

Information Technology

Hit Refresh

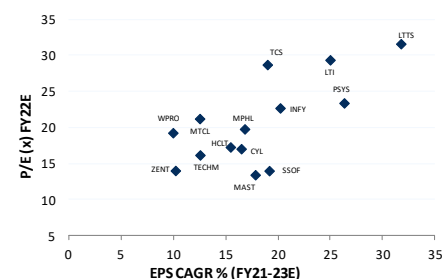
We 'hit refresh' in this note and evaluate the relative quality trends across segments and demand/competitor indicators. Some of the key lead indicators such as deal bookings, hiring trends, enterprise/partner commentary, industry data and our primary checks indicate continuity of strong momentum. We believe that (1) operational resilience/outperformance/sustainability, (2) mega/multi-year industry tailwinds (cloud acceleration), and (3) high near-term growth visibility provide reasonable comfort despite the sharp valuation re-rating.

The sector posted its strongest 3Q sequential performance in a decade and some key indicators/trends include: (1) large deal wins, driven by acceleration in transformation agenda and increasing size of modernisation projects of large enterprises, (2) within verticals – (a) rebound in Manufacturing, (b) continued traction in Life-science & Healthcare, (c) large deal ramps in BFSI, (d) Retail & CPG vertical beating the seasonality factor, (3) hybrid cloud acceleration (40% YoY increase in IBM's client based on hybrid cloud) driven by highly regulated industries, and (4) operating model tilt (pandemic induced) supported by increasing velocity of project ramp and higher re-skilling efforts, leading to better utilisation and higher offshoring.

- Revenue momentum:** Revenue outperformance was ~1% for tier-1 and in-line for mid-tiers in the quarter, with the sector posting its strongest 3Q sequential performance in a decade. Infosys and TCS posted the strongest sequential growth within tier-1 and, within mid-tiers, growth lead was driven by PSYS, LTTS, LTI and Mastek. ER&D pureplays (LTTS/TELX) posted strong sequential performance. The twin positives of stronger deal flow/pipeline as well as increase in guidance across the sector remains reassuring.
- Margin performance:** On margins front, the beat was more prominent at ~120bps higher as compared to prior estimated, leading to PAT beat of ~6% for the sector. Margins are up 320bps since the pre-pandemic levels (4QFY20), including an improvement of ~100bps QoQ in 3QFY21. In 3Q, WPRO/TECHM posted stronger improvement in margin and within mid-tiers MTCL/SSOF/TELX posted the strongest sequential improvement.
- Outlook and valuations:** We expect the IT sector revenue to grow at 13.6/10.6% (in USD terms) for FY22/23E with mid-tier IT growth to come in at 15.0/12.0%. We factor stable margins over FY22-23E, following a 200bps expansion in FY21E leading to >17% earnings growth average over FY21-23E. We believe that there continues to be an upside risk to consensus estimate (HSIE EPS est. 3/6% ahead for FY22/23E) and revenue/margin outperformance (relative to consensus) will continue. The sector is currently trading at 1.5x historical valuations and yet ~15% discount to Accenture's valuations. Key risks are macro recovery upending and INR appreciation. Our preferred picks remain **Infosys, HCL Tech, Persistent, Mphasis and Sonata.**

Company	CMP* (Rs)	RECO	TP (Rs)
TCS	3,191	ADD	3,435
Infosys	1,310	BUY	1,580
HCL Tech	960	BUY	1,110
Wipro	442	ADD	470
TechM	991	BUY	1,110
LTI	4,040	ADD	4,280
Mphasis	1,646	BUY	1,740
Mindtree	1,724	ADD	1,735
LTTS	2,600	REDUCE	2,175
Persistent	1,795	BUY	1,900
Cyient	626	ADD	680
Zensar	229	ADD	260
Sonata	400	BUY	460
Mastek	1,193	BUY	1,500

*CMP as on 12th Feb 2021



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IT Services: 3QFY21 Quarterly Financial Summary

Company	NET SALES (USD mn)			NET SALES (Rs bn)			EBIT (Rs bn)			EBIT Margin (%)			APAT (Rs bn)			Adj. EPS (Rs)		
	3Q	QoQ	YoY	3Q	QoQ	YoY	3Q	QoQ	YoY	3Q	QoQ	YoY	3Q	QoQ	YoY	3Q	2Q	3Q
	FY21	(%)	(%)	FY21	(%)	(%)	FY21	(%)	(%)	FY21	(bps)	(bps)	FY21	(%)	(%)	FY21	FY21	FY20
TCS	5,702	5.1	2.1	420.15	4.7	5.4	111.84	6.4	12.1	26.6	42	159	87.01	3.6	7.2	23.5	22.7	21.9
Infosys	3,516	6.2	8.4	259.27	5.5	12.3	65.89	5.8	30.1	25.4	7	348	51.97	7.3	21.6	12.2	11.4	10.1
HCLT	2,617	4.4	2.9	193.02	3.8	6.4	44.15	9.9	20.3	22.9	127	264	34.33	9.3	13.1	12.7	11.6	11.2
Wipro*	2,071	3.9	-1.1	156.70	3.7	1.3	33.25	18.8	25.4	21.2	271	408	29.67	20.3	20.8	5.2	4.3	4.3
Tech M	1,309	3.4	-3.3	96.47	2.9	-0.1	15.37	15.5	30.4	15.9	173	373	13.10	23.0	14.3	14.9	12.1	13.0
Tier-1 IT	15,215	4.9	2.7	1,125.61	4.4	6.0	270.50	8.7	20.0	24.0	94	281	216.08	8.5	13.6			
L&T Infotech	428	5.8	8.5	31.53	5.1	12.2	6.50	9.1	42.4	20.6	75	438	5.19	13.7	37.8	29.8	26.2	21.6
Mphasis	334	1.9	4.9	24.74	1.6	8.7	4.05	3.2	9.6	16.4	25	13	3.26	8.8	10.9	17.5	16.1	15.8
Mindtree	274	5.0	-0.4	20.24	5.1	3.0	3.96	18.8	67.6	19.6	227	755	4.00	57.7	103.1	24.3	15.4	12.0
L&T Tech	190	6.8	-4.6	14.01	6.6	-1.6	2.13	18.4	-10.8	15.2	151	-158	1.79	31.5	-7.3	17.1	13.0	18.5
Persistent	146	7.4	12.9	10.75	6.7	16.5	1.36	12.0	69.2	12.7	60	395	1.21	18.6	31.7	15.8	13.3	12.0
Cyient	141	4.7	-8.9	10.44	4.1	-5.6	1.16	5.3	9.6	11.1	13	154	0.95	13.5	-11.9	8.7	7.6	9.8
Zensar	123	-2.4	-10.9	9.06	-3.2	-7.7	1.44	3.7	441.1	15.9	106	1,319	0.99	12.3	157.9	4.3	3.6	1.7
Sonata^	41	5.1	-12.4	13.96	73.7	12.9	1.01	30.8	0.5	7.2	-237	-89	0.76	32.2	-0.3	7.3	5.5	7.3
Mastek	60	9.1	75.6	4.43	8.1	81.7	0.92	23.0	231.5	20.8	253	940	0.57	12.7	88.1	22.2	19.8	12.0
Mid Tier - IT	1,737	4.5	2.8	139.17	8.4	7.3	22.54	11.3	37.2	16.2	42	353	18.72	22.5	33.2			
Aggregate	16,952	4.9	2.7	1,264.78	4.4	6.1	293.04	8.9	21.2	23.2	86	288	234.80	9.5	14.9			

Source: HSIE Research, *Wipro IT services USD revenue, ^Sonata IITS USD revenue and IITS EBITDA margin at 27.9% improved 430/270bps QoQ/YoY

IT Services: 3QFY21 Actual vs. HSIE Preview estimates

Company	NET SALES (US \$mn)			NET SALES (Rs bn)			EBIT (Rs bn)			EBIT Margin (%)			APAT (Rs bn)		
	3Q	3Q	%	3Q	3Q	%	3Q	3Q	%	3Q	3Q	bps	3Q	3Q	%
	FY21	FY21E	Variance	FY21	FY21E	Variance	FY21	FY21E	Variance	FY21	FY21E	Variance	FY21	FY21E	Variance
TCS	5,702	5,614	1.6%	420.15	413.75	1.5%	111.84	104.66	6.9%	26.6	25.3	132	87.01	83.81	3.8%
Infosys	3,516	3,461	1.6%	259.27	255.07	1.6%	65.89	64.53	2.1%	25.4	25.3	12	51.97	50.60	2.7%
HCLT	2,617	2,602	0.6%	193.02	191.77	0.7%	44.15	41.85	5.5%	22.9	21.8	105	34.33	32.31	6.3%
Wipro	2,071	2,062	0.4%	156.70	156.43	0.2%	33.25	28.9	15.0%	21.2	18.5	274	29.67	25.93	14.4%
Tech M	1,309	1,293	1.2%	96.47	95.06	1.5%	15.37	13.66	12.5%	15.9	14.4	156	13.10	11.74	11.6%
Tier-1 IT	15,215	15,033	1.2%	1,125.61	1,112.08	1.2%	270.50	253.61	6.7%	24.0	22.8	123	216.08	204.39	5.7%
L&T Infotech	428	426	0.4%	31.53	31.41	0.4%	6.50	6.24	4.2%	20.6	19.9	75	5.19	4.91	5.7%
Mphasis	334	344	-3.2%	24.74	25.39	-2.5%	4.05	3.98	1.8%	16.4	15.7	69	3.26	3.19	1.9%
Mindtree	274	269	2.1%	20.24	19.8	2.2%	3.96	3.33	19.0%	19.6	16.8	276	4.00	2.56	56.4%
L&T Tech	190	189	0.6%	14.01	13.93	0.6%	2.13	2.13	0.0%	15.2	15.3	-9	1.79	1.73	3.3%
Persistent	146	145	0.9%	10.75	10.72	0.3%	1.36	1.31	4.4%	12.7	12.2	49	1.21	1.17	3.6%
Cyient	141	138	2.7%	10.44	10.12	3.2%	1.16	0.94	23.9%	11.1	9.3	187	0.95	0.71	34.2%
Zensar	123	130	-5.2%	9.06	9.55	-5.1%	1.44	1.3	10.6%	15.9	13.7	225	0.99	0.92	7.5%
Sonata^	41	41	1.1%	13.96	11.2	24.7%	1.01	0.85	19.4%	7.2	7.6	-32	0.76	0.63	20.1%
Mastek	60	57	5.5%	4.43	4.19	5.8%	0.92	0.70	31.7%	20.8	16.7	410	0.57	0.53	8.5%
Mid Tier - IT	1,737	1,738	0.0%	139.17	136.29	2.1%	22.54	20.78	8.5%	16.2	15.2	96	18.72	16.35	14.5%
Aggregate	16,952	16,771	1.1%	1,264.78	1,248.38	1.3%	293.04	274.38	6.8%	23.2	22.0	119	234.80	220.74	6.4%

Source: HSIE Research, * Wipro IT services USD revenue, ^Sonata IITS revenue;

Revenue growth trend YoY CC % and Guidance

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	Guidance
TCS	10.6%	8.4%	6.8%	3.0%	-6.3%	-3.2%	0.4%	NA
Infosys	12.4%	11.4%	9.5%	6.4%	1.5%	2.2%	6.6%	+4.5 to +5% CC in FY21 vs +2% to 3% guided in 2QFY21
HCL Tech	17.0%	20.5%	16.4%	13.5%	1.0%	-0.4%	1.1%	+2% to 3% QoQ CC in 4Q (including DWS) as compared to +1.5% QoQ to +2.5% QoQ CC in 3Q-4Q earlier
Wipro	5.9%	3.8%	3.3%	2.6%	-4.4%	-3.4%	-2.0%	+1.5% to 3.5% QoQ CC in 4Q
Accenture	8.4%	7.2%	9.0%	8.0%	1.3%	-1.0%	2.0%	+4% to +6% CC for FY22 as compared to +3% to +5% CC guided in 2QFY21
Cognizant	4.7%	5.1%	4.2%	3.5%	-2.5%	-0.7%	-3.0%	+1% to 2% for 1QCY21 and +4% to 7% YoY CC for CY21
Capgemini	5.7%	5.9%	2.9%	2.3%	-7.7%	-3.6%	NA	NA
Atos	-4.4%	-5.0%	-7.9%	0.6%	-4.5%	-3.5%	NA	NA
IBM services	-3.7%	-2.8%	-3.3%	-3.9%	-7.5%	-4.0%	-9.0%	NA
DXC Tech^	-4.2%	-0.8%	-2.0%	-6.9%	-5.9%	-6.1%	-14.6%	4Q \$4.25B – \$4.3B (-0.9% to +0.3% QoQ, -11.7% to -10.7% YoY in USD terms)

Source: Company, HSIE Research; Capgemini growth is ex-Altran, IBM services (GBS/GTS) & Atos in YoY terms; ^ in USD terms for 2Q/3QFY21

Global IT services commentary

IBM

- Significantly increased focus on hybrid cloud & AI capabilities, and seeing an ever greater need from clients to accelerate digital transformation.
- Leveraging Red Hat as a unique platform to address the needs of global, complex and highly regulated clients.
- Spin-off of the managed infrastructure services business or 'NewCo' (~4,600 clients, 90,000 employees) expected to be completed by CY21-end.
- Overall cloud revenue at USD 25bn, up 20% in CY20 (GBS cloud revenue at USD 6bn); Red Hat grown at 18% in CY20 and the backlog is highest-ever at USD 5bn; Strategic partnership with Salesforce with a new go-to-market.
- Stronger growth expected in 2HCY21 as compared to 1HCY21, post the business separation, mid-single digit growth expected ahead.

DXC Technology

- Focus on revenue and margin stability for FY22; third straight quarter of >1.0 book-to-bill and similar trend expected in 4Q.
- 55% of bookings were renewals and 45% were new wins in 3Q; high proportion of renewals and new deals are sole-sourced.
- Reduction in premium sub-contracting and moving work in-house for DXC.
- Within DXC' existing customer base, customers are aspiring to move roughly 20% of the existing work to cloud over the next two years.

Cognizant

- For CY21, growth guidance is 4-7% CC (1-4% organic). CY20 deal bookings in mid-teens and 40 new G2000 accounts added in CY20.
- Digital talent is intensely competitive and 1Q hiring planned more than ever before.
- Momentum in Manufacturing, Logistics and E&U verticals and healthy book-to-bill in insurance and banking verticals, BFSI impact in 4Q due to exit of large program and weakness in cards and payments segment.

