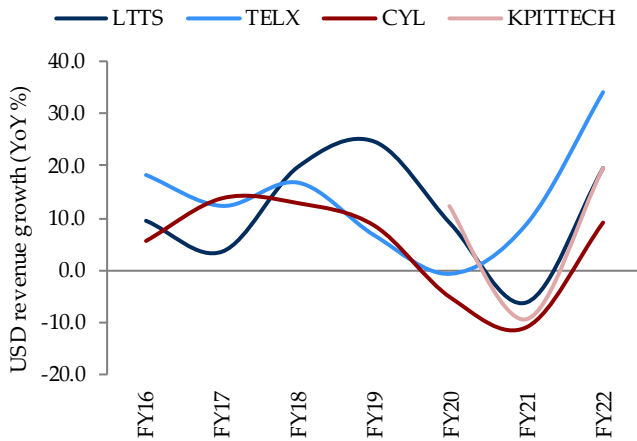
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	6.38	13.27	10.06	10.09	11.91
Capex + Acq	-1.96	-1.57	-1.62	-1.69	-1.94
Free Cash Flow (FCF)	4.42	11.71	8.44	8.40	9.97
Investing Cash Flow	-1.96	-1.57	-1.62	-1.69	-1.94
Financing Cash Flow	-4.06	-3.63	-4.98	-3.70	-4.36
Closing Cash & Equivalents	8.55	17.48	20.66	25.39	30.92

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	28.6	20.1	25.1	23.9	23.7
RoIC (%)	33.1	25.3	36.3	36.9	38.0
Tax Rate (%)	25.2	25.7	26.6	26.5	26.5
Debtors (Billed days)	90	83	94	94	94
DPS (INR/sh)	21.0	22.0	25.0	32.0	38.0
P/E (x)	41.8	50.1	32.8	28.9	24.7
EV/EBITDA (x)	27.5	29.4	20.7	17.8	15.1
Payout Yield (Dividend + Buyback) %	0.8	0.7	1.2	1.0	1.3

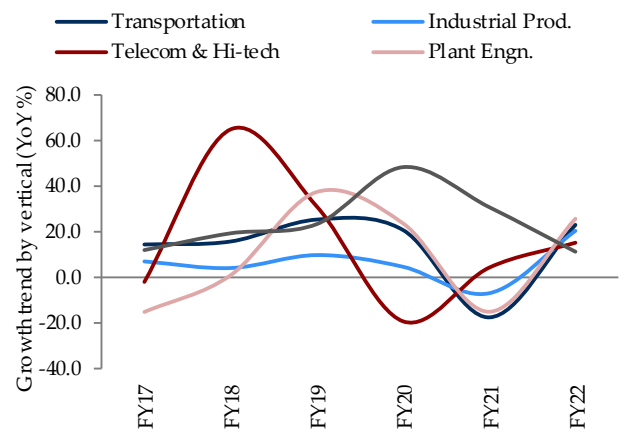
Source: Company, HSIE Research

Exhibit 1: LTTS' revenue growth vs. ER&D peers



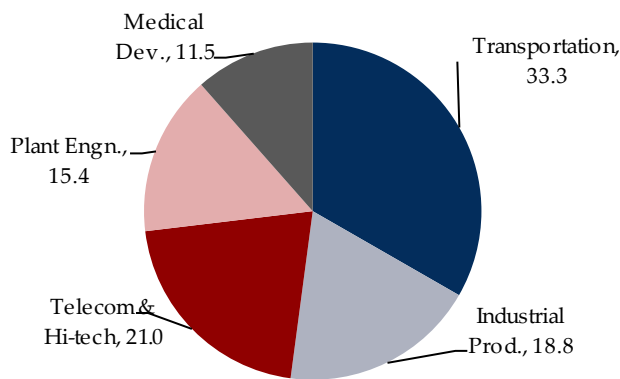
Source: Company, HSIE Research

Exhibit 2: Growth Trend by verticals



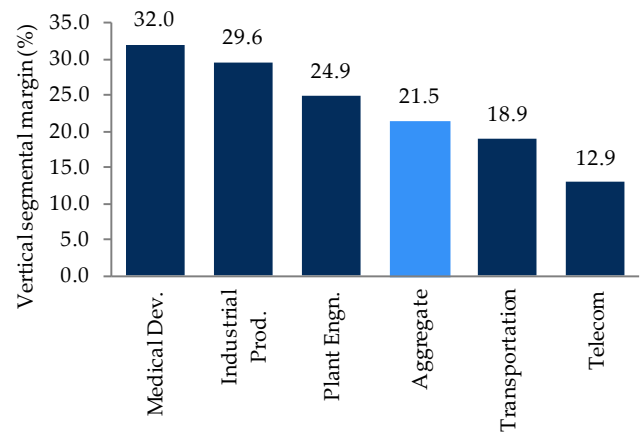
Source: Company, HSIE Research

Exhibit 3: Vertical mix – Q4FY22



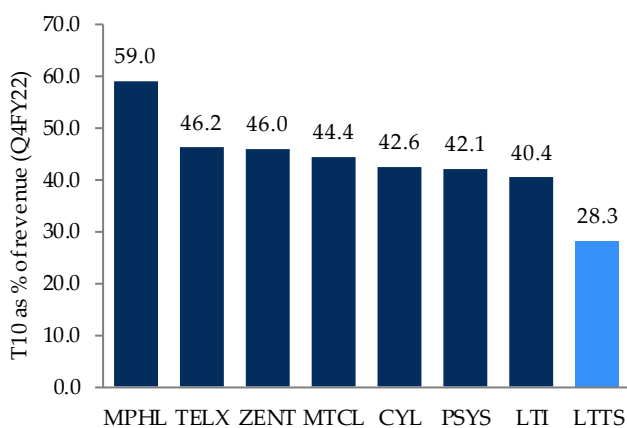
Source: Company, HSIE Research

Exhibit 4: Segmental EBITDA margin by verticals - FY22



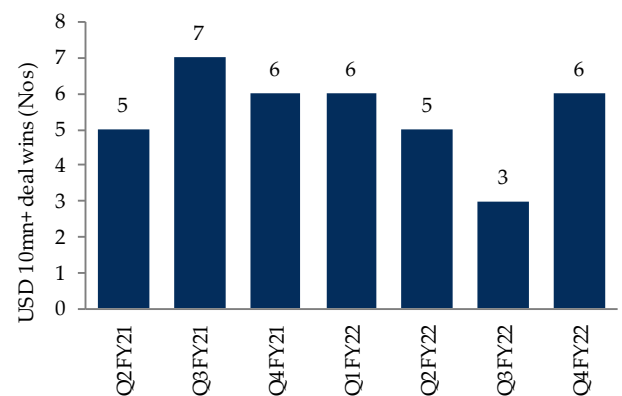
Source: Company, HSIE Research

Exhibit 5: Low T10 client concentration risk vs. peers



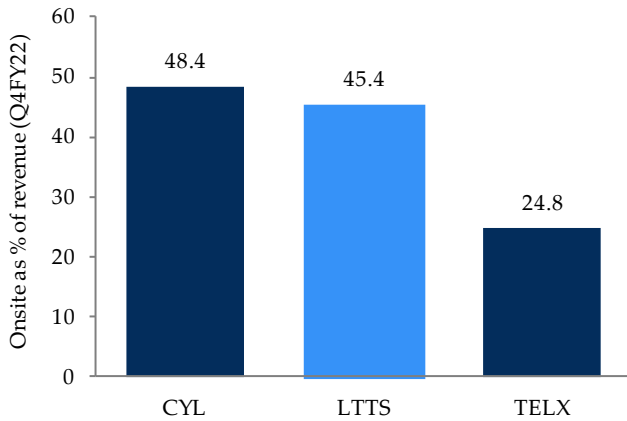
Source: Company, HSIE Research

Exhibit 6: LTTS' USD 10mn+ TCv deal wins (Nos)



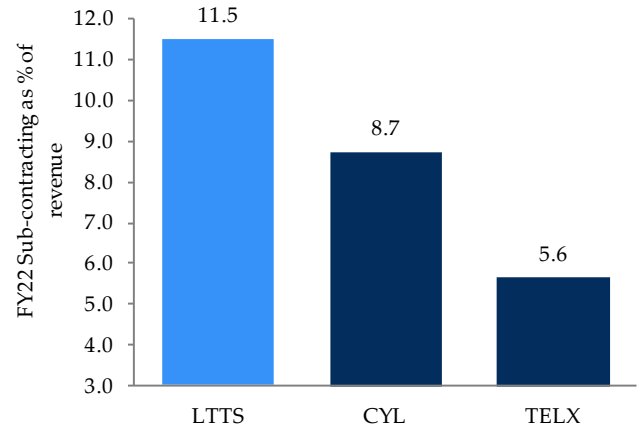
Source: Company, HSIE Research

Exhibit 7: Onsite % vs ER&D peers - Q4FY22



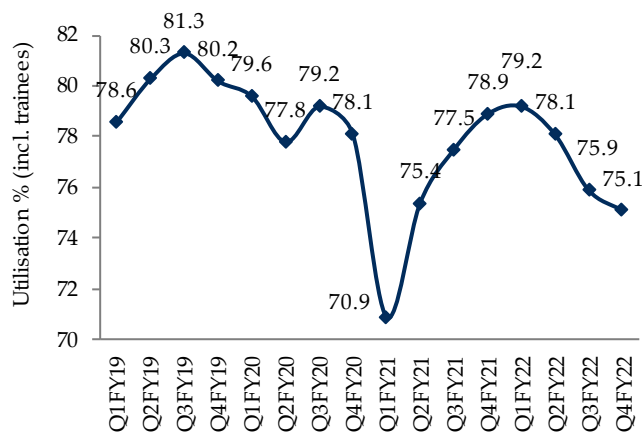
Source: Company, HSIE Research

Exhibit 8: Sub-contracting % vs ER&D peers - FY22



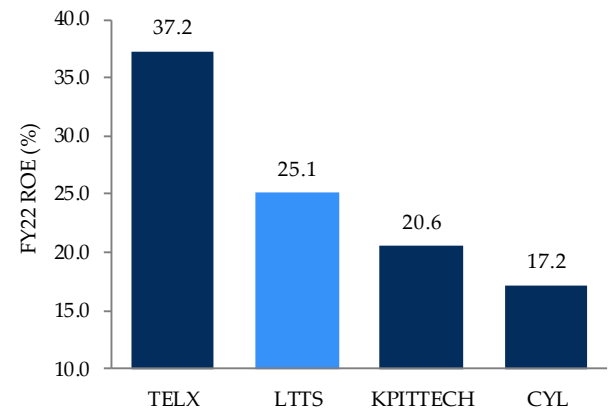
Source: Company, HSIE Research

Exhibit 9: Utilisation trend



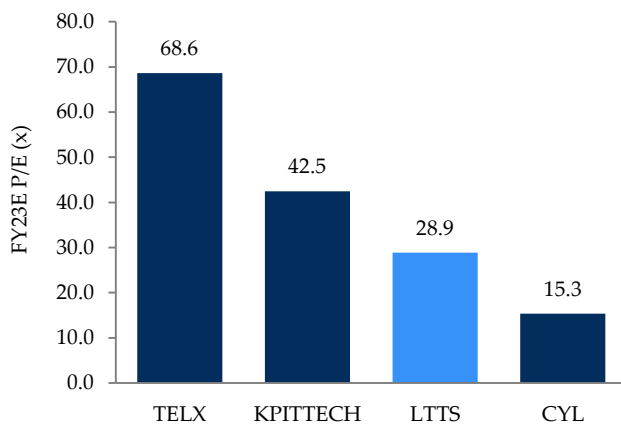
Source: Company, HSIE Research

Exhibit 10: RoE vs ER&D peers



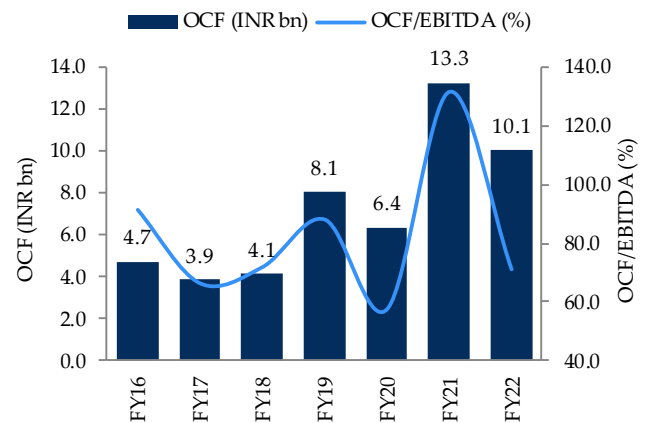
Source: Company, HSIE Research

Exhibit 11: FY23E P/E vs ER&D peers – large dispersion



Source: Company, HSIE Research

Exhibit 12: OCF/EBITDA Trend



Source: Company, HSIE Research

Persistent Systems

Top in the pecking order

Persistent (PSYS IN) has strong software product development pedigree and a long track record with ISV customers. Verticalisation of its strong horizontal capabilities in leading cloud ecosystem (Salesforce, Red Hat, AWS), improving annuity mix and deal duration, and lower volatility on reduced IP dependence are likely to support sustainable growth. Deal intake with net new ACV provides growth visibility; improvement in client mining with uptick in USD 5mn+ logos and hiring momentum also point to a strong near-term trajectory. Increase in deal pipeline following Persistent crossing the USD 1bn+ revenue threshold will also be a driver. Key risks include high attrition and sub-contracting impacting execution, shorter tenure deals adding volatility, and integration of recent acquisitions (Data Glove, MediaAgility). PSYS is our top pick in mid-tier IT and our TP is INR 5,080, valuing the company at 35x FY24E EPS, supported by ~27% CAGR in revenue and earnings (industry leading and only trailing TELX' growth), which is slightly lower than historical PEG of 1.4x. Catalysts can be increase in payout (cash ~60% of balance sheet), SG&A optimisation, and synergy deals, supported by recent acquisitions.

BUY

CMP (as on 4 Jul 22)	INR 3,259
Target Price	INR 5,080
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	502	566	766	1,027	1,234
Growth (%)	4.3	12.9	35.2	34.2	20.1
Net Revenues	35.66	41.88	57.11	79.95	97.45
EBITDA	4.93	6.83	9.58	12.96	16.11
EBIT	3.27	5.07	7.92	10.40	13.46
EBIT (%)	9.2	12.1	13.9	13.0	13.8
PBT	4.52	6.09	9.24	11.61	14.88
APAT	3.59	4.51	6.90	8.65	11.09
EPS (INR)	47.0	59.0	90.3	113.1	145.1

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	14.15	19.62	23.83	22.60	27.97
Debtors	5.92	5.71	9.48	13.28	16.18
Other Current Assets	4.20	4.81	5.36	7.50	9.14
Total Current Assets	24.27	30.14	38.67	43.38	53.29
Net Block	4.36	4.48	5.90	9.74	9.99
Goodwill & Other Intangible Assets	0.09	0.09	2.79	2.79	2.79
Other Non-current Assets	1.24	0.91	5.65	5.65	5.65
Total Non Current Assets	5.69	5.48	14.34	18.18	18.43
Creditors	2.25	2.73	4.30	6.02	7.34
Other Current Liabilities & Provs	4.23	4.96	9.91	11.14	12.72
Total Current Liabilities	6.48	7.70	14.21	17.16	20.06
TOTAL APPLICATION OF FUNDS	23.48	27.92	38.81	44.40	51.67
Total Shareholders' Funds	23.86	27.96	33.68	39.27	46.54
Total Debt	0.05	0.04	2.80	2.80	2.80
Other Liabilities + Minority	-0.42	-0.08	2.33	2.33	2.33
TOTAL SOURCES OF FUNDS	23.48	27.92	38.81	44.40	51.67

Source: Company, HSIE Research

Cash Flow (Consolidated)

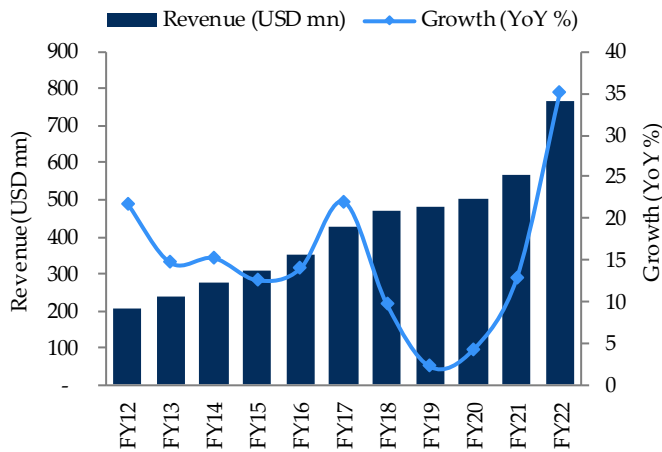
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	3.23	7.36	8.45	7.52	11.22
Capex + Acq	-1.19	-1.73	-10.01	-6.40	-2.90
Free Cash Flow (FCF)	2.03	5.63	-1.56	1.13	8.32
Investing Cash Flow	-0.88	-1.21	-10.21	-5.50	-1.84
Financing Cash Flow	-3.01	-1.13	2.17	-3.25	-4.02
Closing Cash & Equivalents	14.15	19.62	23.83	22.60	27.97

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	14.4	17.4	22.4	23.7	25.8
RoIC (%)	26.7	42.6	50.8	42.1	44.1
Tax Rate (%)	24.8	26.1	25.3	25.5	25.5
Debtors (Billed days)	61	50	61	61	61
DPS (INR/sh)	12.0	20.0	31.0	40.0	50.0
P/E (x)	69.4	55.3	36.1	28.8	22.5
EV/EBITDA (x)	47.7	33.6	23.8	17.7	13.9
Payout Yield (Dividend + Buyback) %	1.2	0.4	0.8	1.2	1.5

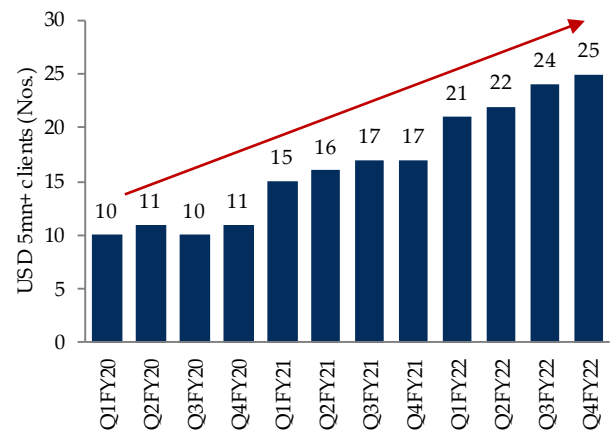
Source: Company, HSIE Research

Exhibit 1: Revenue growth acceleration



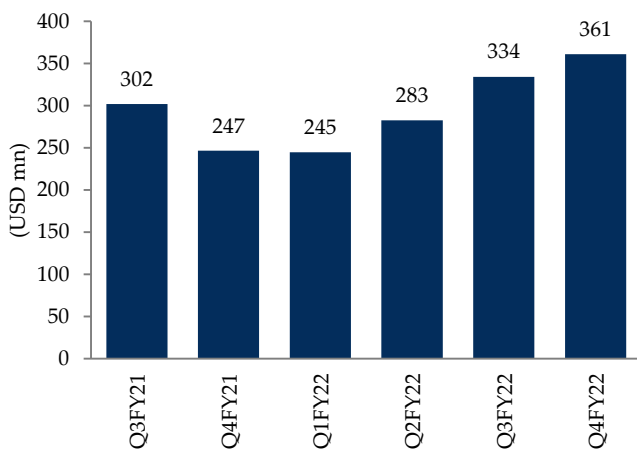
Source: Company, HSIE Research

Exhibit 2: Client mining progressing - USD 5mn+ clients



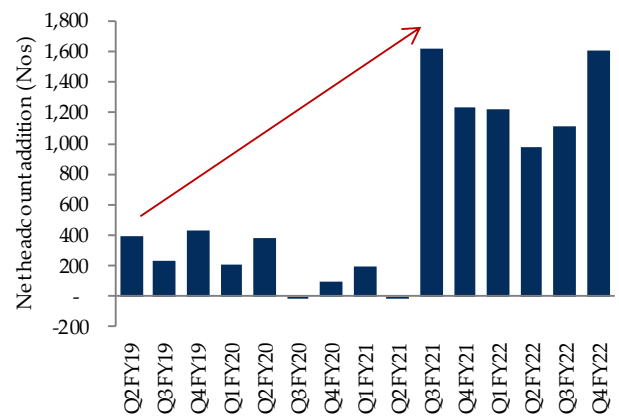
Source: Company, HSIE Research

Exhibit 3: PSYS' deal TCV trend



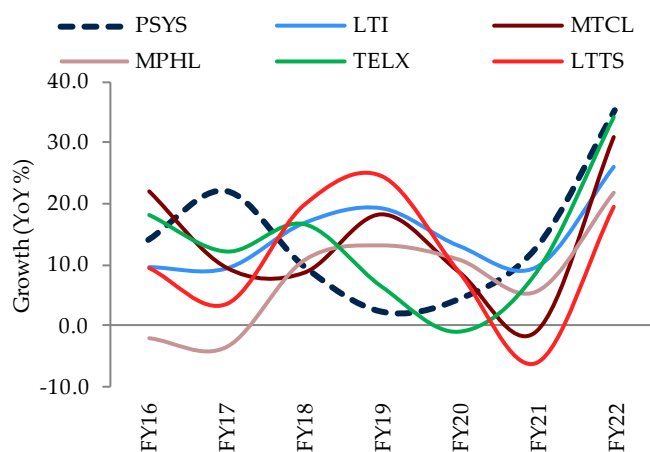
Source: Company, HSIE Research

Exhibit 4: Headcount addition - net intake



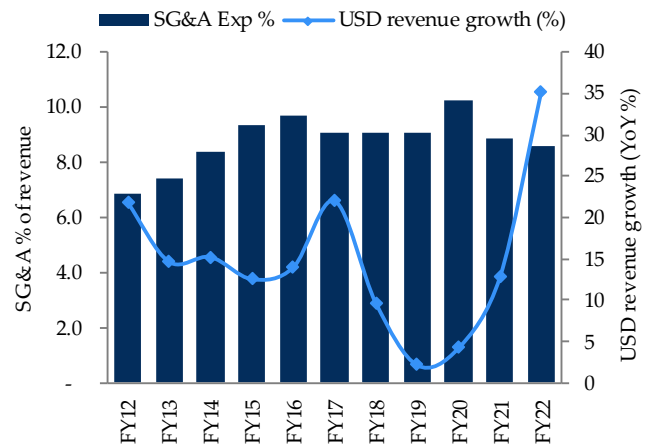
Source: Company, HSIE Research

Exhibit 5: Revenue growth trend vs. mid-tier peers



Source: Company, HSIE Research

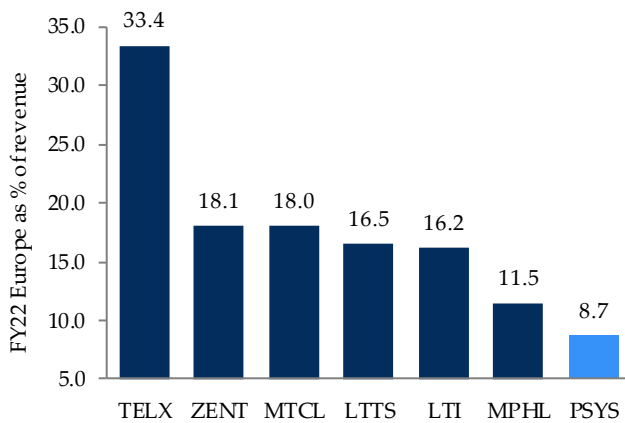
Exhibit 6: SG&A % of revenue and revenue growth trend