Indian IT management commentary: 3QFY21

Company	Management Commentary post 3QFY21	HSIE View
TCS	<p>BFSI: 1) Out of the two large deals, which the company signed in Q3, the Prudential Financial deal was closed in mid-December (but very little was added to the revenue in this quarter) and the PBS deal closed on 1st Jan'21. 2) BFSI and technology services are both more in the positive territory. 3) BFSI demand has multiple levers that will drive long-term BFSI demand; one is related to the whole public cloud space and almost all the customers in the BFSI space either already have some kind of a public cloud strategy or are currently experimenting with it, but substantial workloads have not shifted and there are still lingering issues being sorted out both from security perspective and validation point of view.</p> <p>Retail: 1) Retail showed good sequential growth in the a seasonally weak quarter. 2) US retail showed good recovery followed by Europe and UK. 3) Retailers continue to spend on initiatives to enhance customer experience and re-imagine customer journey by providing a seamless experience across channels, optimising fulfillment costs and finding ways to leverage the physical store to provide value-added services and experiences.</p> <p>Life Sciences & Healthcare: The life sciences and healthcare vertical continued to outperform.</p> <p>Technology: 1) <u>Cloud adoption is driving the multi-technology spending cycle and will remain a secular growth private for the company over the next 3 to 5 years with the transformation playing out over multiple horizons.</u> 2) Company's approach is more long-term strategic partnerships, where they are investing in creating the technology capability and making that available to the customer on an on-demand basis.</p> <p>Headcount: 1) At the end of Q3, the company had trained 366k employees on new technologies and over 444k employees on agile methodologies. 2) Variable pay has been 100% in both the previous quarter as well as the quarter before that and salary increase rolled out from H2. 3) 40k trainees are committed to be brought on board.</p> <p>Utilisation: 1) TCS has increased roll mobility and career growth opportunities for the employees, while <u>improving its velocity of project ramp-ups and utilisation.</u> 2) From other drivers like utilisation or productivity or leverage, TCS continues to look for opportunities and the company will continue to improve.</p> <p>Outlook: <u>Retains aspirational margin band of 26% to 28%.</u></p>	<p>1) TCS' gold standard in execution/scale will be supported by the industry tailwind of strong tech cycle.</p> <p>2) We have factored in USD revenue growth of 0.4%/ 14.8%/10.7% for FY21/22/23E with 4QFY21 at 3.9% QoQ. EBIT margin for TCS factored at 26.8%, 27.3% for FY22/23E.</p> <p>3) Our target price is Rs 3,435 (ADD) is based on 28x Dec-22E EPS with EPS CAGR at 19% over FY21-23E.</p>
Infosys	<p>BFSI: 1) Growth momentum accelerated in financial services with the ramp-up of past deal wins; focus on accelerating the digital transformation agenda for many of the large clients and opening up new accounts across various verticals like mortgages, regional banks, wealth and retirement services. 2) Multiple opportunities in cloud, data services and creating new digital bank capabilities as things improve post COVID. 3) Finacle continues to grow steadily and that's firmly established itself as one of the best banking platforms in the industry for digital transformation.</p> <p>Retail: 1) Retail segment continued to improve with increased volumes in the quarter despite seasonal softness and YoY growth. 2) INFY is seeing opportunities around vendor consolidation and capital monetisation in this vertical.</p> <p>Communication: 1) Performance in communication segment also improved sequentially although media, entertainment, advertising and OEM segments remain under pressure.</p> <p>Energy: Energy utility resources and services vertical continue to face a difficult environment due to stress in segments like oil and gas, education publishing, and travel & hospitality, while utilities remained relatively steady. 2) Based on the recent deal wins and deal pipeline, the company expects to see stable performance in the coming quarters.</p> <p>Manufacturing: 1) This vertical at a standard quarter both in terms of deal signings and revenue momentum, which improved meaningfully despite continued discussions across sub segments. 2) <u>As deals ramp up over the coming quarters, the company expects superior revenue momentum for this vertical.</u></p> <p>Headcount: 1) The company will be implementing salary increase across all level effective from January 1, 2021. 2) It will look at much more aggressive hiring over the next few quarters and try to build utilisation demand the level.</p> <p>Utilisation: 1) Confidence of clients as well to offshore will increase and that could be a lever company will step on utilisation and local hiring in the US at the pyramid.</p> <p>Offshore: 1) On the onsite/offshore mix, there have been some temporary benefits because of curtailed travel and therefore people have not been able to travel overseas. 2) INFY will see some movements from offshore to onsite but the recruitment engine onsite is very strong as well.</p> <p>Guidance: 1) INFY increased its revenue growth guidance for the full year from 2% to 3% to new guidance of 4.5% to 5% growth in constant currency. 2) Company also increased its operating margin guidance for the full year, from 23-24% previously to 24-24.5% for the full year.</p>	<p>1) INFY's growth leadership is backed by large deal wins, which is a key positive for revenue visibility in the near term.</p> <p>2) We have factored in USD revenue growth of 7%/ 16.1%/ 12.9% for FY21/22/23E with 4QFY21 at 3.5% QoQ. EBIT margin factored in at 23.9% for 4Q and 24.1/24.5% for FY22/23E. Valuations are at 23.4/20.1x (~14% discount to TCS) with FY21-23E EPS CAGR at 20%.</p> <p>3) Our target price is Rs 1,580 (BUY) at 25x Dec-22E (~10% discount to TCS), supported by 20% EPS CAGR over FY21-23E.</p>

<p>HCL Tech</p>	<p>BFSI: 1) Won a deal from one of the leading US financial services firm to build a customer-centric digital banking platform leveraging cloud technologies. 2) Company is seeing increase in both digital customer base and digital banking across the world.</p> <p>Retail: 1) Retail is slowly returning while the sectors that were least impacted or benefiting from the pandemic are grocery and food distribution, life sciences & healthcare. 2) <u>Company is seeing transformation across industries in omnichannel commerce both in retail and increasingly in B2B industries.</u> 3) In core retail across the world, retailers are adopting to the new normal.</p> <p>Manufacturing: 1) Company is witnessing a steady momentum in the market and pent-up demand in some of the most impacted sectors like manufacturing. 2) <u>Manufacturing has returned to a strong positive quarterly growth, which can be attributed to the new ramp-ups.</u></p> <p>Technology: 1) Customers are putting premium on partners like HCLT, with the ability to translate programs into priorities roadmaps and execute these programs that bring together technology, design, process, and domain consulting skills to execute rapidly with business and IT partnerships.</p> <p>Offshore: 1) Margin improvement was led by work moving more offshore which are higher than on-site margins. 2) Out of the total 6,600 net additions, 90% of the addition has been on the offshore. 3) <u>Offshoring component is going to gradually increase.</u></p> <p>Headcount: 1) Company will have salary increment coming up next quarter, part of which took place this quarter, which quantified as 50 basis points and the impact in the next quarter is expected to be 80 to 90 basis points.</p> <p>Guidance: Company's revenue is expected to grow at about 2% to 3% in constant currency for Q4FY21, which includes the DWS contribution and some expected seasonal downturn in the products and platforms segments. 2) Company raised its EBIT margin guidance in the range of 21% to 21.5% for FY21 as compared to 20% to 21% guided earlier.</p>	<p>1) We have factored in USD revenue growth at +2.4/13.1/10.5%, factoring in IT & BS growth at -0.6/+13.7/+10.4%, ER&D growth at -4.2/+11.8/+12.6% and P&P growth at +23.1/11.7/8.6% over FY21/22/23E respectively.</p> <p>2) EBIT margins are estimated at 21.6/21.7/21.9% over FY21/22/23E respectively, translating into an EPS CAGR of 15% over FY21-23E (TCS/INFY at 19/20% CAGR).</p> <p>3) The absence of large acquisitions and subsequent accretion to FCF/payout are upside risks to valuations. Our target price is Rs 1,110 (BUY) at 18x Dec-22E (15% EPS CAGR over FY21-23E).</p>
<p>Wipro</p>	<p>BFSI: 1) Company is seeing acceleration from every industry including BFS and Insurance.</p> <p>Energy 1) The growth momentum in Energy and Utility was led by utilities. 2) Beginning to see <u>ramp-up in demand in oil & gas customers</u> and encouraged by the deal wins.</p> <p>Technology: 1) Technology bounces back this quarter with healthy growth despite muted growth in Communications.</p> <p>Manufacturing: This vertical continues to build on the momentum.</p> <p>Healthcare and Life Sciences: Performance was attributed by a seasonal uptick in the health plan services business.</p> <p>Utilisation: 1) The company has been able to manage its utilisation in Q3 and done quite well. 2) Utilisation for Q4 will be actually same as for Q3.</p> <p>Headcount: 1) Wipro has begun to make investments in frontline sales and domain specialist. 2) 80% of the employees completed the promotion cycle, w.e.f 1st December, and company will also roll out salary increases. 3) It has also announced a <u>100% variable payout for Q3 and for Q4</u>, which will make it three consecutive quarters of full payout.</p> <p>Offshore: 1) Offshoring has increased significantly over the past few quarters and will be sustained. 2) If revenue momentum and offshoring continue, some of those advantages may stay within the operating margin.</p> <p>Guidance: Company guided for revenue growth of 1.5% to 3.5% in Q4FY21.</p>	<p>1) We have factored in -1.6/+8.6/+5.5% USD revenue growth for FY21/22/23E respectively; implying 4Q revenue growth of 3.2% IT services</p> <p>2) EBIT Margin factored in at 20.6% for 4Q and 20.0/20.5% for FY22/23E, resulting in EPS CAGR of 10% over FY21-23E</p> <p>3) Our target price of Rs 470 (ADD) is based on 20x Dec-22E EPS (~20% discount to INFY). The stock is trading at 22.3/20x FY21/22E EPS.</p>
<p>TECHM</p>	<p>Telecom: 1) One of the deals that the company has signed this quarter is from network services, 5G rollout, for a European customer. 2) 5G component continues to increase both in terms of funnel as well as the percentage of revenue as part of the overall network business as it will continue to transform its network portfolio and grow.</p> <p>Manufacturing: 1) There is going to be digital transformation, which is one layer of spend, but the other layer of spend is spend optimization, which is the larger outsourcing kind of deals, where people are clubbing transformation and the run function into one.</p> <p>Retail: 1) <u>Seasonally, Q3 tends to be strong because of the retail spike that the company ends up getting, but it also sees some opportunities in Q4.</u></p> <p>Headcount: 1) The company will see headcount growth, going forward, but obviously there is also a counter of automation and some of the savings coming through. 2) Campus recruitment program is already started, and company expects about 5,000 people to join over the next two quarters. 3) In terms of salary hikes and variable pay, the company believes that it would normalize both in Q4. 4) <u>TECHM plans to give a standard hike over a period of a couple of quarters or more across the employee base.</u></p> <p>Utilisation: 1) Operating at 87% is the all-time high utilisation. 2) <u>Utilisation indicates running the operations in an optimised manner but, going forward, company expects the utilisation to ease off from 87%.</u></p> <p>Outlook: 1) The company feels extremely positive in terms of the outlook of the business going into FY22 and believes that there is an opportunity to take market share away on back of the value proposition that it has been showing consistently for the last several quarters, cannibalising through hyper-automation, driven by AI analytics and platforms.</p>	<p>1) We expect USD revenue growth of -1.2/+8.2/+8.9% in FY21/22/23E with Telecom growth at 5.6/7.2/7.4% and Enterprise growth at +1.9/8.9/9.9% for FY21/22/23E respectively.</p> <p>2) We estimate EBIT margin at 14.0/14.2/14.7% over FY21/22/23E, resulting in FY21-23E EPS CAGR at 12.5%.</p> <p>3) Our target price is Rs 1,110 (BUY) based on 17x Dec-22E EPS (5Y average 1Y fwd P/E of 14x). The stock currently trades at a P/E of 18.6/16.7x FY21/22E EPS.</p>

LTI	<p>BFSI: 1) In partnership with Temenos in Q3FY21, LTI launched a digital banking platform in the Nordic region that will modernise legacy core banking systems, enabling financial institutions to be more agile and scalable while reducing operating costs. 2) The Insurance vertical saw a marginal sequential decline with some of the one-time COVID-related commercial concessions tapering off in Q3 and the company will see some recovery in the coming quarters.</p> <p>Manufacturing: 1) H2 is stronger for this vertical due to presence of higher pass-through in one of company's India engagements.</p> <p>Energy: 1) One of the large deal wins that the company announced this quarter, with a net new TCV of \$74 million, is from this vertical. 2) <u>The company remains cautious on this vertical as sector spends would continue to be impacted in the near future.</u></p> <p>Utilisation: 1) The main contributing factor for the offshore utilisation going up was not related to work from home but sharper recovery in company's business in Q3 where the billability for the resources picked up much faster. 2) LTI is now hiring aggressively in the market to make sure utilisation gets into comfortable levels, given the company's planned growth for FY22.</p> <p>Headcount: 1) The company continues to strengthen its workforce. 2) The wage hike for offshore is about 6% to 7% and, in some cases, slightly more. The onsite wage hike has been 2%.</p> <p>Outlook: 1) The company sees its growth momentum continuing into the fourth quarter as well. 2) It is seeing broad-based opportunities in the marketplace and continues to execute well. 3) It remains on track to deliver high single-digit growth for FY21. 4) The management expects stable margins in the band of 14% to 15% and will invest it back into the business.</p>	<p>1) We have factored in USD revenue growth of 9.9/20.9/15.4% and EBIT margin at 19.5/19.4/20.0% for FY21/22/23E respectively. APAT margin is estimated at 15.4/16.0/16.5% for FY21/22/23E.</p> <p>2) Our target price is Rs 4,280 (ADD) based on 26x Dec-22E EPS, supported by industry-leading 25% EPS CAGR over FY21-23E, >50% RoIC.</p>
Mphasis	<p>DXC/HP: 1) The company has signed an agreement to reaffirm its status as a strategic partner with DXC, which places Mphasis well to benefit from vendor consolidation and provides it revenue visibility beyond September'21.</p> <p>Direct business: 1) The strong growth in Direct has helped Mphasis manage the decline in DXC. 2) The company's investments in tribes and squads model is driving accelerated growth in direct business. 3) Growth is broad-based across all units within direct business. 4) <u>Direct growth will continue, supported by robust TCV that company has added across verticals.</u> 5) Direct business in Europe has actually grown strong as well as the TCV conversion.</p> <p>BFSI: 1) The company's positioning is solid and vertical is large enough to continue to provide growth runway in the long run. 2) The company has built a robust TCV and pipeline in this vertical, including large deals in Q3, and expects to convert this into revenue in the coming quarters.</p> <p>TCV Wins: 1) The company believes that rising TCV trend is a testament to its improving track record in scale and frequency of large deals. 2) Since the company reports its TCV on a net new basis and exclude renewals, it sees a robust correlation between revenue and TCV; thus, Mphasis finds success in increasing its TCV wins. As the company finds success, it believes that this would commensurately translate into high revenue growth as well.</p> <p>Offshore: 1) The management thinks that while there is an upward bias to the margin purely based on the operating leverage and the business mix change, it also thinks that bias will continue because the company is actually starting to see higher demand for offshore services. 2) The company's onshore utilisation is high, so there is very little flexibility with onshore. Most of the utilisation play really happens offshore. 3) <u>Offshore delivery will have a positive impact on the margin, not on utilisation.</u></p>	<p>1) We have factored in 5.9/13.4/9.8% growth in revenue, based on Direct business growth at 18/20.1/14.1% and DXC-HP at -35.5/-22.5/-25% for FY21/22/23E respectively, and factored in EBIT% at 16.1/16.5/16.5% for FY21/22/23E, resulting in 17% EPS CAGR over FY21-23E.</p> <p>2) MPHL's valuation discount to mid-tier IT is expected to reduce, supported by an improving mix of high-growth Direct business, limiting the impact from DXC and on FCF yield >5%, ~30% RoIC, FY21-23E EPS CAGR at 16%.</p> <p>3) Our target price is Rs 1,740 (BUY), valuing MPHL at 20x Dec-22E EPS.</p>
Mindtree	<p>BFSI: 1) For a large insurance company in the US, MTCL implemented a fully-automated enterprise B2B detection solution for payments processing, resulting in 80% savings in effort and significant cost savings.</p> <p>Travel & Hospitality: 1) The company believes it is still several quarters away from a full-blown recovery, which will depend on how Travel & Hospitality is opened up in every geography across the world, but it is fair to say that probably the company had reached the bottom.</p> <p>Technology: 1) MTCL's strategic initiatives are resonating well with clients and helping the company redefine possibilities together. 2) The company continues to calibrate the way it conducts business and build on its core strengths to establish a stronger and more resilient organisation.</p> <p>Offshoring: 1) Offshore percentage has gone up in the past couple of quarters and a lot of that is a result of the pandemic, where clients have seen a huge possibility of work being done remotely and the management clearly sees that trend may continue, going into the next few quarters.</p> <p>Headcount: 1) The company continues to onboard new hires to its digital platform and at the end of Q3, it had over 22,000 Mindtree Minds in the organisation. 2) MTCL completed the promotion cycle as planned and is also delivering increments across the board effective from January.</p> <p>Outlook: 1) The company expects the growth momentum to continue in the coming quarters. 2) It is extremely optimistic of relationship and delivery that it has done for the top clients, which it expects would grow further. 3) <u>The company is confident that it should be able to sustain the margin at 20 plus, going into the next few quarters.</u></p>	<p>1) With healthy deal pipeline, recovery in travel vertical will support growth ahead.</p> <p>2) We have factored in USD revenue growth of -1.7/+12.9/+10.7% and EBITDA% at 20.6/20.8/20.7% for FY21/22/23E respectively. EPS CAGR of 13% over FY21-23E, >40% RoIC, >5% FCF yield support valuations (21.7/19.3x FY22/23E).</p> <p>3) Our target price is Rs 1,735 (ADD), valued at 20x Dec-22E EPS (13% CAGR over FY21-23E following ~70% in FY21).</p>