Source: Company, HSIE Research

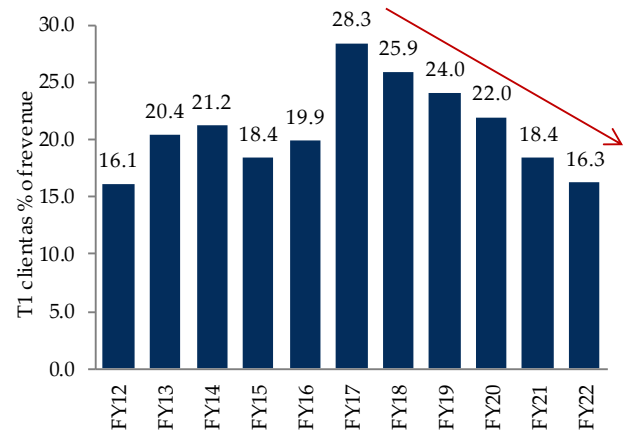
IT : Sector Thematic

Exhibit 7: Lowest Europe % of revenue vs. mid-tier peers



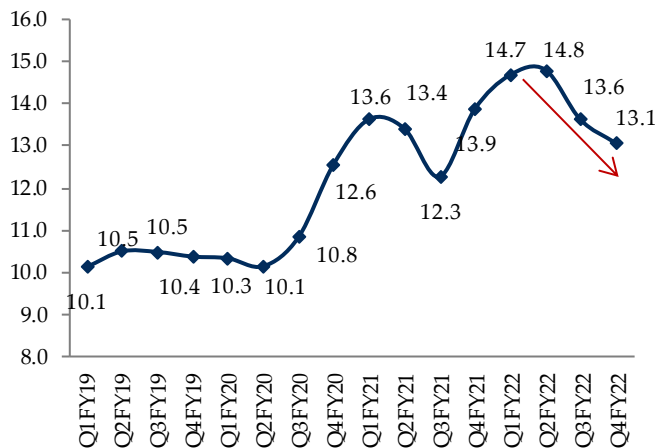
Source: Company, HSIE Research

Exhibit 8: Lower client concentration risk - T1 % of revenue



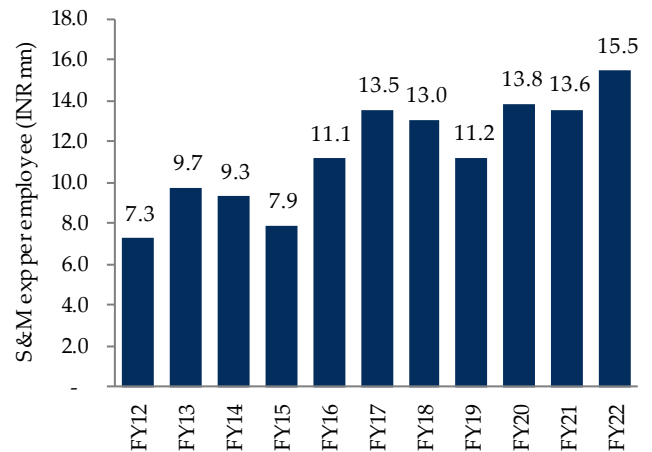
Source: Company, HSIE Research

Exhibit 9: Scope to optimise sub-con - sub-con % of revenue



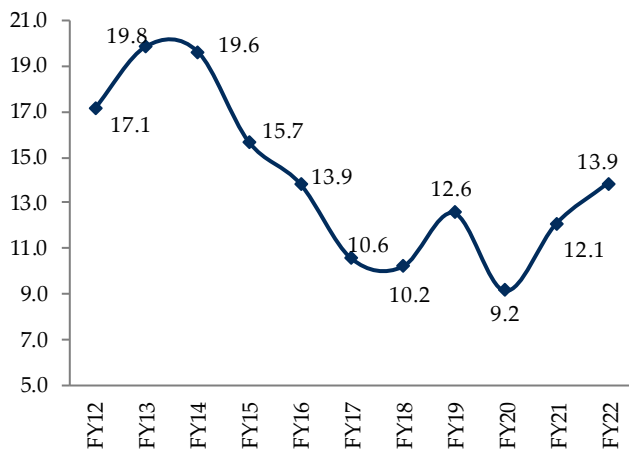
Source: Company, HSIE Research

Exhibit 10: Investments in S&M



Source: Company, HSIE Research

Exhibit 11: Scope to improve margin profile - EBITM Trend



Source: Company, HSIE Research

Exhibit 12: Recent acquisitions

Date	Target Company	Area of Operation	Purchase Consideration (USD mn)	EV/Rev (x)
May-21	Sureline Systems	Cloud Migration	2	0.9
Sep-21	SCI and Fusion360	Consulting / IT Services (Payments) App Dev,	53	3.1
Sep-21	Shree Partners	Cloud, Data and Analytics	7	0.9
Feb-22	Data Glove	Microsoft Product Suite	91	1.8
Mar-22	MediaAgility	Cloud transformation	72	2.8

Source: Company, HSIE Research

Cyient

Lagging peers, valuation comfort

Cyient's ER&D portfolio is characterized by strong credentials in communication (AT&T and Telstra), Geospatial capabilities and Railways (Thalys, Bombardier). The company has high exposure to the aerospace vertical (Pratt & Whitney), which was badly impacted by the pandemic, but has started to recover. Cyient has a high proportion of mechanical services (low growth) and exposure to manufacturing through DLM (low margin). The low exposure to the Auto (EV) ecosystem has been a growth deterrent (Tata Elxsi and KPIT are strong in EV). The growth engine has lagged peers (services growth of ~10% vs ~20% for peers). The margin profile has been lower than peers due to low quality portfolio, higher onsite and manufacturing exposure (DLM has a low single-digit margin). Based on these factors the company has always traded at a steep discount to ER&D peers (~40%). The company is investing in expanding the portfolio (three acquisitions in Q1FY23, ~USD 85mn, 17% inorganic in FY23E). We expect ~9-10% growth in services led by the aerospace and communication vertical. The margin will contract to low double-digit level due to integration cost, wage hike and rise in onsite cost. We increase our FY23/24E revenue estimate by 9.6/8.2% due to acquisition and EPS estimate by 2-3%. Maintain BUY with TP of INR 920 based on 16x FY24E EPS (earlier 20x). The stock is trading at 13x FY24E (in-line with 10Y average).

BUY

CMP (as on 4 Jul 22)	INR 764
Target Price	INR 920
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	625	557	608	747	818
Growth (%)	-5.3	-10.9	9.2	22.7	9.6
Net Revenues	44.27	41.32	45.34	58.10	64.64
EBITDA	5.96	6.11	8.22	9.66	11.00
EBIT	4.08	4.16	6.30	7.33	8.41
EBIT (%)	9.2	10.1	13.9	12.6	13.0
PBT	4.51	4.77	6.98	7.47	8.53
APAT	3.73	3.72	5.22	5.49	6.35
EPS (INR)	33.8	33.7	47.3	49.8	57.5

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	9.93	14.99	17.11	15.22	18.06
Debtors	7.26	8.03	7.33	9.55	10.63
Other Current Assets	7.87	5.84	8.11	9.26	10.30
Total Current Assets	25.06	28.86	32.55	34.03	38.99
Net Block	7.68	7.78	7.26	12.21	11.88
Goodwill & Other Intangible Assets	5.37	5.83	6.19	8.80	6.19
Other Non-current Assets	3.29	2.14	1.62	1.50	1.64
Total Non Current Assets	16.34	15.75	15.07	22.51	19.71
Creditors	3.73	4.53	5.26	6.69	7.44
Other Current Liabilities & Provns	4.53	4.26	4.12	5.76	6.33
Total Current Liabilities	8.26	8.79	9.38	12.45	13.77
TOTAL APPLICATION OF FUNDS	33.15	35.82	38.24	44.09	44.93
Total Shareholders' Funds	25.61	29.57	31.17	33.91	37.09
Total Debt	3.74	2.76	3.26	3.26	3.26
Other Liabilities + Minority	3.80	3.49	3.81	4.30	4.58
TOTAL SOURCES OF FUNDS	33.15	35.82	38.24	41.47	44.93

Source: Company, HSIE Research

Cash Flow (Consolidated)

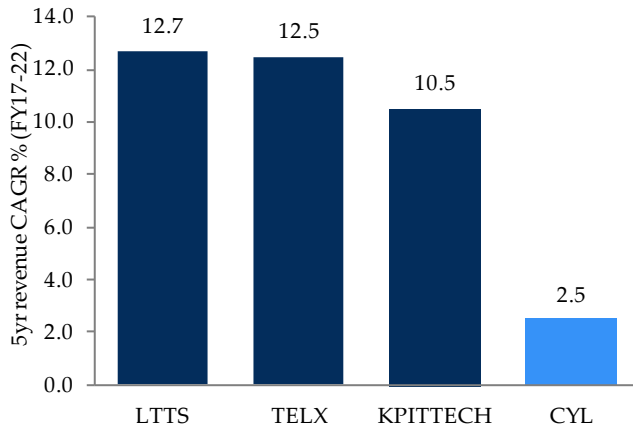
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	5.82	8.56	6.35	7.98	8.17
Capex + Acq	-2.30	-1.67	-0.85	-7.27	-2.26
Free Cash Flow (FCF)	3.53	6.89	5.49	0.71	5.90
Investing Cash Flow	-1.67	-0.99	-0.57	-6.54	-1.49
Financing Cash Flow	-4.46	-2.16	-3.54	-3.33	-3.84
Closing Cash & Equivalents	9.93	14.99	17.11	15.22	18.06

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	14.5	13.5	17.2	16.9	17.9
RoIC (%)	14.2	14.4	22.4	21.5	22.5
Tax Rate (%)	23.8	23.7	25.2	26.5	25.5
Debtors (Billed days)	70	81	69	67	67
DPS (INR/sh)	15.0	17.0	23.6	24.9	28.8
P/E (x)	22.6	22.7	16.1	15.3	13.3
EV/EBITDA (x)	13.3	12.0	9.1	7.9	6.7
Payout Yield (Dividend + Buyback) %	4.2	2.2	3.5	3.2	3.7

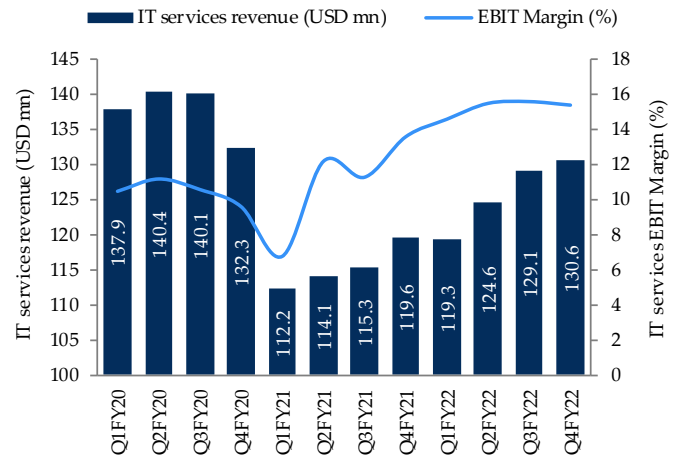
Source: Company, HSIE Research

Exhibit 1: Revenue CAGR 5Y for ER&D peers



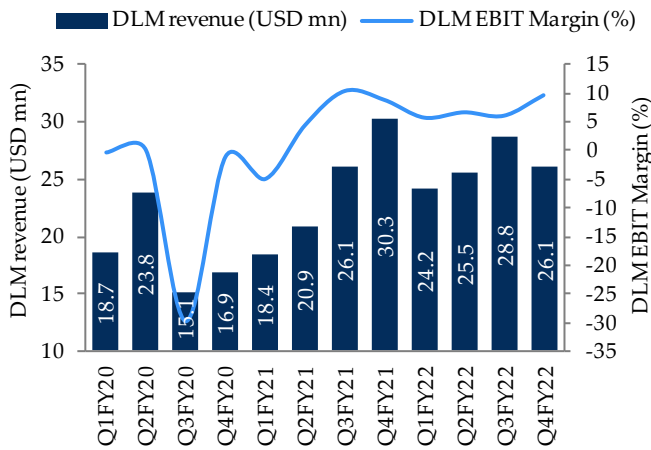
Source: Company, HSIE Research; KPITTECH 4yr CAGR

Exhibit 2: IT Services revenue and margins trend



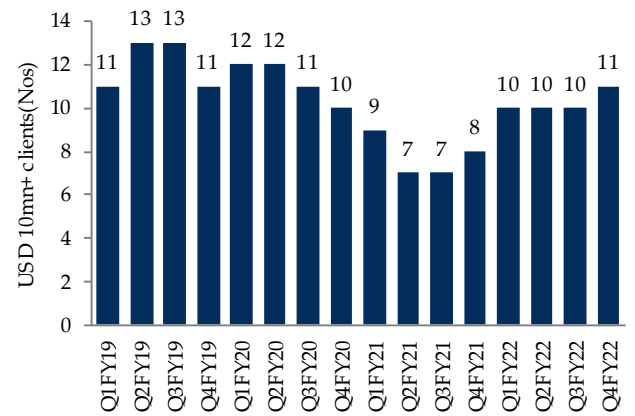
Source: Company, HSIE Research

Exhibit 3: DLM revenue and margins trend



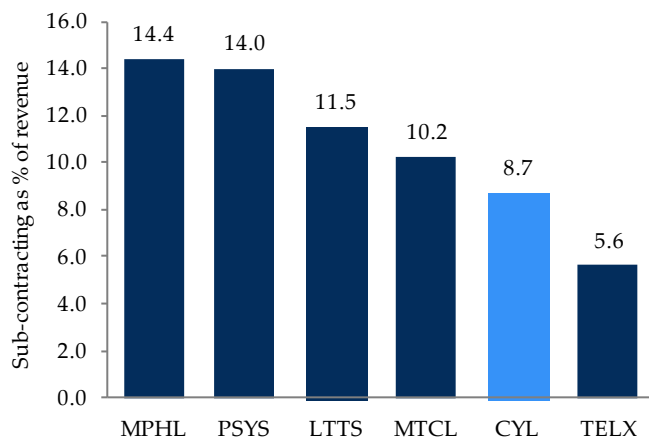
Source: Company, HSIE Research

Exhibit 4: USD 10mn clients



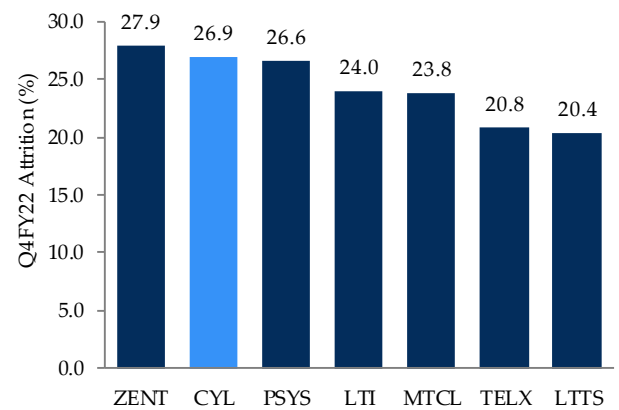
Source: Company, HSIE Research

Exhibit 5: Sub-contracting expenses vs peers FY22



Source: Company, HSIE Research

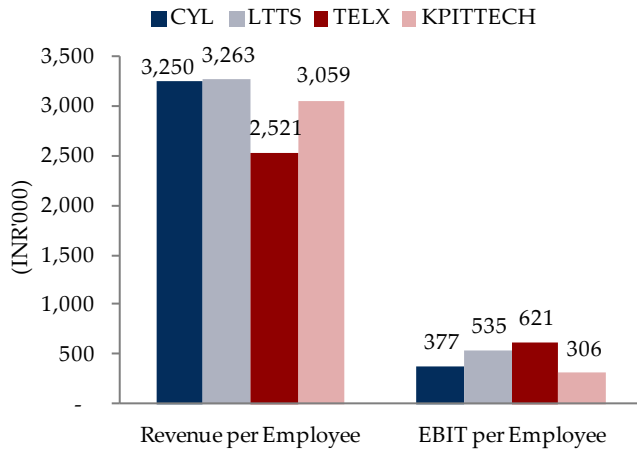
Exhibit 6: Attrition trend vs peers Q4FY22



Source: Company, HSIE Research

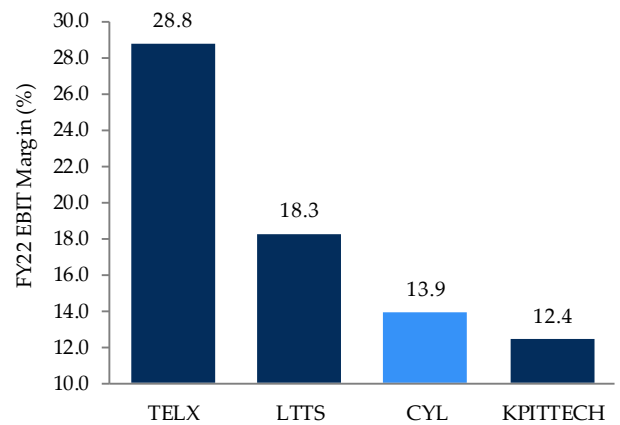
IT : Sector Thematic

Exhibit 7: EBIT/Employee and Revenue/Employee vs peers (3Y average)



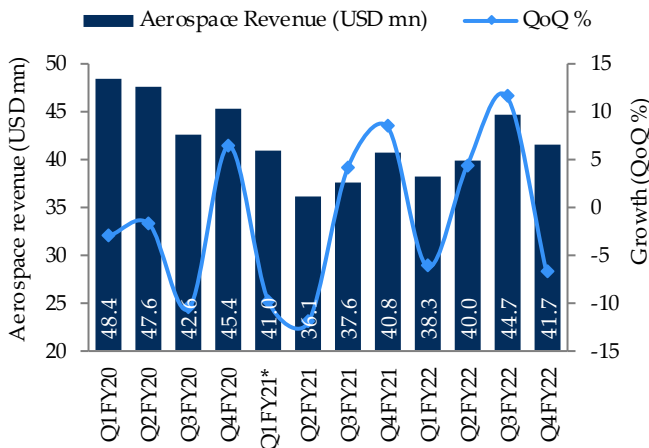
Source: Company, HSIE Research

Exhibit 8: Cyient EBIT margin vs ER&D Peers - FY22



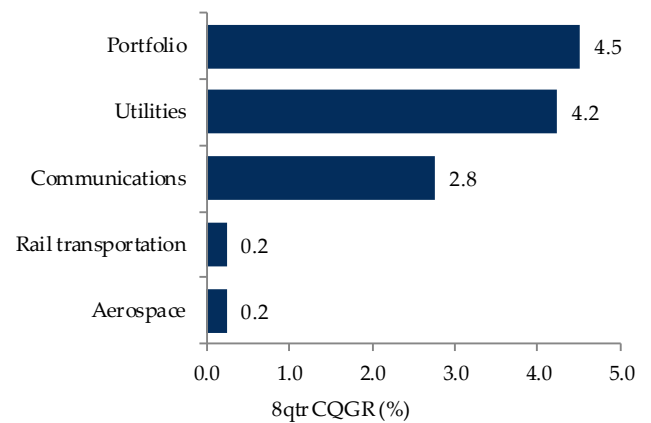
Source: Company, HSIE Research

Exhibit 9: Aerospace vertical revenue trend quarterly



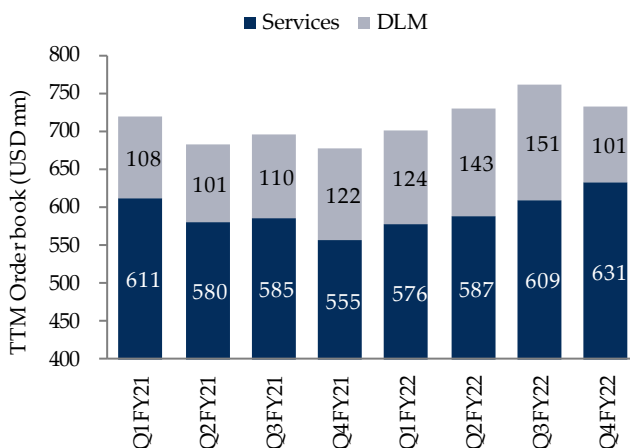
Source: Company, HSIE Research; Note: restated from Q1FY21

Exhibit 10: Vertical wise 8qtr CQGR



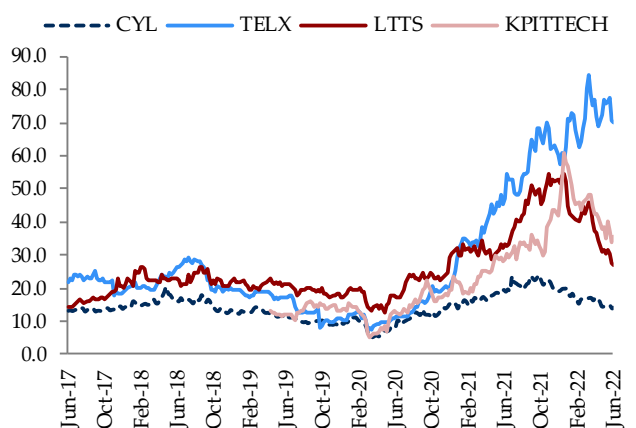
Source: Company, HSIE Research

Exhibit 11: Order book trend - TTM



Source: Company, HSIE Research

Exhibit 12: 1 yr Fwd P/E trend - ER&D peers



Source: Company, HSIE Research

Sonata Software

On a strong footing

Sonata's Microsoft portfolio (digital services + dynamics 365 is ~50% of IT services segment) is driving growth. The company is optimistic about the Microsoft channel and it can grow ~15-20% YoY over a longer period. The focus is to build vertical capabilities (ENU and BFSI) and the appointment of the new CEO (Mr. Samir Dhir, ex Virtusa) will lead to a strategy refresh. The impacted travel vertical is set to recover with return of travel activity in Europe (peak summer bookings); in fact, TUI hotel and flight bookings have reached ~90% of pre-COVID level. The IITS margin will trend downwards (~150-200 bps impact) due to wage hikes, increase in onsite, and moderation in utilisation level. We expect IITS to post +16.2/12.4% YoY growth, with EBITDA margin of 21.8/22.3% in FY23/24E. The distribution business (DPS) will continue the strong growth momentum, with increasing demand for cloud licenses. The DPS business has high annuity revenue (~75%) and is gaining market share; we have assumed ~20% growth with ~3.5% EBITDA margin. We lower our EPS estimate by 1.3/1% for FY23/24E and cut multiple to 18x (earlier 20x). Our TP is INR 850, based on 18x FY24E EPS (5Y average at 14x), supported by 14% EPS CAGR over FY22-24E (vs. 20% CAGR over last 5Y).

BUY

CMP (as on 4 Jul 22)	INR 659
Target Price	INR 850
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	181	160	203	236	265
Growth (%)	12.2	-11.3	26.6	16.2	12.4
Net Revenues	37.43	42.28	55.53	68.36	80.96
EBITDA	3.73	3.79	4.64	5.74	6.80
EBIT	3.36	3.40	4.16	5.16	6.13
EBIT (%)	9.0	8.0	7.5	7.5	7.6
PBT	3.79	3.52	5.00	5.60	6.58
APAT	2.77	2.44	3.76	4.17	4.90
EPS (INR)	26.7	23.5	36.2	40.1	47.2

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	4.10	7.53	9.28	11.89	14.73
Debtors	7.00	6.16	8.93	10.86	12.86
Other Current Assets	0.88	1.11	1.33	1.53	1.76
Total Current Assets	11.98	14.80	19.54	24.28	29.36
Net Block	1.42	1.48	2.06	2.02	2.00
Goodwill & Other Intangible Assets	1.56	1.76	2.21	2.21	2.21
Other Non-current Assets	0.96	1.25	1.48	1.56	1.71
Total Non Current Assets	3.94	4.48	5.75	5.79	5.92
Creditors	5.62	6.51	10.55	12.87	15.24
Other Current Liabilities & Provns	1.27	1.71	1.63	1.84	2.04
Total Current Liabilities	6.89	8.22	12.18	14.70	17.28
TOTAL APPLICATION OF FUNDS	9.03	11.07	13.12	15.37	18.00
Total Shareholders' Funds	6.70	9.05	10.99	13.08	15.53
Total Debt	2.58	2.20	2.39	2.55	2.73
Other Liabilities + Minority	-0.24	-0.19	-0.26	-0.26	-0.26
TOTAL SOURCES OF FUNDS	9.03	11.07	13.12	15.37	18.00

Source: Company, HSIE Research

Cash Flow (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	3.69	4.43	4.86	4.63	5.31
Capex + Acq	-0.08	-0.52	-0.59	-0.55	-0.65
Free Cash Flow (FCF)	3.60	3.90	4.26	4.08	4.66
Investing Cash Flow	0.00	-0.43	-0.43	0.10	0.04
Financing Cash Flow	-3.10	-0.62	-2.71	-2.29	-2.69
Closing Cash & Equivalents	4.10	7.53	9.28	11.89	14.73

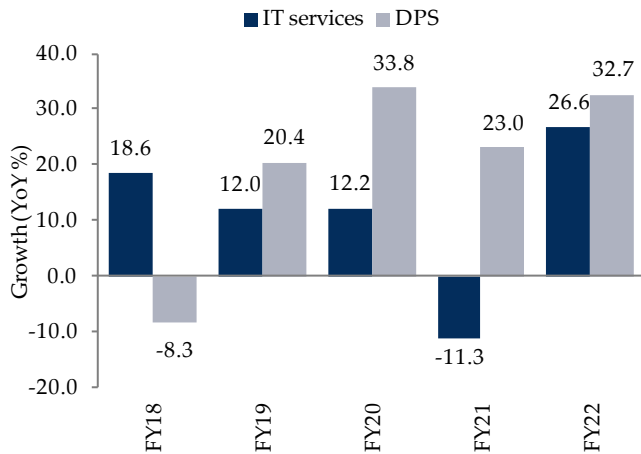
Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	38.5	31.0	37.6	34.6	34.3
RoIC (%)	49.8	66.6	81.7	110.4	139.6
Tax Rate (%)	27.0	30.7	24.8	25.5	25.5
Debtors (Billed days)	68	53	59	58	58
DPS (INR/sh)	20.3	14.0	18.0	20.1	23.6
P/E (x)	24.7	28.1	18.2	16.4	14.0
EV/EBITDA (x)	18.0	16.8	13.6	10.6	8.5
Payout Yield (Dividend + Buyback) %	5.2	0.6	2.7	3.0	3.6