<p>LTTS</p>	<p>Transportation: 1) Growth was led by the defense part, while the outlook in commercial Aero is still challenged. LTTS sees consolidation and product software opportunities. 2) Spending continues to rise in electric, autonomous, and connected vehicles space. 3) In T&OH, the opportunity continues to be in localisation, value engineering, and electrification. 4) The company sees multiple deals in the pipeline, consolidation opportunities in some cases, and others in the autonomous & EV space. 5) <u>The company sees the momentum in Transportation picking up as it heads into Q1 of next fiscal.</u></p> <p>Plant Engineering: 1) The company sees large deal potentials within oil and gas as well as chemical sector through the Engineering Value Center (EVC) model. 2) <u>Growth momentum will continue in Plant Engineering, with opportunities in the pipeline as well as ramp-up of the \$100 million deal, which will start by February/March.</u></p> <p>Industrial Products: 1) Company is setting up specialised labs to create solutions in areas like cyber-security and test automation for its customers. 2) It signed three large deals in IP in Q3 and has additional deals in the pipeline in the digital space, which gives confidence about growth continuing in Industrial Products.</p> <p>Telecom & Hi-tech: 1) The company won one large deal with a net new client in the Telecom & Hi-Tech area in Q3, and is working with a few large deals in the 5G space in Telecom and semiconductor. 2) Overall, the company is seeing growth continuing and expects the momentum to increase pace by Q1 with the conversion of some of the large deals in the pipeline.</p> <p>Medical: 1) The outlook remains positive, with opportunities in digital product design, digital manufacturing, and regulatory compliance. 2) New growth areas for the company are precision medicine, population health management and telehealth. 3) Company sees good deals in the pipeline and expects growth to bounce back in Q4 & beyond.</p> <p>Utilisation: Company expects to improve its utilisation and achieve better operational efficiency across parameters like employee pyramid, productivity, and attrition.</p> <p>Offshore: A higher percentage of work being done onshore in Transportation earlier is slowly moving offshore.</p> <p>Guidance: 1) The deal pipeline is healthy, and the company sees sequential growth continuing across all the segments like in Q3. 2) It expects to cross the Q4FY20 revenue mark in Q4FY21. 3) The company has raised its FY21 revenue guidance and now expects a USD revenue decline of around 6.5%. 4) <u>It aspires to take EBIT margin to the earlier range of 17% on constant currency basis and continue to work sequentially to improve margins.</u></p>	<p>1) We have factored in USD revenue growth of -6.2/+16.8/+12.6% and EBIT margin at 14.4/16.7/17.4% over FY21/22/23E respectively.</p> <p>2) 4QFY21 revenue growth is estimated at 4.4% QoQ, and FY22/23 revenue growth implies 3.6% CQGR each, translating into FY21-23E EPS CAGR at 32%.</p> <p>3) Our target price is Rs 2,175 (REDUCE), at 22x Dec-22E EPS.</p>
<p>Persistent</p>	<p>Alliance: 1) PSYS will not only grow the Alliance business, but also take away the volatility which will drive the overall growth. 2) Company has increased on things like IBM Red Hat. 3) Another revenue stream at the IBM strategy is that the latter is betting big on Red Hat and on hybrid cloud & cloud tech.</p> <p>BFSI: 1) The trends that the company is seeing are more on the digital banking side, where more and more banks are trying to launch new online products. 2) PSYS is working with Mambu and similar other providers, where the company is taking its solutions to market, whether it is a large bank or a credit union.</p> <p>Healthcare: 1) In the healthcare space, PSYS is definitely opening new avenues of discussion with clients.</p> <p>Utilisation: 1) Utilisation has not suffered despite bringing people over a period of the quarter and hence it should not be seen as a headwind. 2) <u>Company is able to manage utilisation staying in the band of 80% to 81%.</u></p> <p>Headcount: 1) The pay hike that company had in Q3 was for two months; hence, the full pay hike impact will come in the next quarter. 2) The demand is good, so company may have to hire people at slightly higher prices.</p>	<p>1) We have factored in USD revenue growth at 12.3/16.7/13.3% with Technology Services growth at 17.5/18.7/14.9% and Alliance growth at -2.0/+9.9/+7.7% over FY21/22/23E respectively.</p> <p>2) We estimate EBITDA margin at 16.1/16.8/17.2% over FY21/22/23E, resulting in FY21-23E EPS CAGR at 26.3%.</p> <p>2) Our target price is Rs 1,900 (BUY), valuing PSYS at 22x Dec-22E, supported by 26% EPS CAGR over FY21-23E and >38% RoIC.</p>
<p>Zensar</p>	<p>Hi-Tech: 1) Although Hi-tech business declined, the company experienced modest growth in UK. 2) The company witnessed softness in Hi-Tech business, which is attributed to softness in one of the top clients. 3) The company also attributes a portion of this decline in Hi-tech project closures to some other clients.</p> <p>BFSI: 1) BFSI vertical is gaining momentum with several key logos opening this quarter and a healthy pipeline ahead. 2) Some of the project closures have come at a time when Insurance revenue saw a decline, while the pipeline looks good.</p> <p>Offshore: 1) Based on the deals the company is seeing it may only increase the offshore mix on a go-forward basis.</p> <p>Headcount: 1) There will be certain investments that the company is planning to make, especially in the field force, while the salary hike impact would also come in.</p>	<p>1) We expect revenue growth of -11.8/6.8% in FY21/22E and revenue/EPS CAGR of +7.6/+10.2% over FY21-23E.</p> <p>2) Our TP is Rs 260 (ADD) based on 14x Dec-22E EPS. The stock is trading at a P/E of 14.5/13.5x FY21/22E EPS, which is a ~13% premium to the 5-year average.</p>

Source: Company, HSIE Research

Change in estimates since 3QFY21 Preview

IT Services

Company	Revenue USD bn (NEW)			Change (%)			EBIT % (NEW)			Change (bps)			EPS (Rs) NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	22,112	25,393	28,121	1.3%	2.9%	2.8%	25.9	26.8	27.3	86	64	44	89.7	109.9	126.9	2.9%	3.5%	4.0%
Infosys	13,669	15,876	17,931	1.1%	3.2%	3.7%	24.4	24.1	24.5	22	76	85	45.2	56.0	65.3	0.2%	7.4%	8.5%
HCL Tech	10,174	11,507	12,712	0.3%	0.5%	0.5%	21.6	21.7	21.9	6	-2	-2	47.4	54.8	63.2	1.3%	1.9%	0.6%
Wipro	8,123	8,820	9,305	0.4%	1.5%	1.7%	19.4	19.2	19.3	150	96	87	19.8	22.1	23.9	8.6%	6.6%	6.3%
Tech Mahindra	5,121	5,540	6,033	0.6%	1.2%	1.2%	14.0	14.2	14.7	85	62	38	53.2	59.3	67.4	6.0%	4.2%	2.9%
Tier - 1 IT	59,199	67,135	74,103	0.9%	2.2%	2.3%	22.9	23.2	23.7	67	62	53				2.9%	4.2%	4.0%
LTI	1,676	2,026	2,337	0.4%	2.5%	2.5%	19.5	19.4	20.0	68	162	139	109.9	140.4	171.6	4.6%	10.9%	9.8%
Mphasis	1,313	1,489	1,634	-1.2%	-1.5%	-1.0%	16.1	16.5	16.5	36	52	-24	66.1	79.6	90.2	1.4%	1.8%	-2.2%
Mindtree	1,070	1,208	1,337	1.0%	1.9%	2.0%	17.4	17.8	17.7	167	160	82	70.5	79.3	89.2	20.6%	13.0%	8.4%
LTTS	738	862	970	0.3%	1.0%	1.5%	14.4	16.7	17.4	18	24	61	58.9	86.3	102.1	0.5%	2.4%	5.5%
Persistent	564	658	746	0.7%	2.9%	3.6%	11.7	12.4	13.5	3	44	54	56.4	72.7	89.9	0.9%	6.3%	7.1%
Cyient	552	603	674	1.2%	1.1%	2.6%	9.8	10.8	11.8	59	24	20	32.7	37.6	44.4	10.3%	2.7%	6.7%
Zensar	499	533	578	-4.9%	-5.0%	-3.7%	13.8	13.0	13.3	152	72	85	15.7	17.0	19.1	6.4%	3.2%	5.0%
Sonata	159	180	201	0.6%	2.0%	2.1%	7.8	7.5	7.5	-17	-37	-57	24.0	29.0	34.1	-0.6%	6.0%	7.5%
Mastek	228	262	295	2.9%	3.3%	2.9%	18.5	17.5	18.1	151	46	63	74.9	88.3	103.9	2.3%	3.5%	6.4%
Mid Tier - IT	7,650	8,761	9,830	0.0%	0.8%	1.2%	16.1	16.6	17.1	76	94	69				2.3%	3.5%	6.7%
Aggregate	66,849	75,896	83,933	0.8%	2.0%	2.2%	22.2	22.5	23.0	69	66	56						

Source: Company, HSIE Research, * Wipro IT services USD revenue and Sonata IITS USD revenue; Note: Change % wrt estimates pre 3QFY21A

Companies	M-cap (Rs bn)	CMP (Rs)	TP Old	New TP	Old Rating	New Rating	Old Multiple (x)	New Multiple (x)	5Y Avg (x)	10Y Avg (x)
TCS*	11,803	3,191	3,200	3,435	ADD	ADD	27	28	21	20
INFY*	5,567	1,310	1,400	1,580	BUY	BUY	24	25	17	17
HCLT	2,606	960	1,100	1,110	BUY	BUY	18	18	14	14
WPRO*	2,433	442	400	470	ADD	ADD	18	20	15	15
TECHM	957	991	1,080	1,110	BUY	BUY	17	17	14	13
LTI*	703	4,040	3,605	4,280	ADD	ADD	24	26	18	NA
MPHL	307	1,646	1,765	1,740	BUY	BUY	20	20	15	13
MTCL	284	1,724	1,590	1,735	ADD	ADD	20	20	18	15
LTTS*	271	2,600	1,900	2,175	REDUCE	REDUCE	20	22	20	NA
PSYS*	137	1,795	1,675	1,900	BUY	BUY	21	22	15	14
CYL^	69	626	565	680	ADD	ADD	14	16	13	12
ZENT	52	229	250	260	ADD	ADD	14	14	13	10
SSOF	42	400	430	460	BUY	BUY	14	14	12	9
MAST	34	1,193	1,420	1,500	BUY	BUY	15	15	11	8

Source: HSIE Research; Note: Old rating/multiple refers to target valuations pre 3QFY21A, CMP as on 12th Feb 2021, * P/E multiple increased, TP based on Dec-22E EPS, ^ CYL multiple/TP raised in sector note in Jan'21

IT Services: valuation metrics

Company	MCap (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)				\$ Rev CAGR% FY21-23	EPS CAGR% FY21-23
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
TCS	11,803	3,191	3,435	ADD	87.4	89.7	109.9	126.9	36.5	35.6	29.0	25.1	37.3	40.3	48.4	51.1	12.8	19.0
Infosys	5,567	1,310	1,580	BUY	38.6	45.2	56.0	65.3	33.9	29.0	23.4	20.1	25.2	27.8	30.8	31.9	14.5	20.2
HCL Tech	2,606	960	1,110	BUY	40.8	47.4	54.8	63.2	23.6	20.2	17.5	15.2	23.8	23.2	23.4	23.6	11.8	15.4
Wipro	2,433	442	470	ADD	17.0	19.8	22.1	23.9	25.9	22.3	20.0	18.5	17.3	19.8	21.9	22.4	7.0	9.9
TechM	957	991	1,110	BUY	48.3	53.2	59.3	67.4	20.5	18.6	16.7	14.7	20.2	20.5	21.0	21.8	8.5	12.5
Tier-1 IT Median									25.9	22.3	20.0	18.5	23.8	23.2	23.4	23.6	11.8	15.4
LTI	703	4,040	4,280	ADD	87.3	109.9	140.4	171.6	46.3	36.8	28.8	23.5	29.5	31.6	32.3	31.5	18.1	25.0
Mphasis	307	1,646	1,740	BUY	61.3	66.1	79.6	90.2	26.9	24.9	20.7	18.3	20.6	20.1	21.8	21.9	11.6	16.8
Mindtree	284	1,724	1,735	ADD	40.5	70.5	79.3	89.2	42.6	24.5	21.7	19.3	19.5	31.4	29.6	27.1	11.8	12.5
L&T Tech	271	2,600	2,175	REDUCE	72.0	58.9	86.3	102.1	36.1	44.2	30.1	25.5	28.6	19.9	24.1	24.1	14.7	31.7
Persistent	137	1,795	1,900	BUY	47.0	56.4	72.7	89.9	38.2	31.8	24.7	20.0	14.4	17.1	19.4	20.7	15.0	26.3
Cyient	69	626	680	ADD	33.9	32.7	37.6	44.4	18.5	19.1	16.7	14.1	14.5	13.6	14.8	16.4	10.5	16.5
Zensar	52	229	260	ADD	11.5	15.7	17.0	19.1	19.9	14.5	13.5	12.0	12.7	16.0	15.8	16.3	7.6	10.2
Sonata	42	400	460	BUY	26.7	24.0	29.0	34.1	15.0	16.7	13.8	11.8	38.5	35.1	37.5	38.5	12.5	19.1
Mastek	34	1,193	1,500	BUY	51.5	74.9	88.3	103.9	23.2	15.9	13.5	11.5	17.4	24.5	24.0	23.6	13.7	17.8
Mid Tier IT AVG									26.5	22.8	18.5	15.7	20.8	22.1	23.1	23.4	12.7	20.0
Mid Tier- IT Median									23.2	20.2	18.0	15.6	19.5	20.1	22.8	22.9	12.5	17.8

Source: HSIE Research, CMP as on 12th Feb 2021

Global IT Peers: valuation metrics

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)				\$ Rev CAGR% FY21-23	EPS CAGR% FY21-23
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
Accenture	171	259	NA	NR	7.5	8.3	9.1	9.9	34.7	31.2	28.6	26.2	32.5	29.6	28.5	27.9	7.2	9.0
Cognizant	41	77	NA	NR	4.0	3.4	4.0	4.4	19.3	22.5	19.4	17.5	16.4	12.7	17.1	16.7	6.3	13.3
Capgemini [^]	23	136	NA	NR	6.8	6.5	7.5	8.5	20.1	20.7	18.2	16.0	10.8	12.8	15.1	16.3	5.2	13.9
EPAM	22	393	NA	NR	5.4	6.3	7.5	9.2	72.5	62.8	52.3	42.6	18.3	20.6	20.3	20.3	22.2	21.4
Globant	9	223	NA	NR	2.3	2.4	3.1	3.9	97.2	92.0	71.2	57.5	13.9	13.5	13.2	15.3	24.4	26.5
TietoEVERY [^]	3	28	NA	NR	1.7	2.1	2.2	2.5	16.2	13.6	12.5	11.3	7.3	7.1	13.6	15.0	2.6	9.8
Global IT AVG									43.3	40.5	33.7	28.5	16.5	16.1	18.0	18.6	11.3	15.6
Global IT Median									27.4	26.9	24.0	21.9	15.2	13.2	16.1	16.5	6.7	13.6

Source: HSIE Research, CMP as on 12th Feb 2021, [^] in EUR

IT sector stock performance (%)

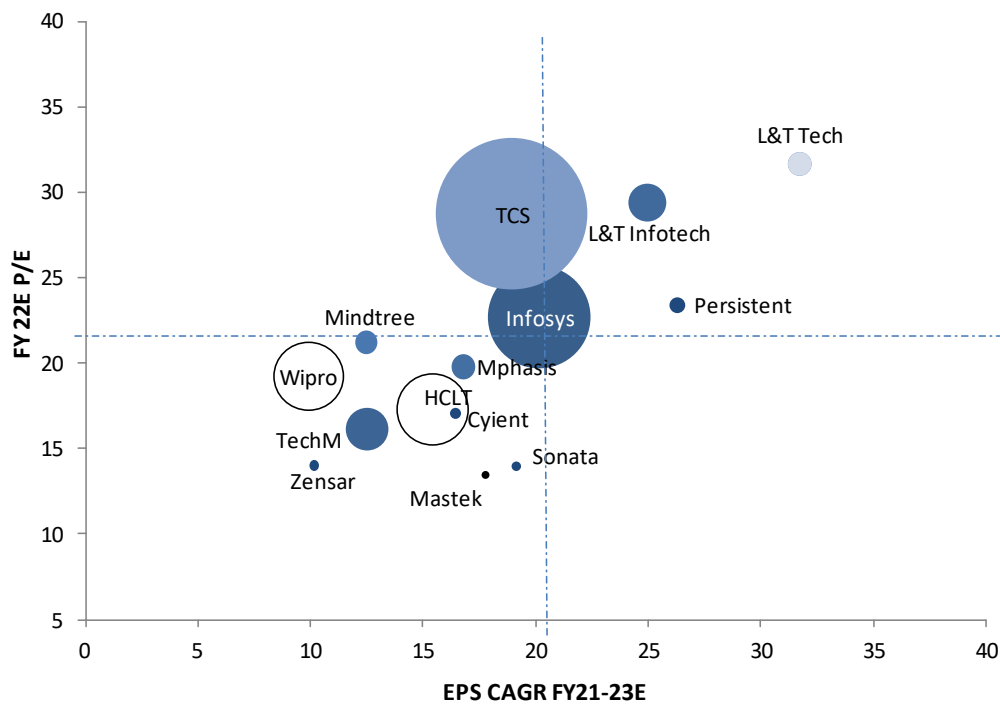
Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)	10Yr (%)
TCS	0.5	19.5	41.4	47.0	110.8	172.9	461.4
Infosys	-4.5	17.2	37.2	67.7	131.6	123.9	219.6
HCL Tech	-9.6	16.5	33.9	56.4	99.3	131.7	710.9
Wipro	-3.4	27.9	60.1	80.9	93.3	97.7	145.0
TechM	-6.8	17.6	43.4	21.0	65.9	130.6	1232.8
LTI	-5.9	35.2	61.8	100.5	185.4	NA	NA
Mphasis	-0.6	22.7	41.9	85.5	85.7	238.5	128.2
Mindtree	-1.5	28.5	52.3	87.0	139.8	137.0	1694.6
LTTS	4.0	56.3	66.5	55.3	80.2	NA	NA
Persistent	10.3	55.1	85.0	156.3	118.9	192.6	786.1
Zensar	-3.9	18.6	30.6	50.9	23.1	32.8	679.7
Cyient	19.5	46.2	68.7	35.7	-2.3	62.9	285.3
Sonata	-5.6	17.8	34.8	17.0	35.8	173.2	957.3
Mastek	-10.8	35.3	75.9	199.6	161.6	1096.8	688.4
NSE IT	-2.7	20.3	42.3	63.1	115.9	151.1	332.0
Nifty 50	3.6	19.3	33.5	29.7	56.5	145.8	252.8