Source: Company, HSIE Research

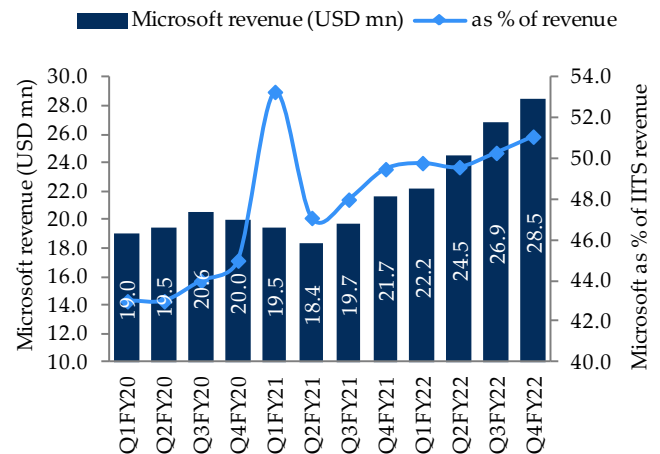
IT : Sector Thematic

Exhibit 1: IT services and DPS revenue growth



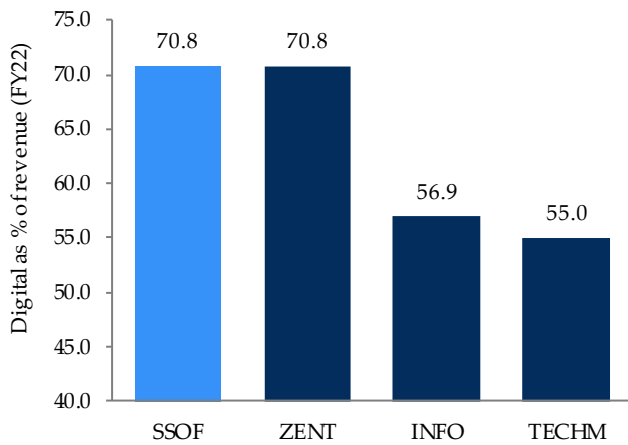
Source: Company, HSIE Research

Exhibit 2: Microsoft revenue and contribution%



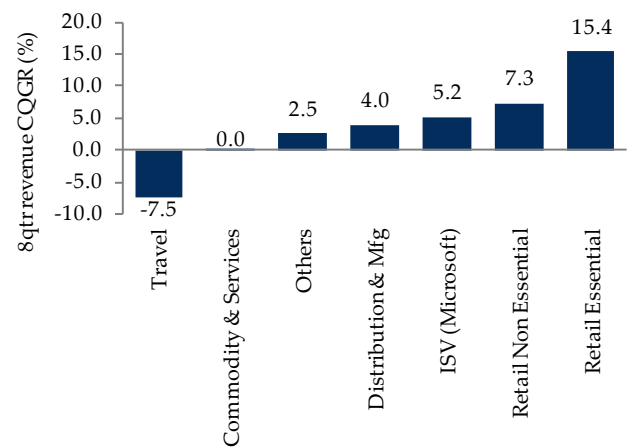
Source: Company, HSIE Research

Exhibit 3: Digital revenue vs Peers



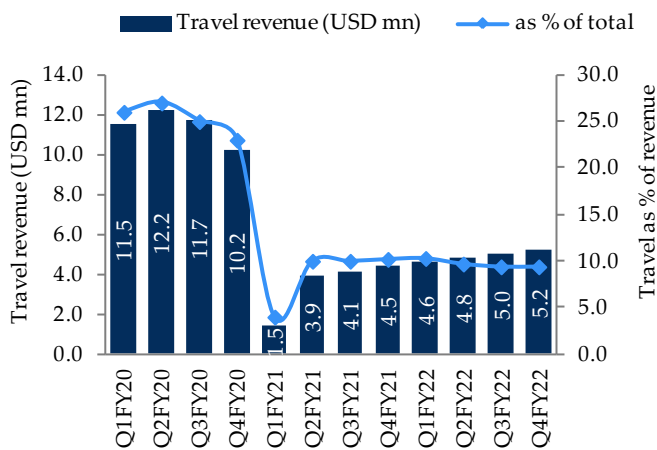
Source: Company, HSIE Research

Exhibit 4: Vertical 8qtr CQGR



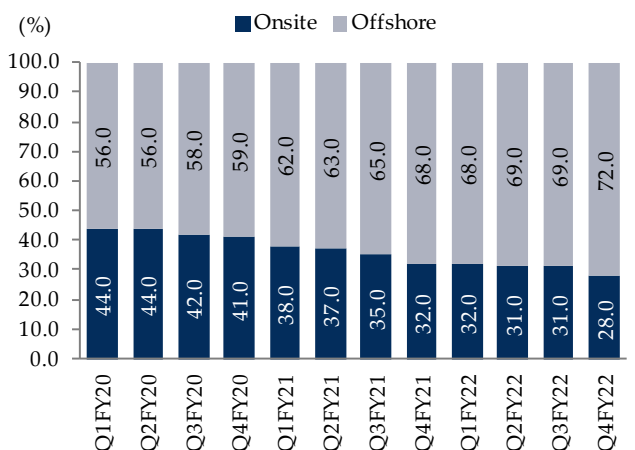
Source: Company, HSIE Research

Exhibit 5: Travel revenue and contribution %



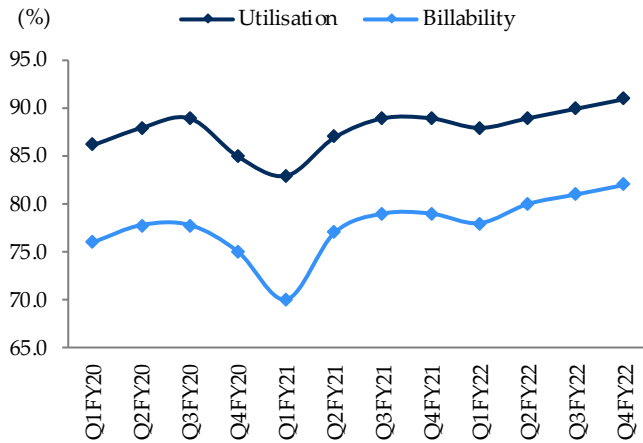
Source: Company, HSIE Research

Exhibit 6: Onsite offshore mix



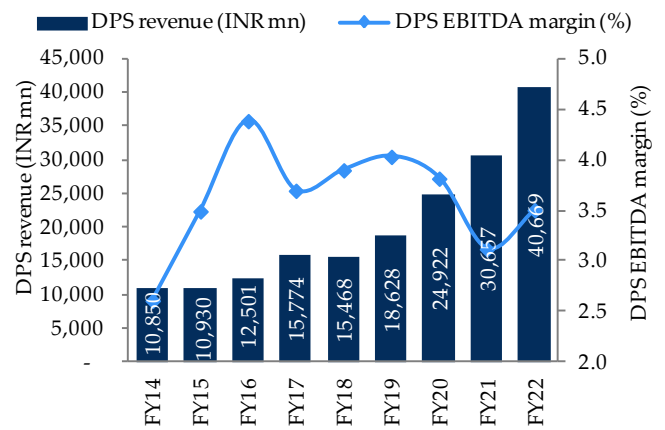
Source: Company, HSIE Research

Exhibit 7: Utilisation and billability trend %



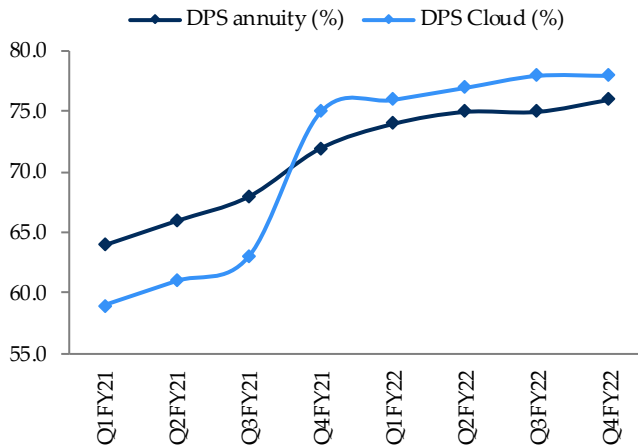
Source: Company, HSIE Research

Exhibit 8: DPS revenue and margin trend%



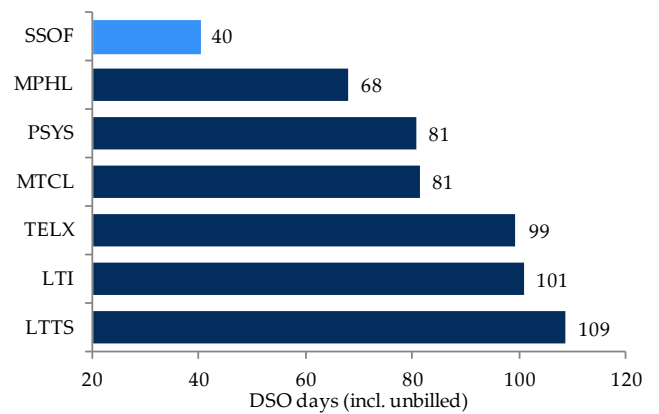
Source: Company, HSIE Research

Exhibit 9: DPS annuity and cloud contribution trend



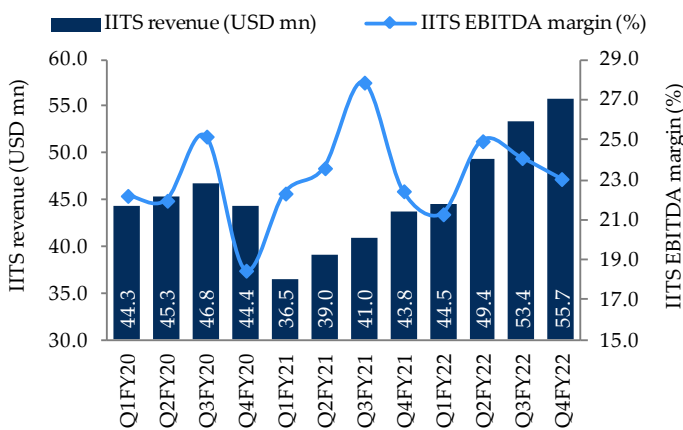
Source: Company, HSIE Research

Exhibit 10: IITS DSO vs peers



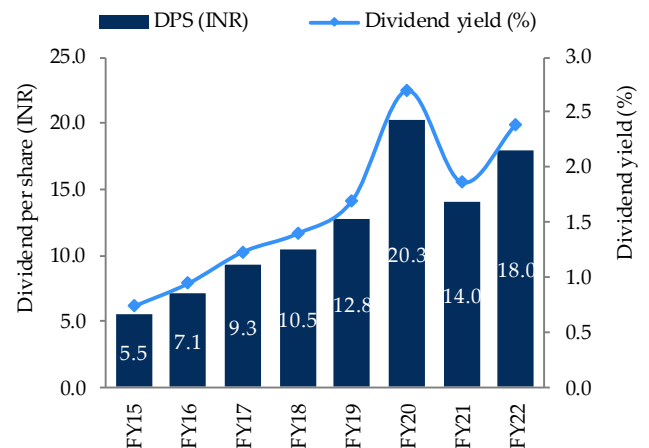
Source: Company, HSIE Research; SSOF is IITS

Exhibit 11: IITS revenue and margin trend%



Source: Company, HSIE Research

Exhibit 12: DPS and yield %



Source: Company, HSIE Research

Mastek

Growth moderation

Mastek has a strong partnership with the UK government and is among the top-3 vendors. The UK government portfolio has registered strong growth (~9% CQGR) over the past eight quarters and has been a prime growth driver. The recent win of two large deals (>USD 50mn) is encouraging, but the ramp-up is slower than expected due to supply side constraints. The UK government technology spending has slowed down in the last two quarters, indicating near-term moderation in order bookings. Mastek expects to power the next leg of growth from the US geography (healthcare and life sciences vertical) and investments have been made to strengthen the sales team and the partner ecosystem. The management target is to reach USD 1bn revenue in the next five years, implying an organic revenue CAGR of >20%, which we believe is an optimistic target, considering the macro uncertainty. The target EBITDA margin range is 19- 20%; there could be near-term headwinds of 100-150bps related to ongoing supply side concerns. We downgrade Mastek to REDUCE from BUY and reduce revenue/EPS estimate by 7.7/6.6% for FY24E, considering slowdown in organic growth, cross currency impact (high UK exposure), and margin decline. Our target price of INR 2,100 is based on 16x FY24E EPS (vs 20x earlier) and implies revenue/EPS CAGR of 13.5/16.9% over FY22-24E.