Source: Bloomberg, HSIE Research, CMP as on 12th Feb 2021

Note:

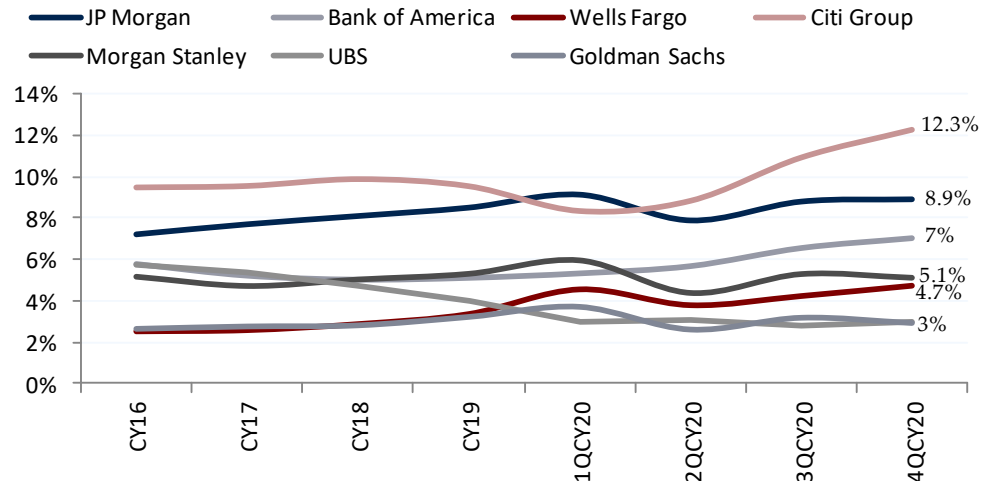
- Green indicates out-performance to Nifty 50 during the respective period
- Red indicates under-performance to Nifty 50 during the respective period

IT Sector P/E and EPS Growth



Source : Company, HSIE Research, Size of the bubble denotes market cap

Increasing trend of Tech spend as % revenue among large BFSI players



Source: Company, HSIE Research

BFSI Tech spend intensity increasing

Growth in Tech spend (YoY %)	CY16	CY17	CY18	CY19	1QCY20	2QCY20	3QCY20	4QCY20
JP Morgan	10.5%	12.7%	14.1%	11.6%	9.1%	8.9%	2.8%	0.8%
Bank of America	0.4%	-6.2%	0.6%	2.0%	3.9%	9.3%	14.6%	21.8%
Wells Fargo	4.4%	3.9%	9.3%	13.1%	20.7%	10.7%	-3.7%	-10.5%
Citigroup	1.8%	3.1%	4.1%	-1.6%	0.2%	1.0%	6.1%	9.6%
Morgan Stanley	1.1%	0.2%	12.6%	8.8%	5.8%	9.5%	10.6%	22.9%
UBS	-4.8%	-3.6%	-10.6%	-18.9%	-13.3%	-12.0%	-13.5%	-29.4%
Goldman Sachs	0.4%	10.9%	14.0%	14.1%	12.2%	19.0%	20.1%	10.7%
Others	5.9%	8.4%	14.9%	14.6%	0.2%	0.6%	10.9%	7.2%
Agg. Tech spend growth (YoY %)	3.9%	4.5%	8.5%	7.0%	4.8%	5.4%	6.5%	5.8%
Agg. BFSI Enterprise Rev growth (YoY %)	-0.8%	5.4%	5.0%	2.2%	-2.3%	2.5%	-1.9%	0.5%

BFSI \$ Revenue growth (YoY %)	CY16	CY17	CY18	CY19	1QCY20	2QCY20	3QCY20	4QCY20
Accenture	6.5%	8.9%	10.6%	0.2%	1.6%	-2.7%	-1.0%	7.1%
Cognizant	7.3%	5.0%	3.7%	0.4%	1.0%	-5.2%	-1.5%	-11.1%
Global IT Aggregate	6.8%	7.2%	7.7%	0.3%	1.4%	-3.7%	-1.2%	-0.2%

BFSI \$ Revenue growth (YoY %)	CY16	CY17	CY18	CY19	1QCY20	2QCY20	3QCY20	4QCY20
TCS	6.6%	-9.9%	0.6%	6.4%	-3.0%	-6.6%	1.2%	7.1%
Infosys	8.7%	6.4%	5.1%	7.3%	3.5%	0.0%	3.5%	13.9%
HCL Tech	2.3%	14.9%	4.1%	3.2%	11.4%	9.5%	9.3%	1.7%
Wipro	1.3%	9.2%	14.3%	6.5%	-3.6%	-8.4%	-3.1%	-2.4%
Tech M	28.5%	31.5%	1.7%	1.5%	19.3%	18.8%	24.0%	17.2%
Tier-1 IT BFSI Revenue Aggregate	6.0%	1.0%	4.0%	6.0%	1.0%	-2.0%	3.0%	7.0%
Tier-1 IT Revenue Aggregate	41.6%	7.3%	8.2%	8.0%	3.4%	-4.2%	-0.3%	2.7%

Source: Company, HSIE Research

Commentary by large global enterprises

Company	Management Commentary post 4QCY20
Bank of America	<p>1) <u>BoFA will invest \$3.5 billion in technology next year and new financial centers expansion employees to drive it through.</u></p> <p>2) Digital engagement expanded throughout all businesses for the year. 69% of the consumer and wealth management households are now digitally active, not just enrolled.</p>
American Express	<p>1) Company plans to continue to invest heavily in new and expanded digital capabilities across businesses.</p> <p>2) The nature of the pandemic has accelerated customer engagement with many of the company's digital features, services, and experiences that were rolled out in 2020 and in the past several years and expects these trends to continue.</p> <p>3) Company is aspiring to achieve EPS of \$8.85 to \$9.25 in 2022 as compared to \$ 3.77 in 2020 (-53% YoY)</p>
Morgan Stanley	<p>1) Company has invested over the years in building its modern wealth strategy, enhancing the technology and building new businesses.</p> <p>2) The unique backdrop dramatically accelerated digital adoption and meaningfully increased levels of engagement.</p>
JP Morgan Chase	<p>1) Within technology, which represents roughly half of the overall investment spend and is across the Board, the company looks to better meet its customer and client needs, improve its customer's digital experience, strengthen its fraud detection capabilities, as well as modernise and improve its technology infrastructure, cloud and data capabilities.</p> <p>2) Across the franchise, digital engagement continues to accelerate.</p> <p>3) <u>Every single business that the company goes through, there is talk about how it is moving to cloud, whether it's internal or external.</u></p> <p>4) <u>Over the past two years, the investment spend has been around \$10 billion, which it expects to increase to nearly \$12.5 billion in 2021.</u></p> <p>5) Company expects NII to be around \$55.5 billion in 2021 as compared to \$ 54.6 billion in 2020 (-5% YoY).</p>
PNC Financial Services	<p>1) The investments the company has made over the years in talent and technology have allowed them to navigate this pandemic, the related economic crisis and the widespread social unrest while supporting its stakeholders and coming out stronger as a company.</p>
Charles Schwab	<p>1) The company saw that the pandemic has actually contributed to more rapid adoption of digital capabilities.</p>
Citigroup	<p>1) It has streamlined its consumer business and embraced the shift to digital, which will help serve its clients the way they want to be served.</p> <p>2) Continued investment in digital capabilities both on the consumer side and ICG side, particularly in TTS platform where it has seen benefits from investments already made.</p>
Wells Fargo	<p>1) Company expects to continue improving its digital capabilities in the origination process, which leads to a better customer experience and reduced expenses.</p> <p>2) As the economic environment improves and the processes become more technology-driven, company expects significant home-lending servicing efficiencies over the next four years.</p> <p>3) It expects 2021 to get off to a slow start, but believes there is great potential in the second half of the year to make 2021 a strong year.</p>
UBS	<p>1) <u>Pandemic has accelerated the client's digital expectations, and the need for technology investments.</u></p> <p>2) There are a lot of initiatives around further digitalising execution platforms.</p>
Citizens Financial	<p>1) There has been investment in technology, customer experience, and new capabilities.</p> <p>2) Company is making great strides in its digital transformation having launched the new mobile app on Android in the fourth quarter and iOS just this month.</p>
Capital One	<p>1) The strategic investments in digital technology & transformation are paying off in enhanced capabilities and underwriting that are powering company's performance and response to the pandemic.</p>
Travelers	<p>1) Simply Business and Zensurance platforms continue to advance the company's digital capabilities and offerings in the alternative platform space.</p>
Marsh & McLennan	<p>1) Strong financial performance also enabled the company to continue investment for the future and develop digital technologies to offer more robust client solutions.</p> <p>2) The type of business which company does is really broad-based and ranges all the way from growth strategies and digital transformation to the other end of restructuring in bankruptcy.</p>
Mastercard	<p>1) Company's technology and expertise will power the best-in-class real-time payment infrastructure that provides a platform for innovation to enhance Canada's economy.</p>
Verizon	<p>1) Margin improvement reflects the strength in wireless service revenue and benefits of transformation initiatives, including back-office digitalisation and optimisation.</p> <p>2) Expect to see adjusted earnings per share of \$5 to \$5.15 driven by recurring service and other revenue growth as well as ongoing cost initiatives in 2021 (earnings of \$4.30 per share in 2020 which is -7.7% YoY)</p>
AT&T	<p>1) In 2021, the company expects consolidated revenue growth of about 1% with wireless service revenue growth of 2% and a gradual improvement in Warner Media's top line as compared to -5.2% in 2020</p>
Walgreens Boots	<p>1) Company maintained its full-year guidance of low single-digit growth in adjusted earnings per share on a constant currency basis.</p>
Nike	<p>1) It will create a digital-first supply chain, built on a strong technology and analytics foundation in order to optimise service, cost, convenience and sustainability.</p> <p>2) Company will accelerate the technology enablement of its operating model to change the speed with which it directly engages with and serves consumers from online to offline services, digital marketing, personalisation and digital supply and demand management.</p> <p>3) Company is investing in technology to create O2O capabilities in the marketplace.</p> <p>4) The consumer shift to digital is permanent and company's digital penetration will only increase in years to come.</p>

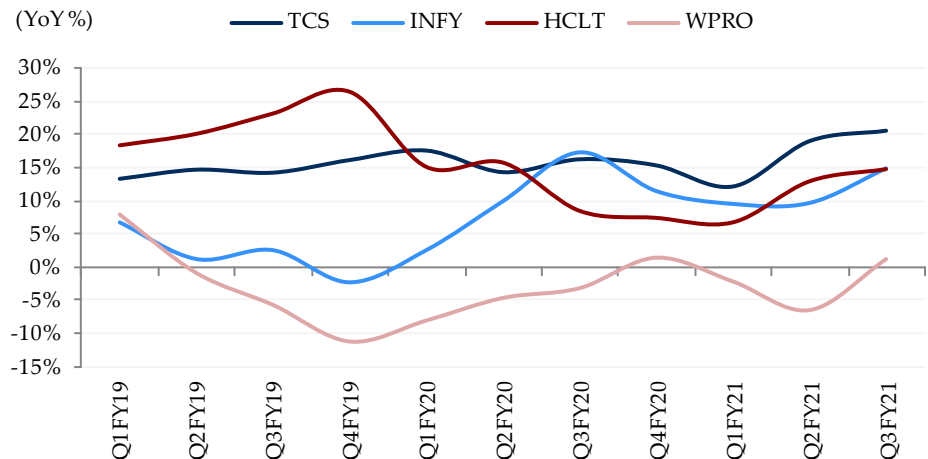
Company	Management Commentary post 4QCY20
VF Corp	<p>1) <u>The accelerated shift towards digital is beneficial to the fundamentals and recent portfolio actions are immediately accretive to revenue growth and margin profile.</u></p> <p>2) Company raised its fiscal 2021 outlook and now expects full-year revenue to be between \$9.1 billion and \$9.2 billion as compared to \$ 10.5 billion (+2% YoY) in 2020</p>
Microsoft	<p>1) It is witnessing the dawn of a second wave of digital transformation sweeping every company and industry.</p> <p>2) <u>Digital technology is becoming critical even for core resilience and business continuity and to deal with what is going to be a structurally changed customer behavior and expectations.</u></p> <p>3) Energised by the increasing momentum and the expanding opportunity fueled by the structural change brought about by the rapid adoption of digital technology</p> <p>4) Microsoft is powering the shift with the world's largest and most comprehensive cloud platform.</p>
Intel	<p>1) The business is well-positioned to capitalise on key technology inflections and extend its reach to fast-growing markets.</p> <p>2) Company anticipates further cloud digestion and continued COVID demand impacts on IOTG.</p> <p>3) Looking ahead, the world is becoming more digitally connected and expanding the market in front of the company.</p>
Google	<p>1) Company expanded its partnership with SAP, and will extend the usage of Google Cloud for cloud solutions, including SAP Business Technology platform to provide the best experience to joint customers.</p> <p>2) Company witnessed the generational shift to digital.</p> <p>3) With substantial market opportunity, it is aggressively investing in Google cloud.</p> <p>4) <u>Google Cloud is engaged with large enterprises, which are signing meaningful long-term commitment agreements.</u></p>
Cisco	<p>1) Customers rely on Cisco's innovation to accelerate their digital and cloud capabilities.</p> <p>2) Cisco remains well-positioned among CIO's top forward-looking spending priorities, including network infrastructure, cyber security software, as well as cloud migration and cloud infrastructure.</p> <p>3) Company expects Q3 revenue growth in the range of 3.5% to 5.5% YoY as compared to -0.4% in Q2</p>
Xerox	<p>1) Technologies such as AI, augmented reality and virtual reality developed at PARC also will be rolled into CareAR as product roadmaps and other parts of the portfolio.</p> <p>2) Building an ecosystem that drives growth through investments, commercial partnerships, and co-development of new technologies.</p> <p>3) Company's investment is aimed at technologies targeted for double-digit growth in coming years.</p>
Western Digital	<p>1) <u>The accelerated digital transformation has only increased the reliance on data and technology in both the professional and personal lives, which will have a lasting impact for years to come.</u></p> <p>2) The pandemic has not only accelerated the transformation by the way all use the cloud, but it has spurred technological innovation by driving the ability to access the cloud using very powerful and advanced end devices.</p>
Johnson & Johnson	<p>1) Company is developing an end-to-end digital ecosystem across three robotics platforms, and has achieved a significant milestone this month, receiving the FDA clearance for its VELYS Robotic-Assisted Solution.</p> <p>2) <u>Company believes that the industry is just starting to unlock the full potential and benefits of robotic and digital technologies.</u></p> <p>3) Guidance for 2021 includes adjusted operational EPS in a range of \$9.25 to \$9.45 or \$9.35 at the midpoint, reflecting a 16.4% YoY growth as compared to \$ 5.51 (-2.1% YoY) in 2020</p>
Abbott Lab	<p>1) The pandemic has accelerated digital transformation in the business models.</p> <p>2) In 2021, the company guided for earnings per share of at least \$5 (\$ 3.65, which grew +12.7% YoY in 2020)</p>
Procter & Gamble Co	<p>1) New digital tools are being brought to the forefront, providing productivity drivers to the factory floor, labs and the office.</p> <p>2) Raised its FY21 organic sales growth guidance to a range of 5% to 6% (vs 4% to 5% guided in 1QFY21)</p>
Boeing	<p>1) Company will continue to invest in areas that are critical to its business, focusing on design practices and manufacturing technology that will position them for growth.</p>
General Electric	<p>1) Company is well-positioned from a technology standpoint to drive customers' roadmap and seeing strong adoption.</p>
Applied Material	<p>1) Next-generation technologies which are critical for the AI ecosystem and laying the groundwork for Applied's future growth.</p> <p>2) Applied is in a great position to outperform because of its unique technologies and combination of products that are used to create, shape, modify, analyse, and connect structures and devices.</p> <p>3) Investments in IT and communications infrastructure combined with the accelerated digital transformation of companies and the economy as a whole are driving very robust semiconductor and equipment demand.</p>
MSC Industrial	<p>1) Company has built new digital capabilities like e-commerce to improve customer retention and loyalty and a new pricing function to improve price execution and realisation.</p> <p>2) MSC has taken steps to create a more agile culture in order to drive change faster.</p> <p>3) This year is a bit more focused on sales and service areas, particularly with the digital initiative ramping up very quickly, but there will be investment across the board.</p>
Cummins	<p>1) Company has a strong portfolio of distinctive platforms and is continuing to invest in key technology areas for the future.</p> <p>2) It has leveraged its knowledge in powertrain technologies to develop a range of products in Chinese markets.</p> <p>3) It expects revenues for 2021 to increase 8% to 12% compared to -15% in 2020</p>
Ford	<p>1) Ford's development and delivery of connected vehicles will be enhanced by a new six-year partnership with Google.</p> <p>2) <u>Partnership with Google provides the company a powerful technology and tools to modernise its manufacturing, supply chain management and speed of implementation of the data-driven business models and innovation across the whole company.</u></p>

Company	Management Commentary post 4QCY20
United Airlines	1) Efficiency is going to be driven a lot by the technology innovation that will unlock both labour efficiency and better utilisation of assets. 2) Company is going to respond with automation and digital technology and communication; hence, customers know how to take that trip and know what they need on the outbound and on the inbound.
Southwest Airlines	1) Company intends to invest in technologies and facilities in the near term.
Delta Airlines	1) Shopping visits across Delta's digital channels are significantly outpacing passenger volumes.
Union Pacific Corp	1) Continue to use technology to enhance efficiency and productivity.
Phillips 66	1) The company has advanced its digital transformation efforts, fostered innovation across the board and implemented new technologies, including digital systems for work processes, artificial intelligence to predict maintenance requirements and optimise processing unit performance.
Fedex	1) Company is focused on using data and technology to unlock stronger performance, strengthen customer relationships and drive greater efficiency. 2) Company is investing heavily in technology tools.

Source: Company, HSIE Research

Verticals Performance Dashboard in 3QFY21

Growth in Healthcare vertical continues within Tier 1



Source: Company, HSIE Research

Rebound in Manufacturing, steady outperformance by Healthcare & LS and Retail & CPG mitigating seasonality

TCS	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
BFSI	31.9%	3.1%	0.2%	1,785
Regional Markets & Others	18.9%	9.0%	-9.3%	1,118
Retail & CPG	14.6%	4.4%	-6.5%	827
Manufacturing	9.4%	7.4%	-5.4%	547
Technology & Services	8.9%	1.6%	0.1%	490
Life Sciences & Healthcare	9.8%	5.1%	17.3%	559
Communication & Media	6.5%	6.7%	-6.7%	376
Total	100.0%	5.1%	-2.4%	5,702

Infosys	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Financial services	32.0%	9.8%	5.9%	1,164
Retail	14.9%	4.7%	-1.5%	517
Communication	12.6%	4.5%	-0.2%	436
Energy, Utilities, Resources & Services	12.3%	7.9%	0.3%	440
Manufacturing	9.1%	8.5%	-3.5%	327
Hi Tech	9.1%	-4.3%	17.7%	288
Life Sciences	6.8%	10.8%	11.4%	250
Others	3.2%	-10.4%	16.4%	95
Total	100.0%	6.2%	3.8%	3,516

HCLT	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Manufacturing	17.7%	6.5%	-8.5%	472
Technology & Services	17.3%	7.4%	-4.8%	466
Financial Services	22.1%	0.8%	6.6%	559
Life Sciences and Healthcare	14.1%	0.7%	11.5%	356
Public Services	10.7%	1.5%	5.0%	272
Retail & CPG	10.4%	5.4%	8.2%	275
Telecom, Media & Ent & Others	7.7%	12.5%	-4.5%	217
Total	100.0%	4.4%	1.2%	2,617

Source: Company, HSIE Research

Wipro	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
BFSI	31.2%	1.6%	-4.6%	632
Consumer Business Unit	13.7%	5.5%	1.3%	288
Health Business Unit	12.5%	4.8%	-2.5%	261
Technology	5.3%	2.0%	-12.7%	108
ENU and Utilities	12.9%	5.6%	-1.7%	271
Manufacturing	8.2%	5.2%	-1.6%	172
Communications	16.2%	5.2%	-3.2%	340
Total	100.0%	3.9%	-3.2%	2,071

Tech Mahindra	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Telecom (A)	39.3%	4.5%	-7.9%	520
Enterprise (B)	60.7%	2.9%	1.1%	790
Manufacturing (B1)	16.1%	4.7%	-12.4%	213
BFSI (B2)	16.4%	0.9%	20.0%	209
Others (B3)	10.9%	2.5%	-13.1%	141
Retail, Transport & Logistics (B4)	9.8%	-0.8%	17.8%	123
TME (B5)	7.5%	8.9%	7.6%	103
Total (A+B)	100.0%	3.4%	-2.7%	1,309

LTI	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
BFS	29.9%	8.4%	17.3%	131
Insurance	16.0%	-0.8%	-3.1%	64
Manufacturing	16.2%	10.0%	9.0%	72
High-Tech, Media & Entertainment	10.6%	5.8%	5.6%	45
CPG, Retail & Pharma	11.0%	4.8%	8.3%	47
Energy & Utilities	10.6%	-0.2%	0.8%	43
Others	5.7%	11.3%	59.6%	26
Total	100.0%	5.8%	9.7%	428

Mphasis	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Direct International	81.8%	5.5%	16.4%	282
DXC	16.2%	-17.6%	-28.3%	44
Others	2.0%	12.5%	-10.7%	7
Total	100.0%	1.9%	5.1%	334

Mindtree	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Technology, Media and Services	49.8%	5.1%	21.5%	137
Manufacturing, CPG & Retail	21.5%	5.8%	-3.8%	59
BFSI	20.4%	0.8%	-9.2%	54
Travel & Transportation	8.3%	13.0%	-51.0%	25
Total	100.0%	5.0%	-2.7%	274

LTTS	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Transportation	31.5%	3.1%	-19.3%	58
Telecom & Hi-tech	21.4%	14.3%	-0.7%	44
Industrial Products	19.5%	5.7%	-8.6%	37
Process Industry	14.4%	9.0%	-19.6%	28
Medical Devices	13.2%	2.8%	34.6%	24
Total	100%	6.8%	-8.8%	190

Persistent	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
TSU	77.3%	6.0%	17.0%	112
Alliance	22.7%	12.1%	-7.3%	35
Total	100.0%	7.4%	10.3%	146

Source: Company, HSIE Research

Recovery in cyclical end-industry seen as macro recovery progresses – positive for Manufacturing vertical, ER&D services

Cyient (Services Rev)	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Aerospace and Defense	27.1%	-5.7%	-32.6%	29
Communications	28.4%	5.0%	2.2%	34
Transportation	14.3%	-2.5%	-11.2%	16
Energy & Utilities	11.5%	-9.5%	-31.5%	12
Portfolio	10.4%	25.3%	-14.4%	15
Semiconductor	5.3%	1.1%	-14.1%	6
Medical and Consumer	3.1%	-5.5%	0.1%	3
Total	100.0%	1.0%	-18.3%	115

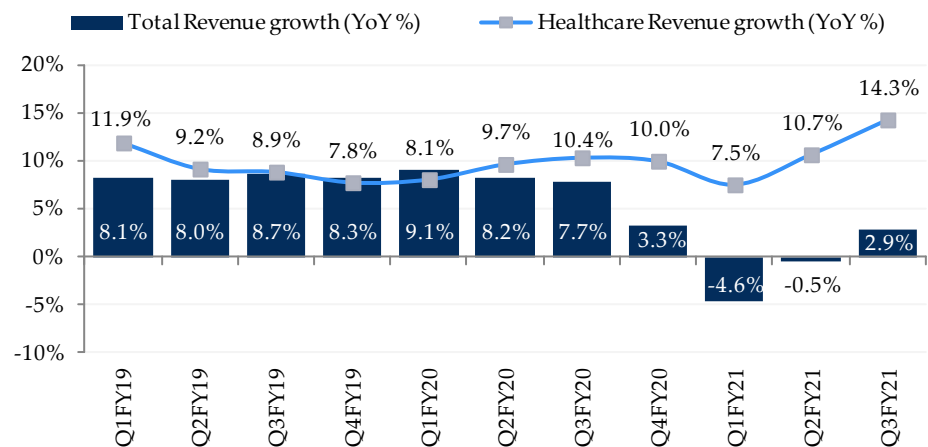
Zensar	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Manufacturing (A+B)	55.0%	-7.9%	-9.6%	64
Hi Tech (A)	43.1%	-10.2%	-7.1%	49
Mfg (B)	11.9%	0.6%	-17.6%	15
Retail and Consumer Services (C)	13.9%	7.7%	-25.7%	19
Financial Services (D+E)	29.0%	-2.8%	-11.2%	36
Insurance (D)	20.2%	-6.5%	-15.3%	24
Banking (E)	8.9%	5.5%	-0.2%	12
Emerging (F)	2.1%	79.1%	-28.7%	5
Total (A+B+C+D+E+F)	100.0%	-2.4%	-13.3%	123

Sonata	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
OPD	29.3%	14.8%	-0.3%	13
TTL	10.0%	5.1%	-73.3%	4
CPG & Retail	29.6%	5.8%	-7.9%	12
Others	31.1%	-4.7%	33.5%	12
Total	100.0%	5.1%	-14.6%	41

Mastek	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Government	33.0%	2.5%	71.3%	20
Retail	17.1%	-6.4%	-19.6%	10
Financial Services	13.0%	17.0%	17.3%	8
Others	36.9%	22.4%	264.4%	22
Total	100.0%	9.0%	69.5%	60

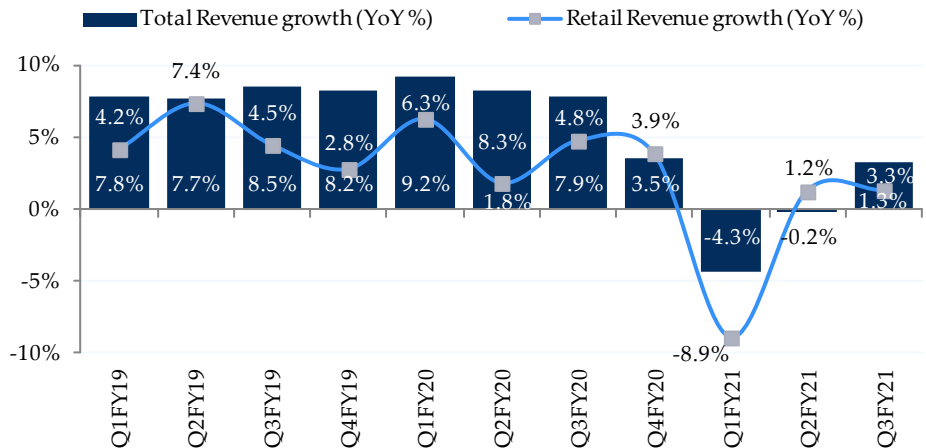
Source: Company, HSIE Research

Healthcare vertical has been outperforming overall growth



Source: Company, HSIE Research, * Revenue composition of TCS, INFY, HCLT, WPRO, LTTS, CYL

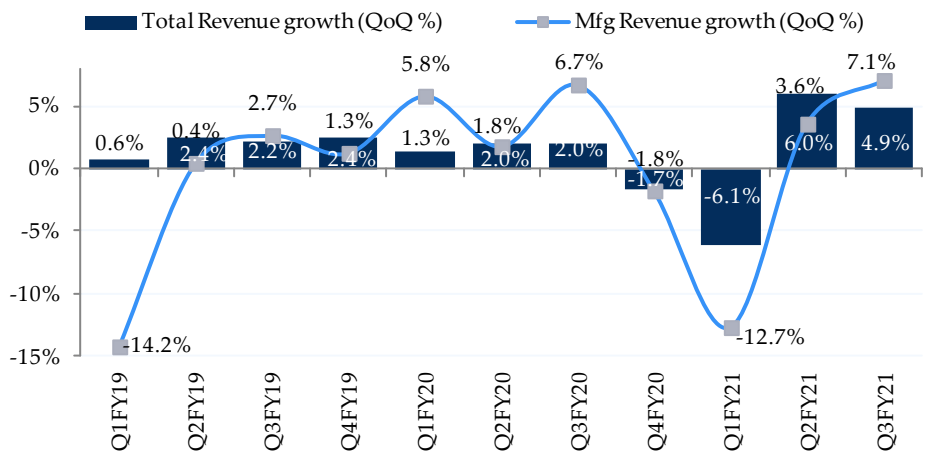
Retail & CPG vertical continues growth momentum post decline in 1Q



Source: Company, HSIE Research, * Revenue composition of TCS, INFY, HCLT, WPRO

Manufacturing vertical outperformed in 3Q

Mfg vertical outperforms vs total revenue growth



Source: Company, HSIE Research, * Revenue composition of TCS, INFY, HCLT, WPRO, TECHM, LTI, ZENT

Services Performance Dashboard in 3QFY21

Infosys	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Revenue Split: Digital & Core				
Digital Services	47.3%	12.4%	28.7%	1,762
Core Services	52.7%	0.5%	-11.6%	1,754
Revenue Split: Services & Products				
Services	92.5%	6.6%	2.5%	3,266
Products & platforms	7.5%	0.5%	23.9%	250
Total	100.0%	6.2%	3.8%	3,516
HCLT				
IT and Business Services	70.8%	3.9%	-1.3%	1,843
Engineering and R&D services	15.7%	2.8%	-5.5%	405
Products & Platforms	13.5%	8.6%	27.8%	368
Total	100.0%	4.4%	1.2%	2,617
Wipro				
Modern Application Services (ADM)	7.4%	1.1%	-4.6%	149
Cloud and Infrastructure Services (IMS)	25.6%	3.9%	-3.3%	530
Digital Operations and Platforms (BPO)	44.5%	3.7%	-3.4%	920
Data, Analytics and AI	15.5%	6.6%	0.1%	329
Industrial & Engineering Services (ER&D)	7.0%	2.5%	-6.8%	143
Total	100.0%	3.9%	-3.2%	2,071

Tech Mahindra	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
IT Services	89.8%	2.5%	-3.1%	1,165
BPO	10.2%	11.5%	0.7%	143
Total	100.0%	3.4%	-2.7%	1,309

LTI	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
ADM & Testing	36.0%	-1.2%	4.7%	144
Enterprise Solutions	30.8%	8.0%	9.1%	134
Infrastructure Management Services	14.4%	5.0%	38.5%	61
Analytics, AI & Cognitive	10.6%	18.7%	8.4%	51
Enterprise Integration & Mobility	8.3%	12.1%	9.7%	38
Total	100.0%	5.8%	9.7%	428

Mphasis	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Application Services	59.0%	-3.4%	-3.2%	187
Business Process Services	26.5%	12.9%	64.7%	98
Infrastructure Services	14.5%	3.3%	-18.6%	49
Total	100.0%	1.9%	5.1%	334

Persistent	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Services	83.8%	5.0%	16.6%	120
IP driven	16.2%	19.8%	-12.4%	26
Total	100.0%	7.4%	10.3%	146

Cyient	% of Rev	3QFY21 QoQ%	9MFY21 YoY %	USD mn
Services	84.5%	1.1%	-18.4%	115
DLM	15.5%	24.9%	13.5%	26
Total	100.0%	4.7%	-14.5%	141

Sonata	% of Rev	3QFY21 QoQ%	4Qtr CQGR	USD mn
Data & Analytics	11%	1.7%	32.6%	4.9
IMS & Cloud	14%	5.1%	-3.6%	5.7
Microsoft Digital Platform Services	19%	9.0%	-5.8%	8.2
Microsoft Dynamics Services	34%	5.9%	-0.6%	11.5
Modern Validation and Deployment Engg management Services	9%	0.0%	-39.6%	4.8
Open Source Digital Platform Services	7%	16.1%	-46.4%	4.3
Other ERP Services	3%	-22.3%	-50.0%	0.7
Other Services	2%	-8.6%	-19.4%	0.8
Total	100%	5.1%	-14.6%	41.0

Source: Company, HSIE Research

Geography Performance Dashboard in 3QFY21

TCS	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
Americas	51.6%	3.5%	-3.4%	2,897
North America	49.9%	3.4%	-3.1%	2,800
Latin America	1.7%	5.1%	-11.2%	97
Europe	31.8%	5.5%	1.4%	1,819
UK	15.5%	6.5%	-4.0%	895
Continental Europe	16.3%	4.5%	7.2%	924
India	9.7%	5.1%	1.4%	553
Asia-Pacific	5.0%	17.7%	-16.0%	319
Middle East and Africa	1.9%	10.7%	-12.9%	114
Total	100.0%	5.1%	-2.4%	5,702

Infosys	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
North America	60.7%	7.7%	3.5%	2,166
Europe	24.3%	4.8%	4.1%	844
India	3.0%	-8.0%	12.7%	91
Rest of the World	12.0%	4.4%	2.7%	415
Total	100.0%	6.2%	3.8%	3,516