REDUCE

CMP (as on 4 Jul 22)	INR 2,110
Target Price	INR 2,100
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	151	232	293	328	378
Growth (%)	2.2	53.6	26.3	12.1	15.0
Net Revenues	10.71	17.22	21.84	25.55	29.83
EBITDA	1.57	3.65	4.63	4.97	5.97
EBIT	1.32	3.20	4.20	4.53	5.50
EBIT (%)	12.3	18.6	19.2	17.7	18.4
PBT	1.44	3.39	4.48	4.80	5.79
APAT	1.33	2.09	2.95	3.25	4.03
EPS (INR)	46.7	73.5	96.6	106.5	132.0

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	3.75	8.06	7.82	11.31	14.38
Debtors	3.16	3.75	4.36	5.25	6.13
Other Current Assets	1.74	1.89	2.98	3.12	3.86
Total Current Assets	8.65	13.70	15.15	19.69	24.37
Net Block	1.80	1.47	1.43	1.50	1.63
Goodwill & Other Intangible Assets	6.77	6.60	6.98	6.98	6.98
Other Non-current Assets	1.43	0.65	0.61	0.66	0.75
Total Non Current Assets	10.00	8.72	9.02	9.14	9.36
Creditors	1.05	0.31	0.33	0.42	0.47
Other Current Liabilities & Provns	2.71	7.01	7.45	8.93	10.06
Total Current Liabilities	3.76	7.32	7.78	9.35	10.53
TOTAL APPLICATION OF FUNDS	14.88	15.11	16.40	19.47	23.19
Total Shareholders' Funds	7.90	8.59	10.71	13.45	16.85
Total Debt	3.33	1.90	2.03	2.03	2.03
Other Liabilities + Minority	3.65	4.62	3.65	4.00	4.31
TOTAL SOURCES OF FUNDS	14.88	15.11	16.40	19.47	23.19

Source: Company, HSIE Research

Cash Flow (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	1.84	2.87	2.73	3.80	4.00
Capex + Acq	-4.41	-0.12	-2.02	-0.51	-0.60
Free Cash Flow (FCF)	-2.58	2.76	0.71	3.29	3.40
Investing Cash Flow	-2.72	2.33	-1.95	-0.16	-0.22
Financing Cash Flow	2.06	-1.18	-1.28	-0.60	-0.72
Closing Cash & Equivalents	3.75	8.06	7.82	11.31	14.38

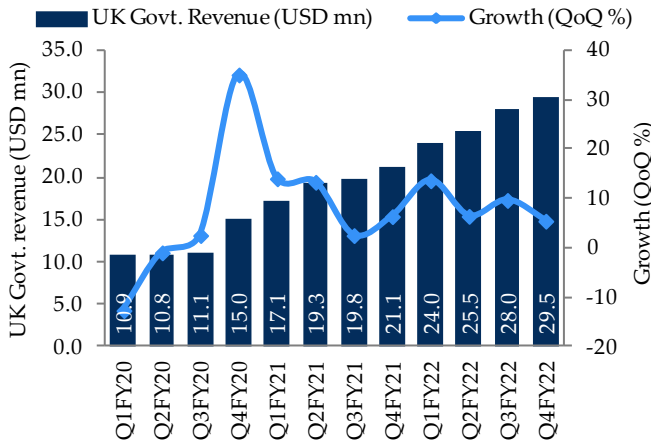
Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	17.6	25.4	30.6	26.9	26.6
RoIC (%)	16.2	28.6	41.3	41.1	49.2
Tax Rate (%)	21.0	25.8	25.6	25.0	25.0
Debtors (Billed days)	108	79	73	75	75
DPS (INR/sh)	10.8	14.0	18.6	22.1	27.4
P/E (x)	45.2	28.7	21.8	19.8	16.0
EV/EBITDA (x)	38.0	14.8	12.7	11.1	8.7
Payout Yield (Dividend + Buyback) %	0.5	0.2	0.7	0.8	1.0

Source: Company, HSIE Research

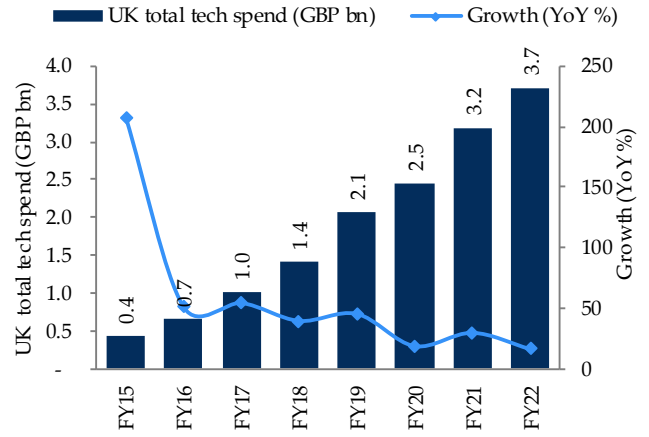
IT : Sector Thematic

Exhibit 1: Mastek UK government vertical revenue growth



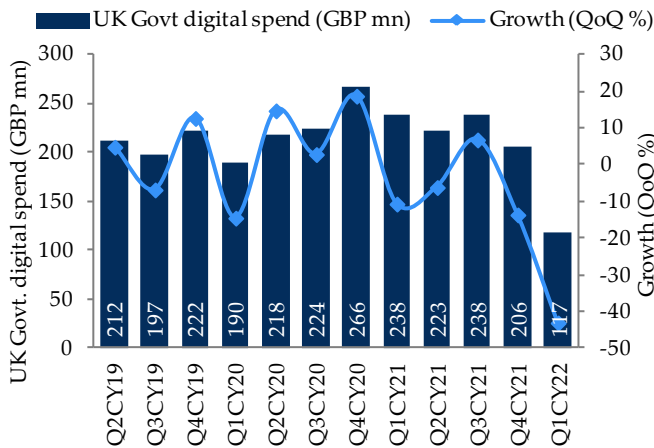
Source: Company, HSIE Research

Exhibit 2: UK Govt tech spend



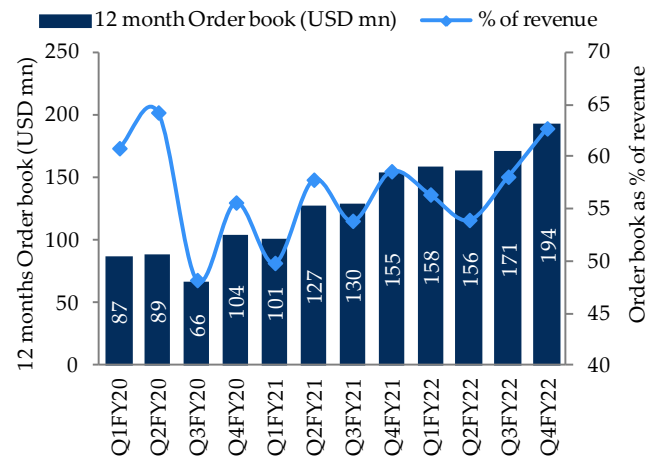
Source: Company, HSIE Research

Exhibit 3: UK Govt digital spend



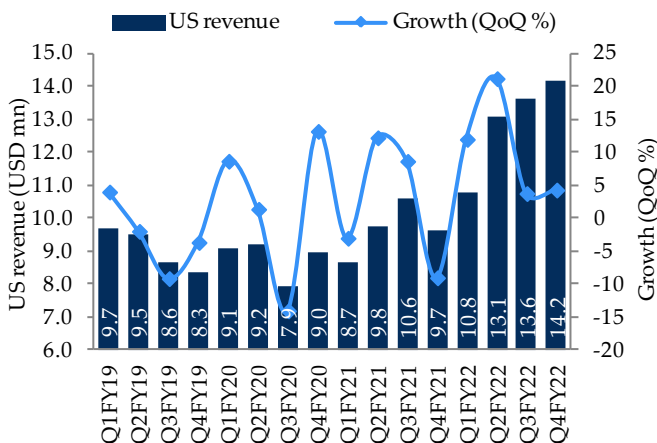
Source: Company, HSIE Research

Exhibit 4: Order book trend



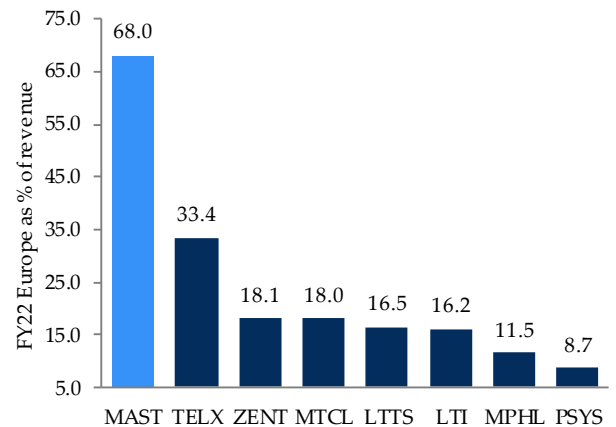
Source: Company, HSIE Research

Exhibit 5: US revenue and growth



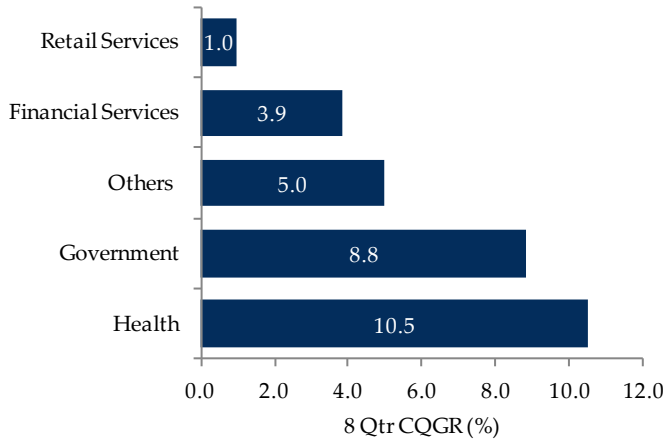
Source: Company, HSIE Research

Exhibit 6: UK geography contribution vs mid-tier peers - FY22



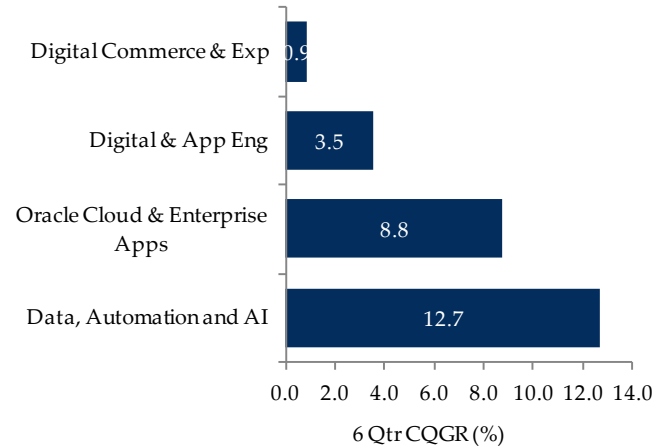
Source: Company, HSIE Research; Other companies Europe while MAST is UK

Exhibit 7: Vertical 8qtr CQGR



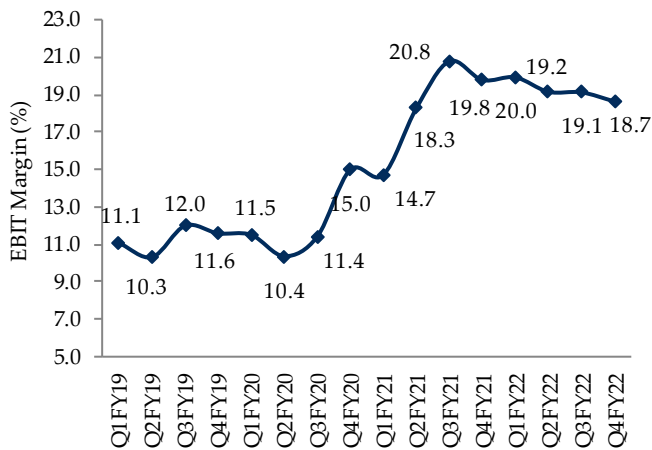
Source: Company, HSIE Research; Note as per old reporting

Exhibit 8: Services 6qtr CQGR



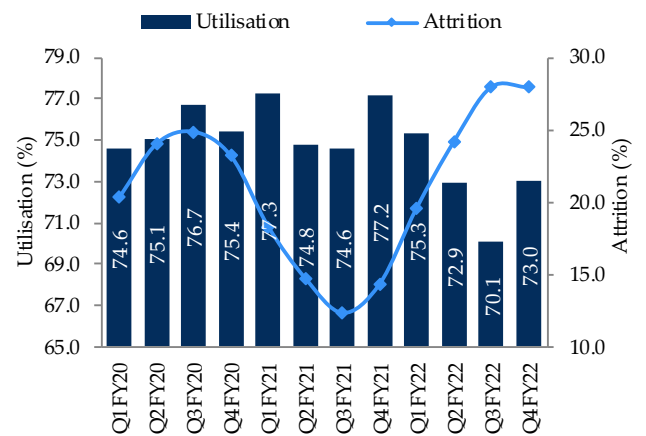
Source: Company, HSIE Research

Exhibit 9: Margin trend



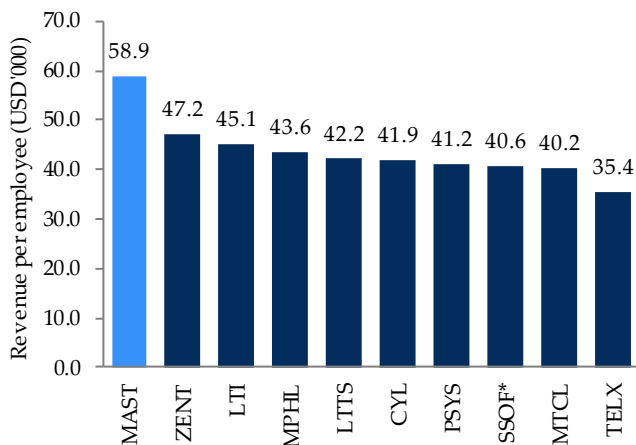
Source: Company, HSIE Research

Exhibit 10: Utilisation and Attrition trend



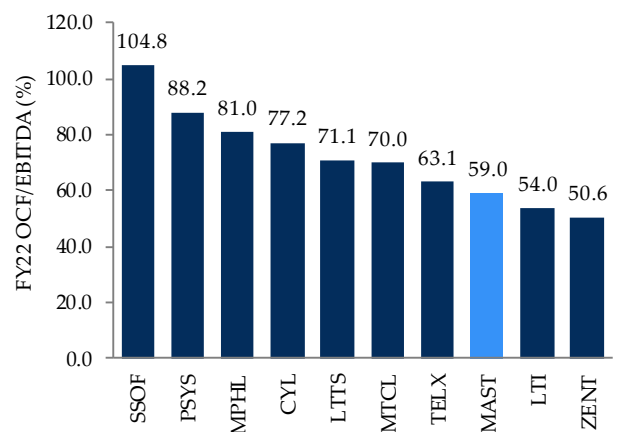
Source: Company, HSIE Research

Exhibit 11: Rev/Emp (USD'000) vs peers



Source: Company, HSIE Research

Exhibit 12: OCF/EBITDA vs Peers



Source: Company, HSIE Research

Zensar Technologies

Finding its way

Zensar has historically struggled with portfolio issues, revenue leakages, low single-digit organic growth and inferior margin profile vs. peers. This led to a complete strategy reset (new senior leadership and portfolio expansion) in early FY22 with a target to improving growth, infusing consistency and predictability and operating with a stable mid-teens EBITDA margin profile. Investments were made in the right direction to strengthen BFSI and Data Engineering capabilities, issues in top-client (Hi-Tech) were resolved and margin recovered to high teens. However, the TCV growth was lower than expected (-8% YoY in FY22) and the supply side challenges led to margin revert back to the pre-pandemic level. We expect further moderating in growth led by softness in manufacturing and retail verticals offset by traction in the BFSI vertical. The margin will also witness further drag with the additional cost of fresher's hiring, peaking utilisation level, rise in onsite/travel cost and wage increases. We cut our FY23/24E EPS estimate by 6.7/8.1% and lower the target P/E multiple to 16x (~8% premium to 5Y average) from 20x earlier. Maintain BUY rating with a TP of INR 325, the stock has already corrected ~48% in 6M and is trading below its 5Y average multiple.

BUY

CMP (as on 4 Jul 22)	INR 272
Target Price	INR 325
NIFTY	15,835

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Income Statement (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues (USD mn)	566	494	569	635	706
<i>Growth (%)</i>	<i>1.6</i>	<i>-12.7</i>	<i>15.3</i>	<i>11.6</i>	<i>11.0</i>
Net Revenues	40.10	36.68	42.44	49.44	55.75
EBITDA	5.04	6.84	6.57	6.58	7.77
EBIT	3.47	5.11	4.72	4.56	5.56
<i>EBIT (%)</i>	<i>8.7</i>	<i>13.9</i>	<i>11.1</i>	<i>9.2</i>	<i>10.0</i>
PBT	3.75	4.34	5.74	5.13	6.33
APAT	2.63	2.52	4.16	3.73	4.62
EPS (INR)	11.5	15.3	18.2	16.3	20.2

Balance Sheet (Consolidated)

YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Cash & Equivalents	8.63	12.46	12.06	13.11	14.95
Debtors	6.66	5.89	7.97	9.48	10.69
Other Current Assets	6.08	3.42	4.47	5.44	6.13
Total Current Assets	21.37	21.77	24.49	28.03	31.77
Net Block	6.76	5.56	5.61	5.57	5.59
Goodwill & Other Intangible Assets	6.47	5.77	7.24	7.24	7.24
Other Non-current Assets	0.86	0.74	0.84	0.83	1.10
Total Non Current Assets	14.09	12.07	13.68	13.63	13.93
Creditors	2.65	2.20	3.16	3.29	3.55
Other Current Liabilities & Provns	5.51	5.18	5.14	5.93	6.69
Total Current Liabilities	8.16	7.38	8.30	9.22	10.24
TOTAL APPLICATION OF FUNDS	27.30	26.46	29.87	32.44	35.46
Total Shareholders' Funds	20.90	23.42	26.87	28.86	31.31
Total Debt	2.89	0.00	0.00	0.00	0.00
Other Liabilities + Minority	3.51	3.03	3.01	3.59	4.14
TOTAL SOURCES OF FUNDS	27.30	26.46	29.87	32.44	35.46

Source: Company, HSIE Research

Cash Flow (Consolidated)

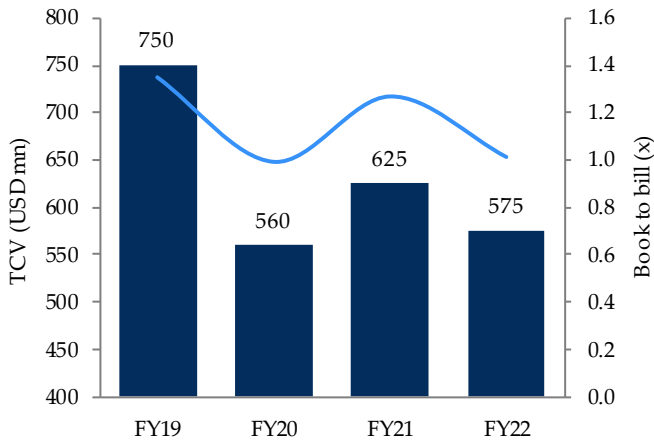
YE March (INR bn)	FY20	FY21	FY22	FY23E	FY24E
Operating Cash Flow (OCF)	6.86	8.09	3.33	4.50	5.68
Capex + Acq	-1.38	0.04	-2.47	-1.98	-2.23
Free Cash Flow (FCF)	5.48	8.13	0.85	2.52	3.45
Investing Cash Flow	-1.33	0.12	-2.27	-1.42	-1.47
Financing Cash Flow	-1.19	-3.59	-0.86	-2.03	-2.37
Closing Cash & Equivalents	8.63	12.46	12.06	13.11	14.95

Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
RoE (%)	12.7	15.7	16.3	13.0	14.8
RoIC (%)	13.8	22.2	21.8	18.0	20.5
Tax Rate (%)	27.7	29.1	26.6	26.5	26.5
Debtors (Billed days)	61	59	69	70	70
DPS (INR/sh)	5.2	1.2	3.9	7.6	9.5
P/E (x)	23.7	17.8	14.9	16.7	13.5
EV/EBITDA (x)	11.1	7.2	7.5	7.4	6.0
Payout Yield (Dividend + Buyback) %	2.0	0.4	1.4	2.9	3.5

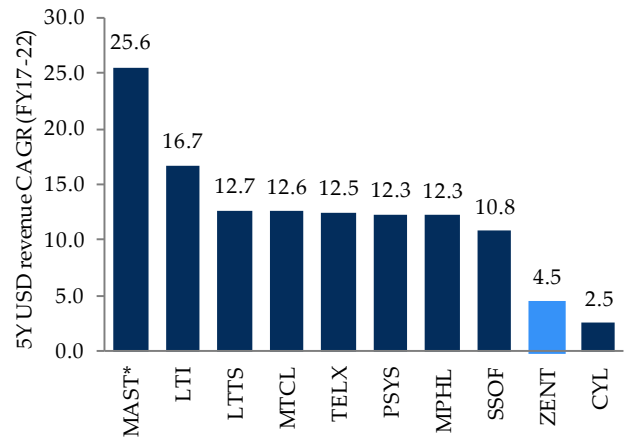
Source: Company, HSIE Research

Exhibit 1: Annual TCV and book-to-bill trend



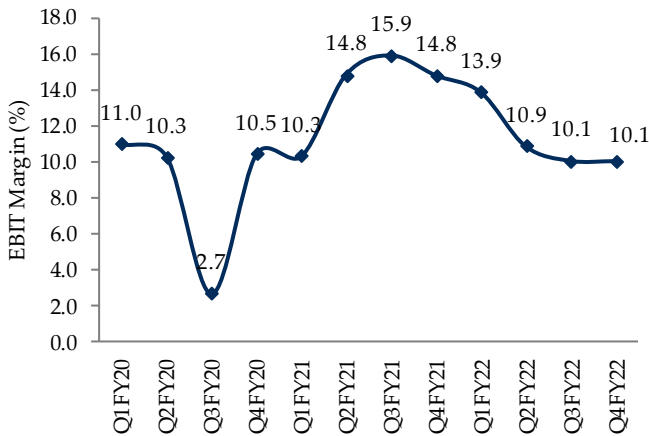
Source: Company, HSIE Research

Exhibit 2: 5Y revenue CAGR vs peers



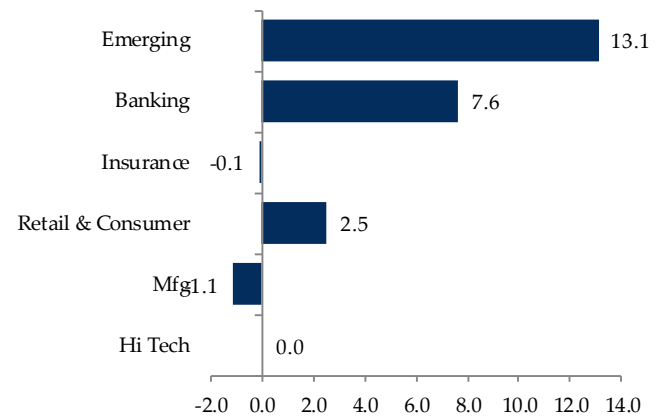
Source: Company, HSIE Research; MAST 3Y CAGR(FY19-22)