HCLT	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
Americas	63.1%	3.4%	-3.4%	1,636
Europe	28.4%	8.4%	7.8%	772
Rest of the World	8.5%	-1.8%	19.5%	209
Total	100.0%	4.4%	1.2%	2,617

Wipro	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
Americas	58.4%	2.5%	-4.6%	1,193
Europe	23.8%	10.1%	-1.9%	522
APAC & Other Emerging Markets	17.8%	0.4%	-0.2%	356
Total	100.0%	3.9%	-3.2%	2,071

Tech Mahindra	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
Americas	48.4%	0.0%	-2.8%	612
Europe	25.2%	8.3%	-7.3%	345
Rest of the World	26.4%	5.0%	2.5%	351
Total	100.0%	3.4%	-2.7%	1,309

LTI	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
North America	68.8%	4.5%	9.9%	290
Europe	16.2%	5.4%	7.1%	69
RoW	8.2%	-4.6%	4.1%	32
India	6.9%	31.8%	19.9%	37
Total	100.0%	5.8%	9.7%	428

Mphasis	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
Americas	78.1%	1.6%	3.9%	260
EMEA	10.8%	12.5%	12.6%	40
India	6.5%	-13.8%	19.9%	18
RoW	4.5%	4.5%	-8.5%	16
Total	100.0%	1.9%	5.1%	334

Source: Company, HSIE Research

Mindtree	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
US	77.4%	4.7%	2.3%	212
Europe	15.4%	3.7%	-18.7%	42
APAC	7.2%	10.9%	-13.8%	21
Total	100.0%	5.0%	-2.7%	274

LTTS	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
North America	60.0%	8.9%	-9.5%	116
Europe	16.0%	7.5%	-0.5%	31
India	13.6%	9.2%	-5.5%	26
Rest of the World	10.4%	-9.6%	-19.7%	17
Total	100.0%	6.8%	-8.8%	190

Persistent	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
North Americas	81.1%	5.1%	10.6%	119
Europe	8.8%	24.3%	0.7%	13
RoW	10.1%	14.2%	18.6%	15
Total	100.0%	7.4%	10.3%	146

Cyient (Services Rev)	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
North America	53.4%	0.7%	-24.4%	61
Europe, ME, Africa	28.6%	-0.4%	-14.2%	33
Asia Pacific	18.0%	4.4%	-1.7%	21
Total	100.0%	1.1%	-18.4%	115

Zensar	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
North Americas	73.3%	-6.4%	-14.4%	86
Europe	16.0%	6.3%	-12.6%	21
Africa	10.8%	11.6%	-6.3%	15
Total	100.0%	-2.4%	-13.3%	123

Sonata	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
USA	51.0%	7.2%	-12.3%	21
Europe	26.0%	5.1%	-34.9%	11
RoW	23.0%	0.6%	15.7%	9
Total	100.0%	5.1%	-14.6%	41

Mastek	% of Rev	3QFY21 QoQ%	9MFY21 YoY%	USD mn
UK	67.2%	8.4%	44.0%	40
US	17.7%	8.7%	11.0%	11
Others	15.1%	12.6%	1603.2%	9
Total	100.0%	9.1%	59.1%	60

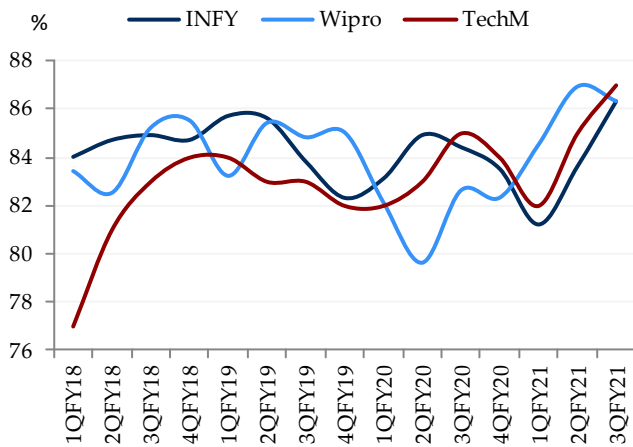
Source: Company, HSIE Research

Headcount & Revenue productivity trend for 3QFY21

Companies	Headcount (Nos)	Headcount Growth		Revenue/employee	
		QoQ (%)	YoY (%)	QoQ (%)	YoY (%)
TCS	4,53,540	3.5%	5.1%	1.6%	-2.8%
INFY	2,40,208	3.8%	2.4%	2.3%	5.9%
Wipro	1,85,243	2.7%	1.6%	1.2%	-2.7%
HCLT	1,53,085	4.3%	7.0%	0.1%	-3.9%
TechM	1,24,258	-1.9%	-6.8%	5.5%	3.9%
LTI	32,455	4.7%	8.2%	1.0%	0.3%
Mphasis	27,148	3.6%	3.0%	-1.6%	1.8%
Mindtree	21,827	1.7%	2.9%	3.3%	-3.2%
L&T Tech	15,902	1.1%	-4.3%	5.7%	-0.4%
Cyient	12,277	-0.7%	-15.8%	5.5%	8.2%
Persistent	10,820	15.0%	18.1%	-6.6%	-4.4%
Zensar	8,542	3.1%	-10.8%	-5.4%	-0.1%
Sonata	3,744	2.9%	-4.4%	2.2%	-8.4%

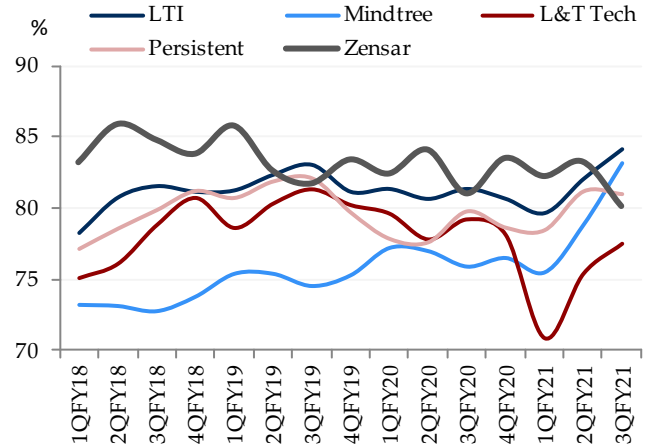
Source: Company, HSIE Research

Tier-1 IT Utilisation trend (%)



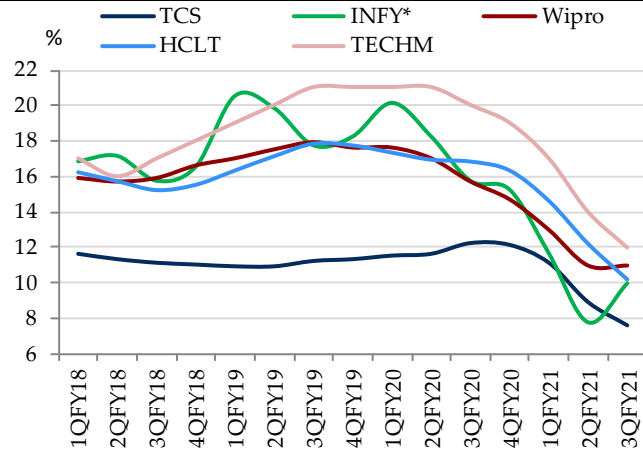
Source: Company, HSIE Research

Mid-Tier IT Utilisation trend (%)



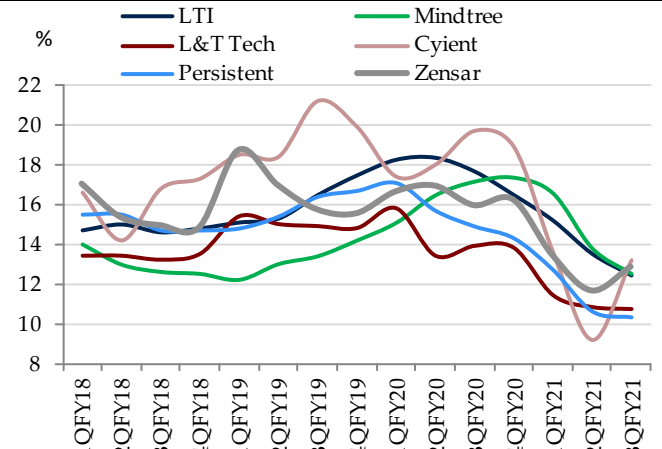
Source: Company, HSIE Research

Tier-1 IT Attrition trend (%)



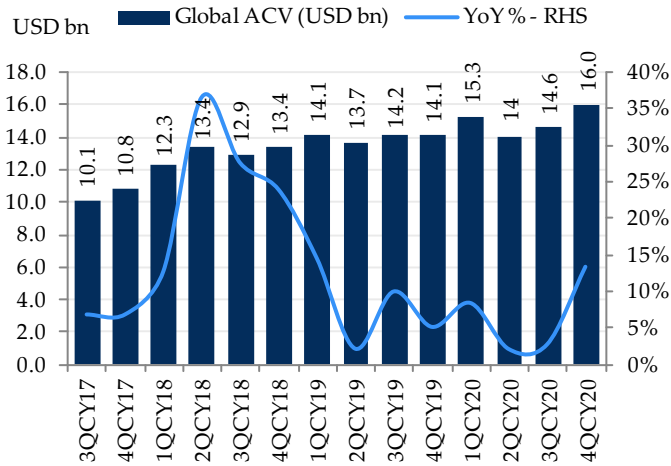
Source: Company, HSIE Research, * INFY Voluntary Attrition from 1QFY20

Mid-Tier IT Attrition trend (%)



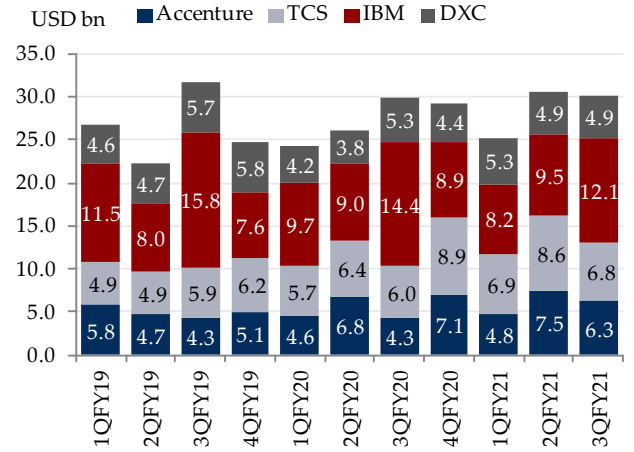
Source: Company, HSIE Research

Global deal booking trend



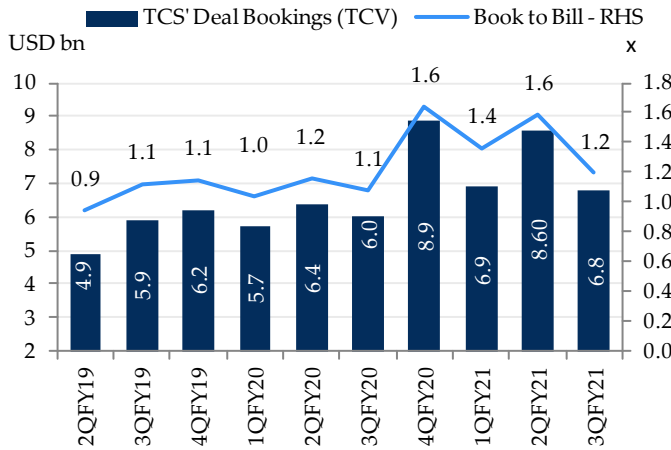
Source: ISG, HSIE Research

Deal win TCS vs Global Peers



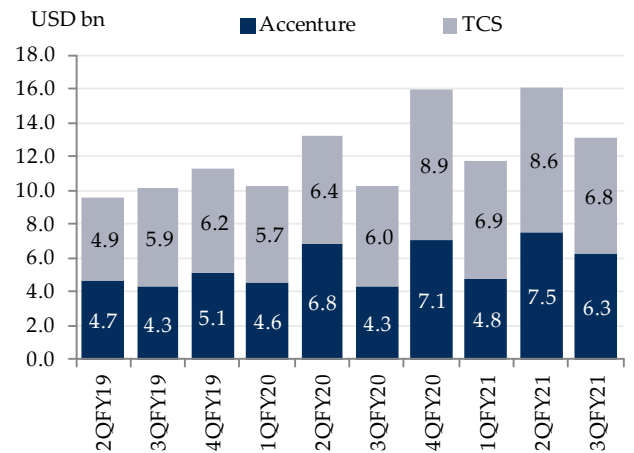
Source: Company, HSIE Research; Accenture - outsourcing TCV & TCS - Total TCV

TCS deal win and book to bill



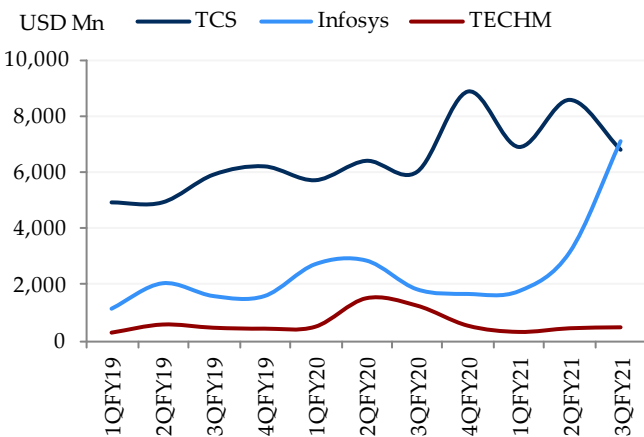
Source: Company, HSIE Research

Accenture vs TCS deal win



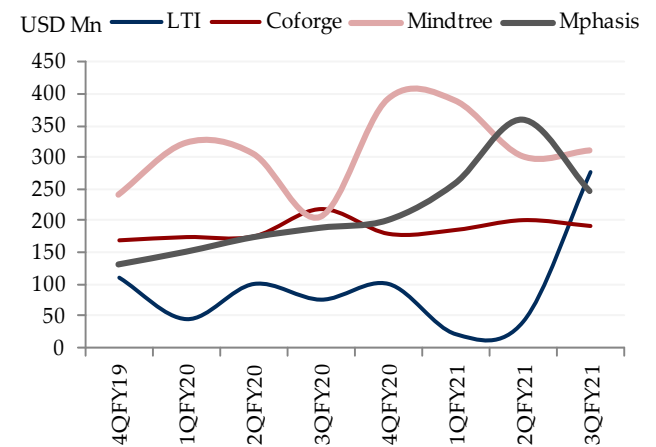
Source: Company, HSIE Research, Accenture - outsourcing TCV & TCS - Total TCV

Tier-1 IT TCV trend (USD Mn)



Source: Company, HSIE Research; TCS - Total TCV, INFY includes large deals, TECHM includes EN+NN

Mid-Tier IT TCV trend (USD Mn)



Source: Company, HSIE Research; LTI & Coforge NN deals

Deal wins in Q3FY21

Client	Vertical	Geography	Description
TCS			
Zapaygo	Hi-Tech	UK	Digital wallet
Bahrain Development Bank	BFSI	Bahrain	TCS BaNCS
Volt	BFSI	Australia	BaaS Platform
Equinor	Energy & Utilities	Norway	Digitalisation
AG	BFSI	Belgium	Digital transformation
AGL	Energy & Utilities	Australia	Cloud Transformation
Postbank Systems (Deutsche Bank)	BFSI	Germany	IT Services
Prudential Financial	BFSI	Ireland	TCS BaNCS
Star Alliance	Travel	Germany	Business Analytics
NA	Mfg	NA	Cloud services
NA	Retail	NA	Cloud services
NA	Media & Ent.	Australia	Cloud services
NA	BFSI	Australia	IT Infrastructure
NA	Healthcare	NA	Digital Platform
NA	BFSI	US	IMS
NA	Mfg	Europe	Managed services
NA	BFSI	US	Technology transformation
NA	BFSI	US	Cloud Services
NA	BFSI	NA	Cloud Services
NA	BFSI	US	Managed Services
T. Marzetti	Retail	US	Infra, App and Service Desk services
NA	Mfg	Swiss	Digital Services
NA	BFSI	US	Cloud Services
NA	Healthcare	NA	Cloud Services
NA	BFSI	US	Data analytics and digital channel
NA	Pharma	Japan	Platform modernization and cloud
NA	BFSI	Japan	Modernisation
NA	Logistics	Nordics	Digital transformation
NA	Automobile	Europe	Design & Development
NA	Healthcare	US	Manufacturing Execution System
NA	Mfg	NA	Digital transformation
NA	Mfg	US	Engineering Services
NA	Healthcare	US	MFDM framework and Ignio
NA	BFSI	NA	IT Infrastructure
NA	Pharma	France	MFDM framework and Ignio
NA	Mfg	NA	MFDM framework and Ignio
NA	Mfg	US	MFDM framework
NA	BFSI	Australia	Next-gen transformation
NA	Energy & Utilities	UK	Smart QE platform
NA	Retail	UK	Application management, data and cyber security services
NA	BFSI	Europe	Data management and analytics
NA	BFSI	Nordics	DAEzMO framework
NA	Hi-Tech	Europe	Cloud Data Platform

Source: Company, HSIE Research

Infosys			
Mobile Health AG	Healthcare	Switzerland	Cloud & Infra Services
Citizens Energy	Energy & Utilities	US	Customer experience
Resimac	BFSI	Australia & New Zealand	Finacle Digital Banking SaaS
XacBank	BFSI	Mongolia	Digital Transformation (Finacle)
Rolls-Royce	Aerospace	UK	Aerospace Engineering
Daimler	Manufacturing	Germany	Cloud & IT infrastructure transformation
El Paso Water	Govt	US	Digital Transformation
RBL Bank	BFSI	India	Cloud Services
HCLT			
NA	Communication	US	5G Voice & Video Connectivity
NA	Hi-Tech	Europe	Cyber security & Platform as a Service (PaaS)
NA	Energy & Utilities	Europe	Platform engineering services
NA	Mfg	Europe	IT Services
NA	Life science & Healthcare	US	AI/ML
NA	Life science & Healthcare	Europe	Infra Services & Cloud adoption
NA	BFSI	US	Digital Transformation
NA	Mfg	Europe	Cloud migration
NA	Mfg	Europe	DevOps
NA	Retail & CPG	Europe	Commerce v9.1 and Workload Automation
NA	Life science & Healthcare	US	Big Fix 10
NA	Hi-Tech	Europe	DX's rapid product modernization
NA	Mfg	Europe	Digital Transformation
NA	Mfg	US	Data center, public cloud, network data and voice
NA	Hi-Tech	Europe	Cloud Migration
NA	Retail & CPG	US	Cloud Migration
NA	Hi-Tech	NA	Engineering Services
NA	Mfg	US	Engineering Services
NA	Mfg	US	IT Services modernisation
NA	Life science & Healthcare	US	Infra Services
NA	Mfg	US	Data Center Infra Services
NA	Media & Ent	US	Client Experience
NA	Energy & Utilities	NA	Digital Services
NA	Communication	US	App development & integration Services
NA	Life science & Healthcare	US	ER&D Services
NA	Travel & Transport	Canada	Cloud Migration
NA	BFSI	Singapore	Digital consulting and AWS integration services
NA	Mfg	New Zealand	Application Transformation
NA	BFSI	NA	Management Technology in Cloud
NA	Logistics	US	Cyber Security Fusion Center
NA	Retail & CPG	US	Digital Services
NA	Energy & Utilities	US	Apps, infra and customer support
NA	Professional services	US	Consulting Service

Source: Company, HSIE Research

Wipro			
Fortum	Energy & Utilities	Finland	AMS
ThoughtSpot	Hi-Tech	US	Engineering NXT & Product POD
Verifone	Hi-Tech	US	Engineering Services
METRO AG	Retail & CPG	Germany	Engineering & Digital Services
NA	Energy & Utilities	UK	Transformation to DevOps
NA	Hi-Tech	NA	Quality as a Service (QaaS)
NA	Media & Ent	US	Streamline Operations
NA	Communication	US	Technology transformation
NA	Energy & Utilities	NA	Digital Services
NA	Mfg	NA	Consumer insights
NA	Hi-Tech	US	Architecture, software/hardware design, development, integration
NA	Mfg	Europe	AI-based orchestration & automation
NA	Pharma	US	Topcoder

TECHM			
Hindustan Aeronautics	Aerospace	India	Modernise ERP
NA	Communication	UK	5G Network Services
NA	Hi-Tech	Europe	Core Infra Transformation
NA	Life science & Healthcare	US	Digital Transformation
NA	Aerospace	India	ERP Transformation
NA	BFSI	NA	Transformational services
NA	Communication	Netherlands	Cloud ERP
NA	Energy & Utilities	US	Cloud Migration
NA	Manufacturing	Canada	Engineering & Design
NA	Energy & Utilities	UK	App modernisation, Data & Analytics
NA	Energy & Utilities	Australia	Cloud ERP

LTI			
Injazat	Hi-Tech	Abu Dhabi	Digital Transformation
NA	Hi-Tech	UAE	Infra & Application Services
NA	Energy & Utilities	NA	Application Managed Services
NA	Hi-Tech	US	Digital Transformation
NA	Mfg	APAC	SAP
NA	BFSI	NA	MOSAIC platform
NA	BFSI	Europe	MOSAIC platform
NA	BFSI	Canada	Digital Transformation
NA	Real-estate	US	Application Services

Mphasis			
NA	BFSI	Europe	Digital & data strategy
NA	BFSI	NA	Modernisation
NA	Travel & Hospitality	NA	Maintenance & development services

Mindtree			
Nordex	Manufacturing	Germany	Digital Transformation
NA	Mfg	NA	Digital Transformation
NA	Travel & Hospitality	NA	Application development & Maintenance
NA	Retail & CPG	NA	Application development
NA	BFSI	US	Infra & Cloud Services

LTTS

Global O&G Company	Energy & Utilities	US	Plant Engineering
Schindler	Manufacturing	Swiss	Digital Engineering
NA	Energy & Utilities	US	Engineering Services
NA	Mfg (OEM)	NA	Hardware-IoT Platform, Cloud Infra, Mobile App and Customer Support Managed Services.
NA	Aerospace	NA	Alkno (Engineering Services)
NA	Life science & Healthcare	US	Design Engineering
NA	Mfg	US	Electrical & Mechanical Services
NA	Energy & Utilities	US	Engineering Centre
NA	Conglomerate	US	Engineering App Modernisation
NA	Mfg (Auto)	NA	Power Train
NA	Life science & Healthcare	NA	Engineering Services
NA	Communication	APAC	Digital telecom Services
NA	Aerospace	NA	Engineering & Digital Services

Persistent

NA	BFSI	NA	Data & Automation
NA	BFSI	India	Modernising (Salesforce)
NA	BFSI	UK	Mambu & AWS services
NA	BFSI	US	Enterprise Data Hub
NA	BFSI	US	Modernisation
NA	Life science & Healthcare	US	Web & Mobile App digital solutions
NA	Life science & Healthcare	NA	AI/ML
NA	Life science & Healthcare	NA	Designing Program
NA	Hi-Tech	US	Engineering Services
NA	Hi-Tech	NA	Modernisation
NA	Hi-Tech	NA	IP led network
NA	Hi-Tech	NA	Engineering Services
NA	Energy & Utilities	NA	Cloud Infrastructure

Zensar

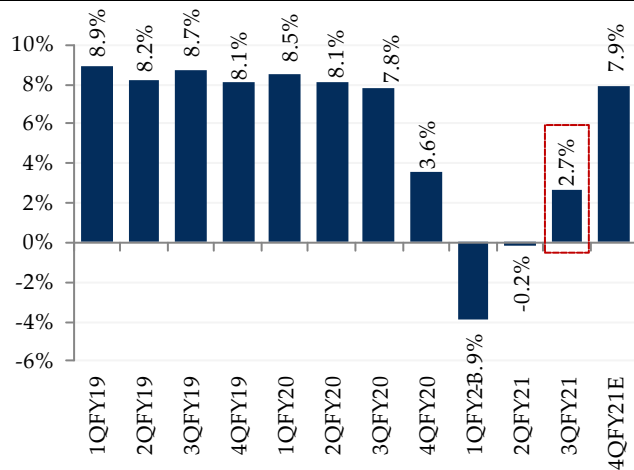
NFU Mutual	BFSI	UK	Digital Transformation
NA	Hi-Tech	NA	Application & Development
NA	Hi-Tech	US	Digital Experience
NA	BFSI	UK	Digital Services
NA	BFSI	US	Guidewire
NA	BFSI	US	Application & Development
NA	Mfg	US	Oracle
NA	Retail & CPG	Africa	Digital Experience

Inorganic activity has increased

Company Name	Target Acquisition	Area of operation	Purchase Consideration	Revenue of the Target company
Infosys	Blue Acorn iCi Group.	IT Services & Consulting (Adobe)	USD 125mn	USD 43.6mn
Wipro	Eximius Design	VLSI & Systems Design Services	USD 80mn	USD 35.2mn
Wipro	Encore Theme Technologies Private Limited	IT Services to Financial institutions	INR 950mn	INR 545mn
TECHM	VitalTech Holdings, Inc.	IT services in Healthcare sector	USD 3mn	USD 2.2mn
TECHM	Momenton Pty. Ltd.	IT Services (ANZ market)	AUD 14.3mn	AUD 10.8mn
TECHM	Tenzing Group.	IT Services (ANZ market)	USD 29.5mn	USD 27.4mn
TECHM	Payments Technology Services	IT Services	USD 9mn	USD 5.4mn
Mphasis	Datalytx Limited	IT – Snowflake, Talend	GBP 13.3mn	NA
Persistent	Capiot Software Inc	IT – Mulesoft, Red Hat	USD 6.34mn	USD 1.13mn
eClerx	Eclipse Global Holdings LLC (dba Personiv)	IT and IT enabled services	USD 34mn	USD 31.94mn
HGS	HGS Digital LLC	Digital solutions/services	USD 1.8mn	USD 18.4mn
Happiest Mind	Pimcore Global Services	IT Services	USD 8.25mn	NA

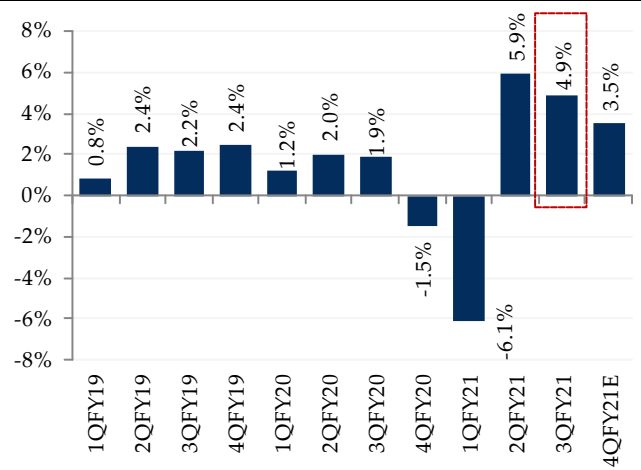
Source: Company, HSIE Research; Acquisitions in 3QFY21 till date

IT Sector USD Revenue Growth (% YoY)



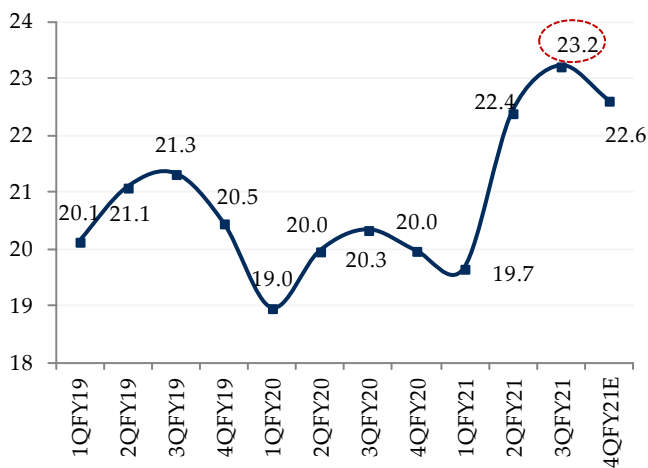
Source: Company, HSIE Research

IT Sector USD Revenue Growth (% QoQ)



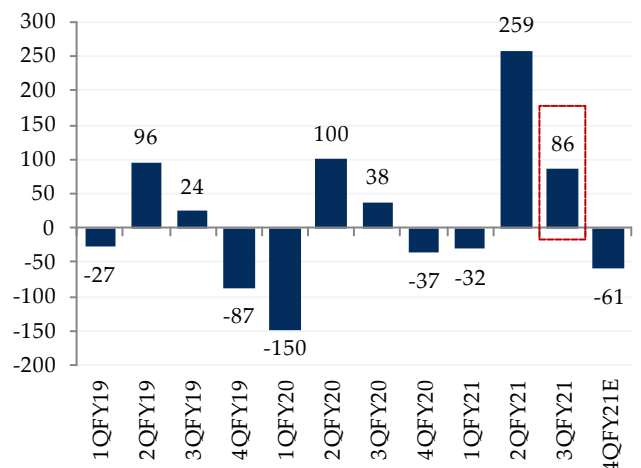
Source: Company, HSIE Research

IT Sector EBIT Margin Trend (%)



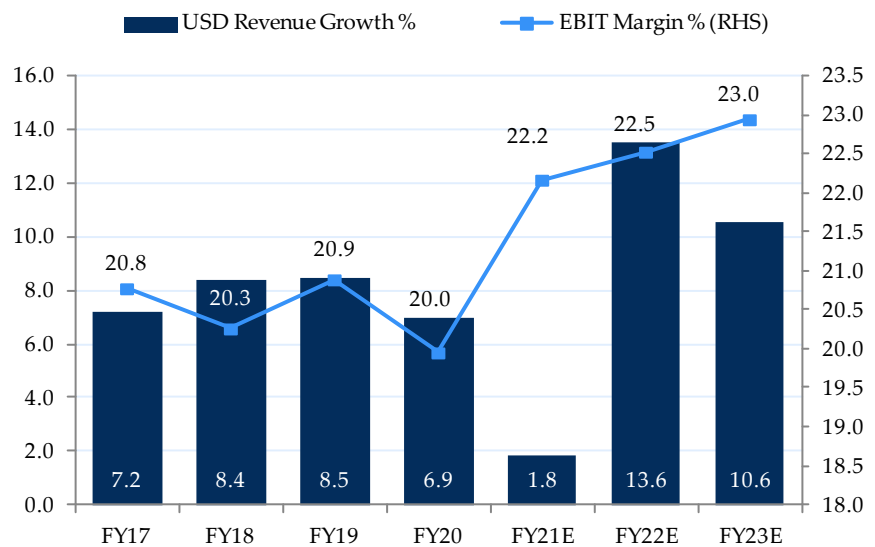
Source: Company, HSIE Research

IT Sector EBIT Margin Change (QoQ bps)



Source: Company, HSIE Research

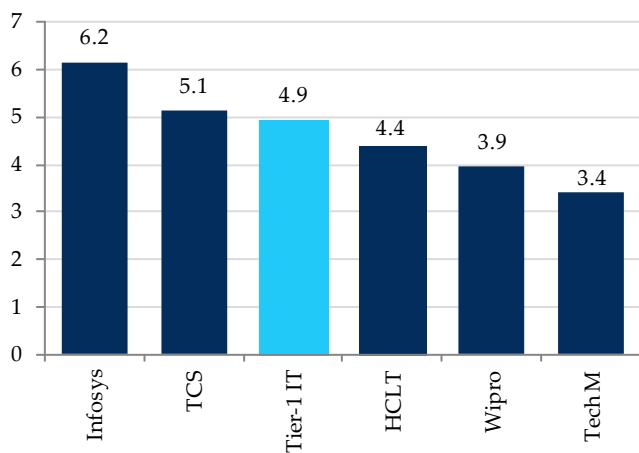
IT Sector aggregate Revenue growth and Margin trend



Source: Company, HSIE Research

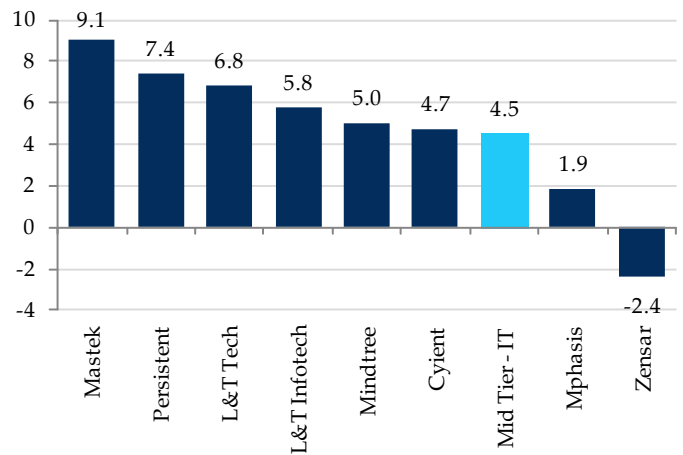
Strong revenue and margin performance (3QFY21)

Tier-1 IT Revenue Performance (QoQ %)