Exhibit 3: Margin back to pre-covid level



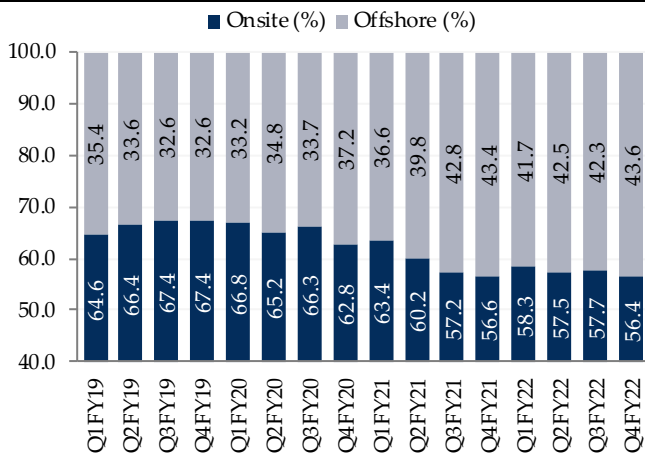
Source: Company, HSIE Research

Exhibit 4: Vertical wise 8qtr CQGR



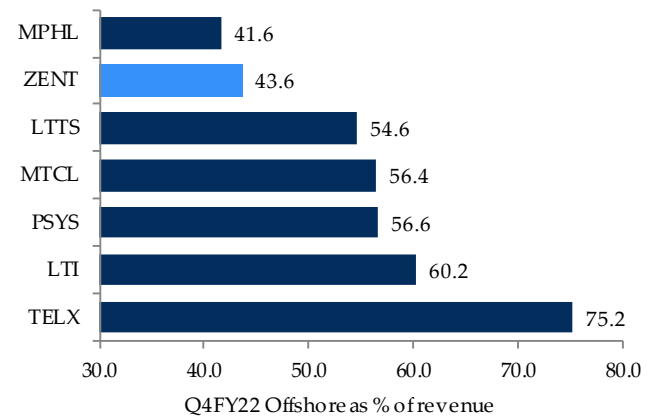
Source: Company, HSIE Research

Exhibit 5: Onsite - offshore mix trends



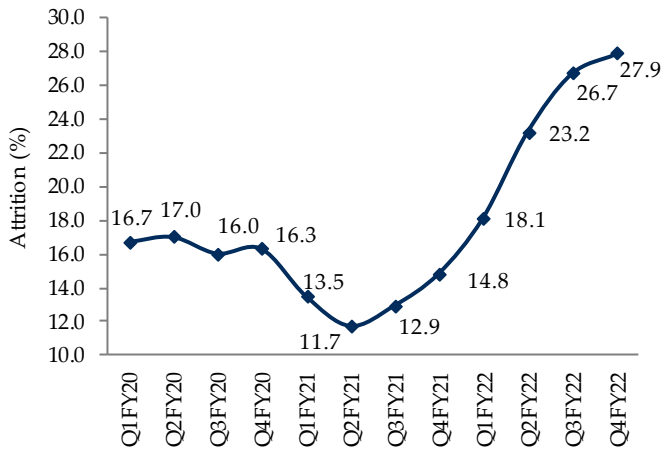
Source: Company, HSIE Research

Exhibit 6: Offshore revenue vs peers



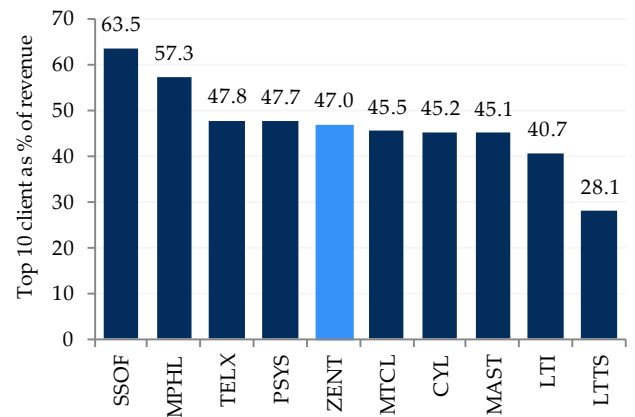
Source: Company, HSIE Research

Exhibit 7: Attrition trend



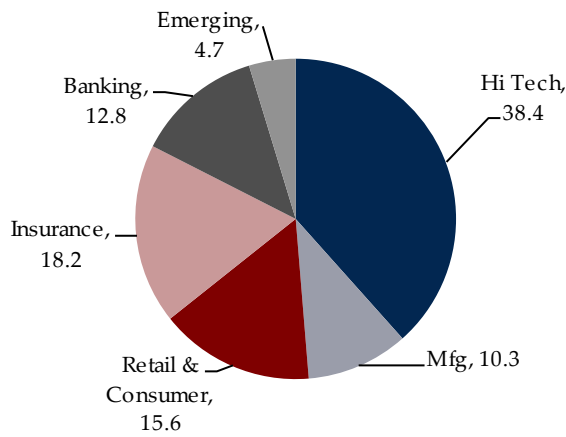
Source: Company, HSIE Research

Exhibit 8: Top 10 clients contribution



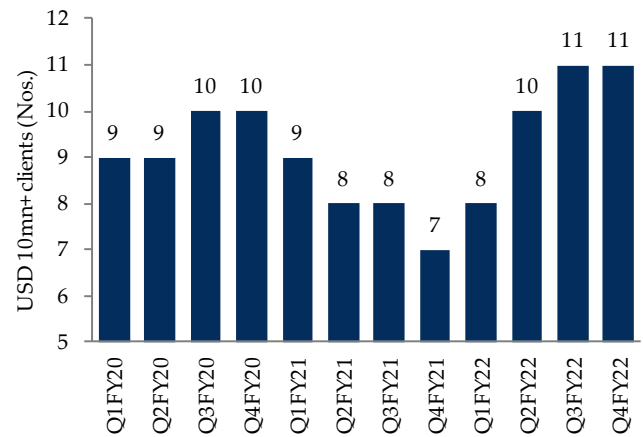
Source: Company, HSIE Research

Exhibit 9: Vertical mix



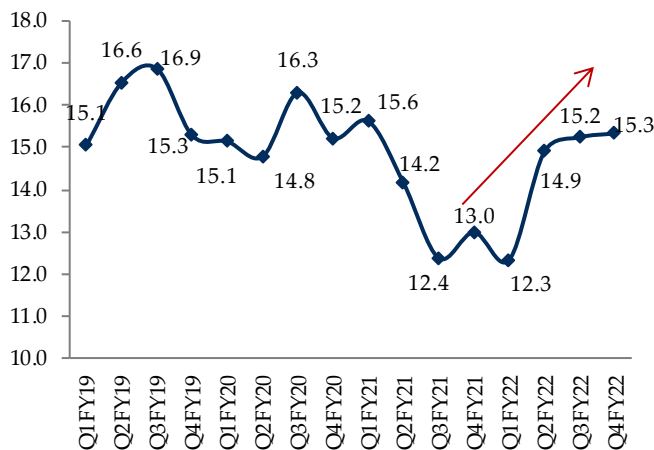
Source: Company, HSIE Research

Exhibit 10: USD 10mn+ clients growth



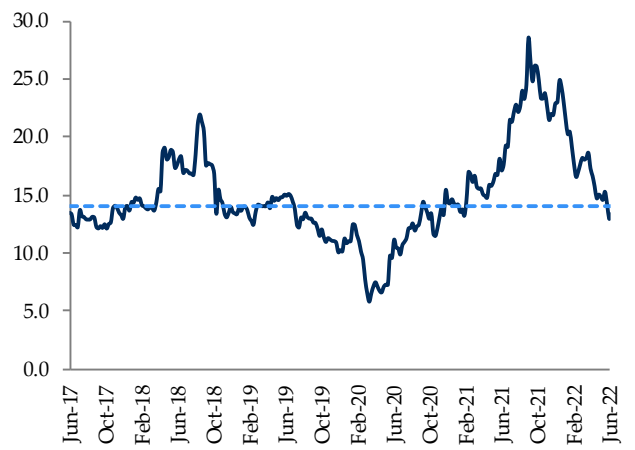
Source: Company, HSIE Research

Exhibit 11: Subcon expenses trend

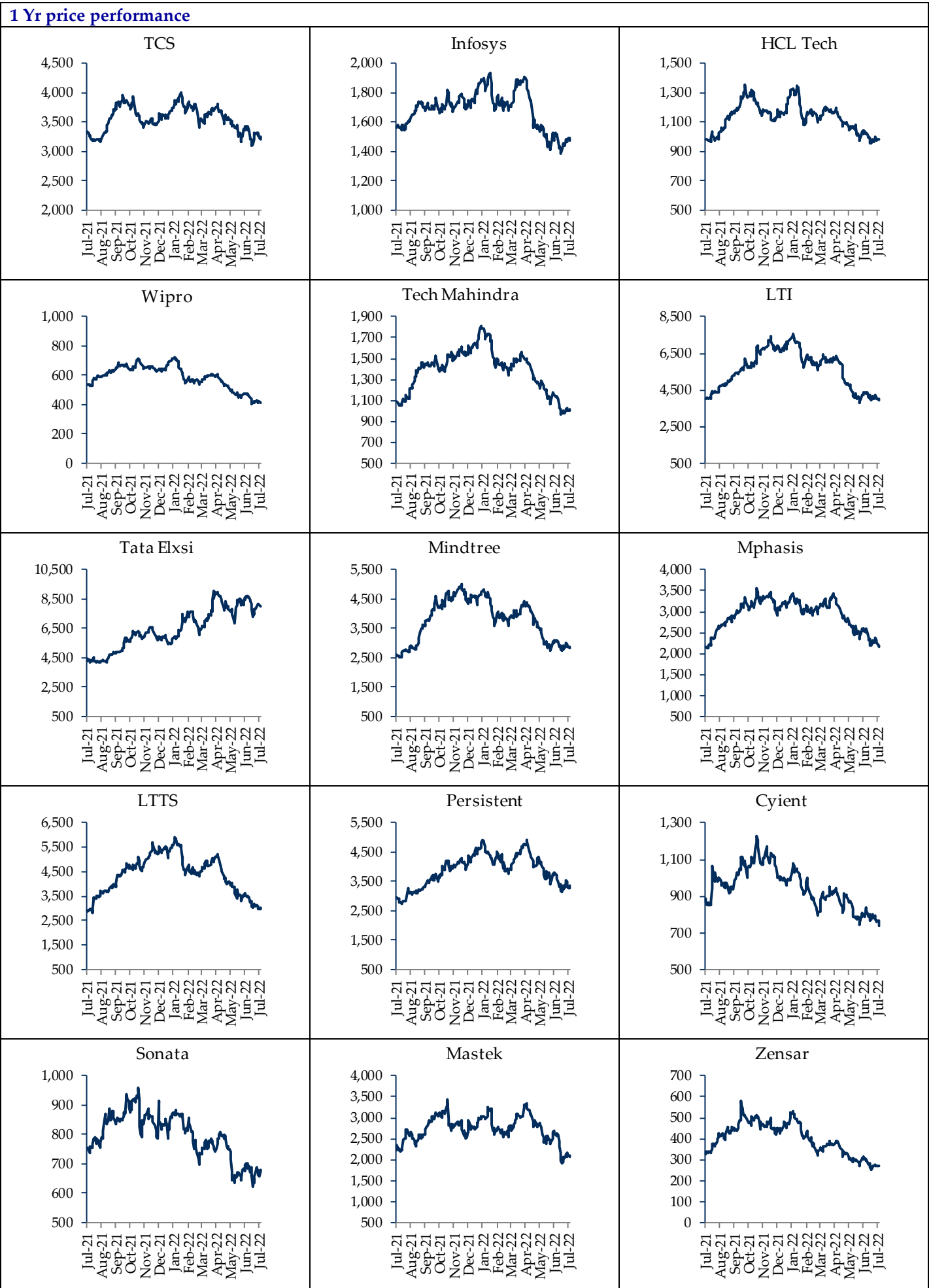


Source: Company, HSIE Research

Exhibit 12: 1 yr Fwd P/E chart



Source: Company, HSIE Research



Thematic reports by HSIE



Cement: WHRS – A key cog in the flywheel



Autos: Where are we on “S” curve?



FMCG: Defensive businesses but not valuations



Autos: A changed landscape



Banks: Double whammy for some



India Equity Strategy: Atma Nirbhar Bharat



Indian IT: Demand recovery in sight



Life Insurance: Recovery may be swift with protection driving margins



Retail: Whole flywheel is broken?



Appliances: Looming beyond near-term disruption



Pharma: Chronic therapy – A portfolio prescription



Indian Gas: Looking beyond the pandemic



India Equity Strategy: Quarterly flipbook



Real Estate: Ripe for consumption



Indian IT: expanding centre of gravity



Indian Chemical: Evolution to revolution!



Life Insurance: ULIP vs. MF



Infrastructure: On the road to rerating



Cement: Spotting the sweet spot



Pharma: Cardiac: the heartbeat of domestic market



Life Insurance: Comparative annual report analysis



Indian microfinance: Should you look micro as macros disappoint?



India Equity Strategy: Quarterly flipbook



Autos: Divergent trends in PVs and 2Ws



India Internet: the stage is set



FMCG: Opportunity in adversity - A comparative scorecard



Logistics: Indian Railways - getting aggressive



Industrials: Triggering a new cycle



Indian IT: raising the bar



India Equity Strategy: Quarterly flipbook



FinTech Playbook: P2M Payments | Surging pool, dwindling yields



India Hospitals: capital discipline improving, sustenance is key



Autos: Will EVs impact the ‘EV’?



Cement: Riding High



Power: Reforms essential for renaissance



Fashion & Lifestyle: From a disruptor’s lens II



India Equity Strategy: Quarterly flipbook



Indian Gas Sector: Resilience in the eye of the storm



Consumer Durables: Fans - a compounding story but underrated



Quarterly flipbook: Q2FY22–Demand environment improves but input cost inflation dents profitability



FinTech Playbook: Discount Brokers



Footwear: No bargains here!



Holdcos for portfolio diversification



Cement: A concrete road for net-zero emissions



FinTech Playbook: Buy Now Pay Later | Demystifying the tablestakes



India Equity Strategy: PLI: Spearheading India’s manufacturing push



Power: Shifting energy landscape: Grey to green gains pace

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

We, **Apurva Prasad, MBA, Amit Chandra, MBA & Vinesh Vala, MBA** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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