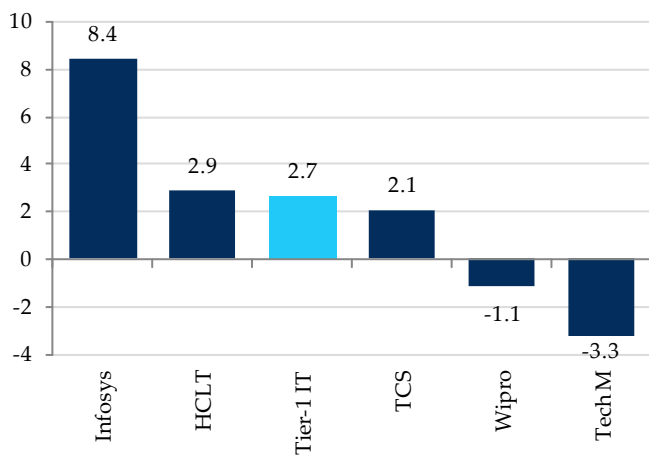
Source: HSIE Research;

Mid-Tier IT Revenue Performance (QoQ %)



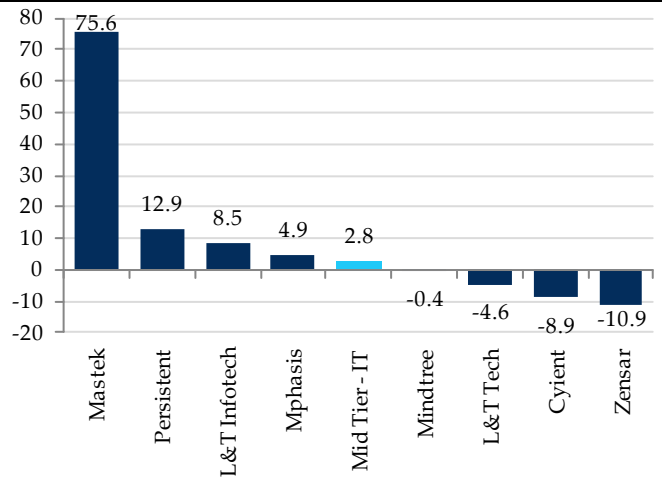
Source: HSIE Research

Tier-1 IT Revenue Performance (YoY %)



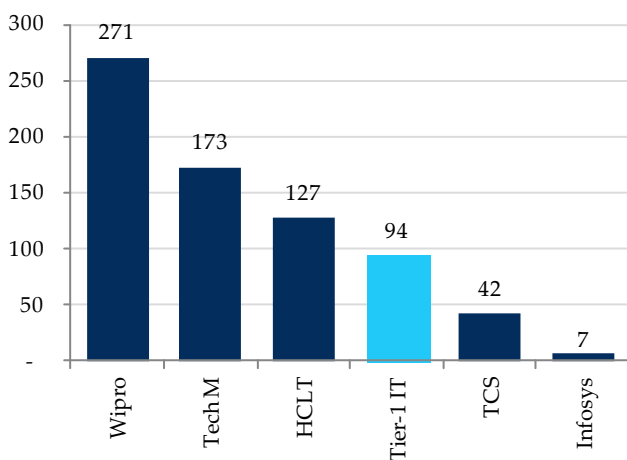
Source: HSIE Research

Mid-Tier IT Revenue Performance (YoY %)



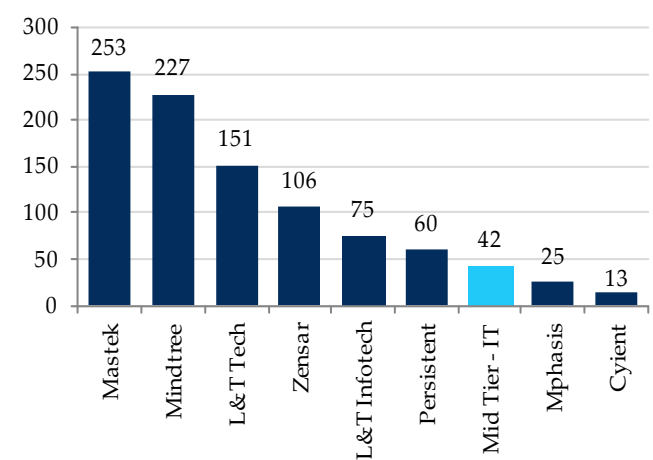
Source: HSIE Research

Tier-1 IT Margin Performance (QoQ bps)



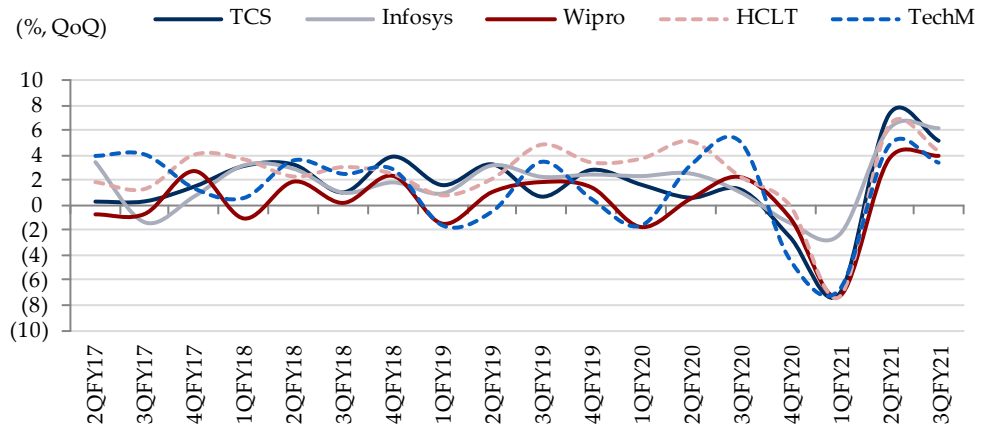
Source: HSIE Research

Mid-Tier IT Margin Performance (QoQ bps)



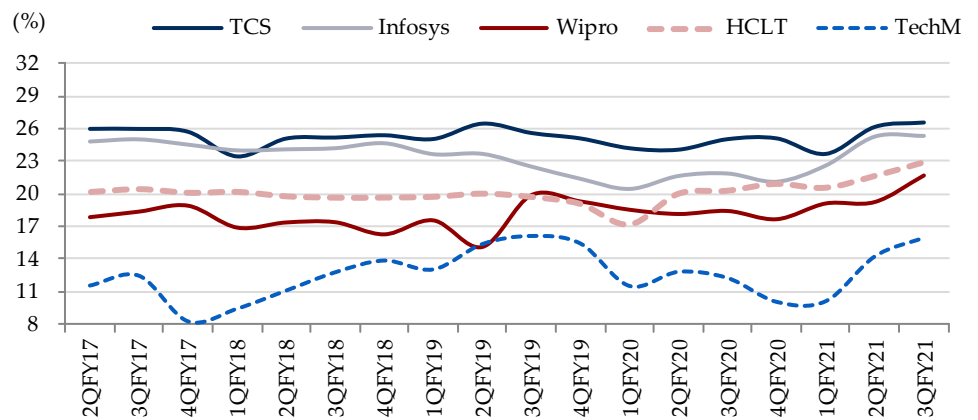
Source: HSIE Research

Tier-1 IT quarterly USD revenue growth trend (QoQ %)



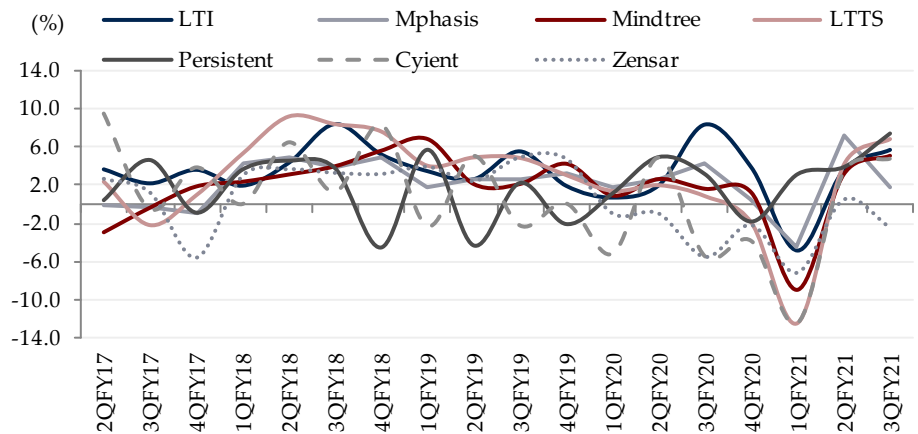
Source: Company, HSIE Research

Tier-1 IT quarterly EBIT Margin (%) trend



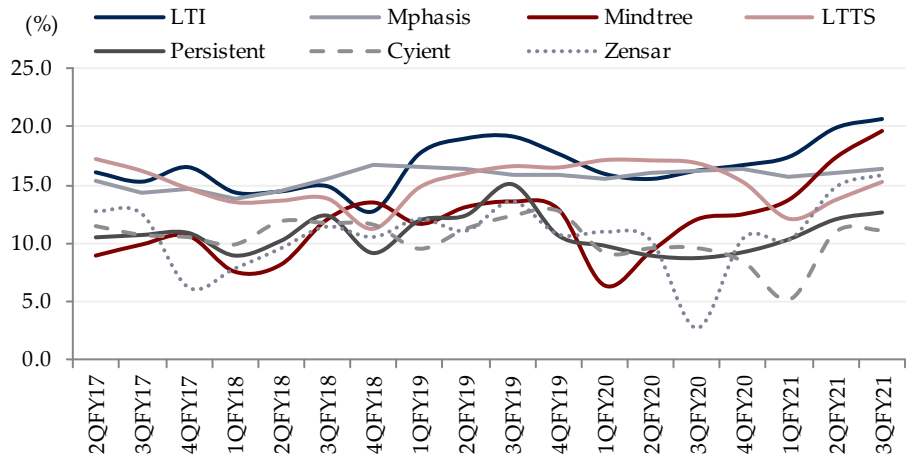
Source: Company, HSIE Research

Mid-Tier IT quarterly USD revenue growth trend (QoQ %)



Source: Company, HSIE Research

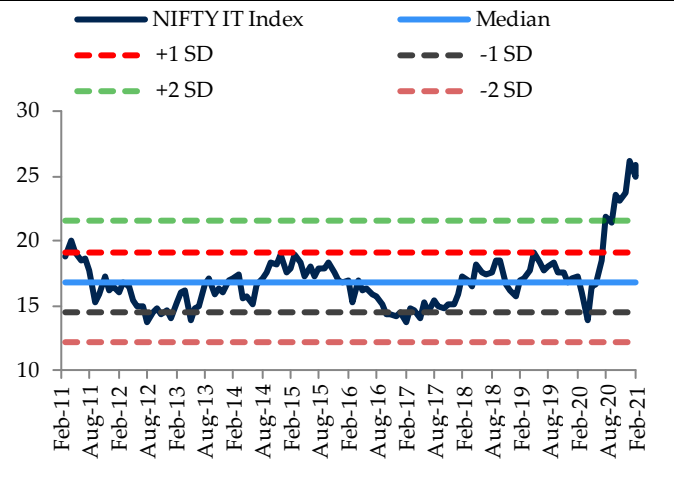
Mid-Tier IT quarterly EBIT Margin (%) trend



Source: Company, HSIE Research

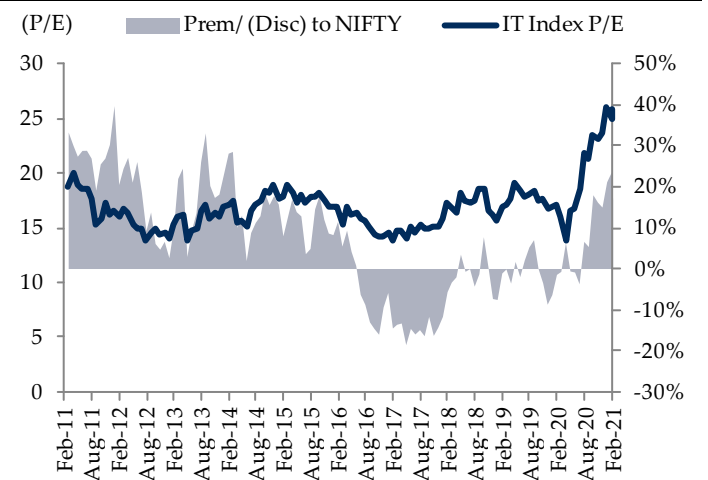
Valuation charts

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



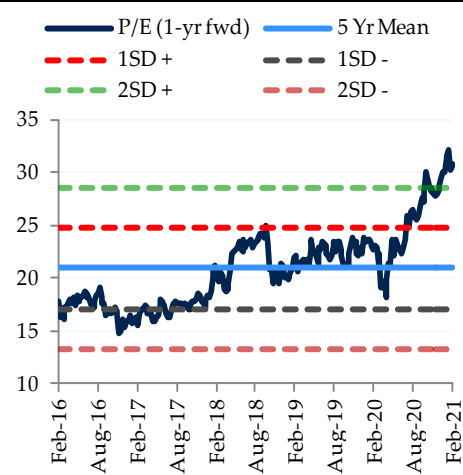
Source: Bloomberg, HSIE Research

IT Index Valuation Trend vs NIFTY



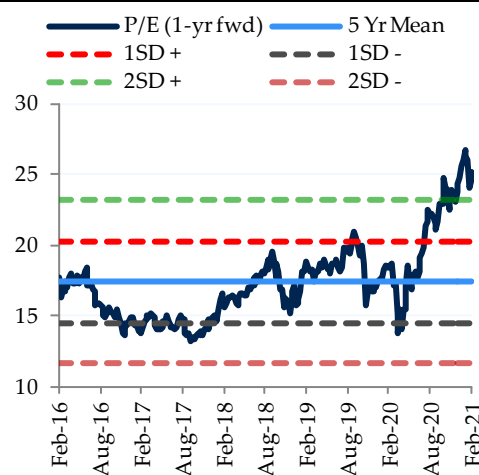
Source: Bloomberg, HSIE Research

TCS P/E (1-yr fwd) Trend

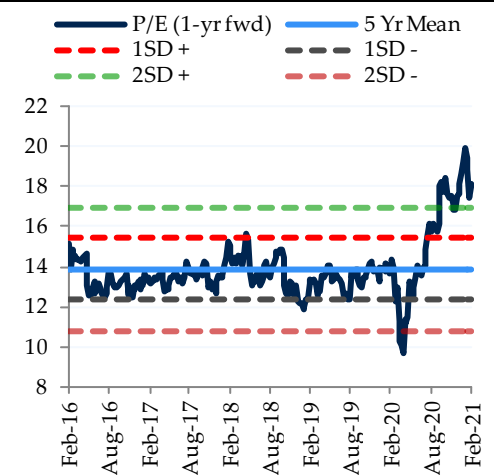


Source: Bloomberg, HSIE Research

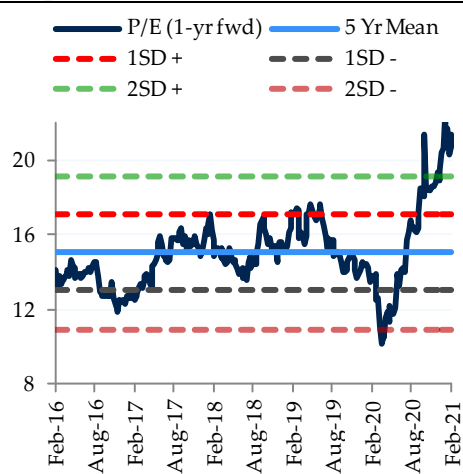
Infosys P/E (1-yr fwd) Trend



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

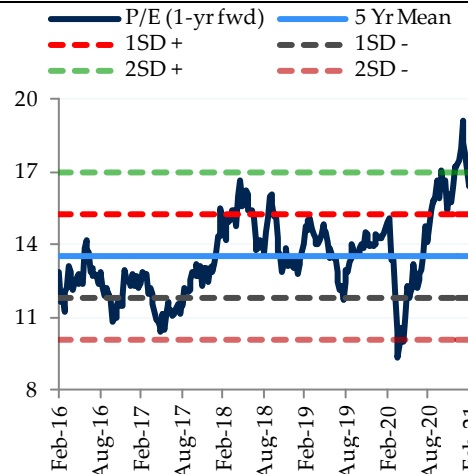


Wipro P/E (1-yr fwd) Trend

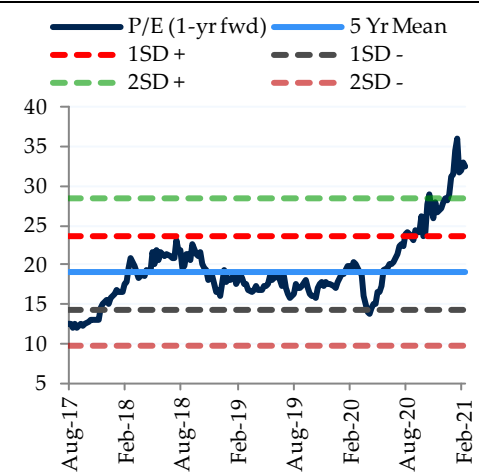


Source: Bloomberg, HSIE Research

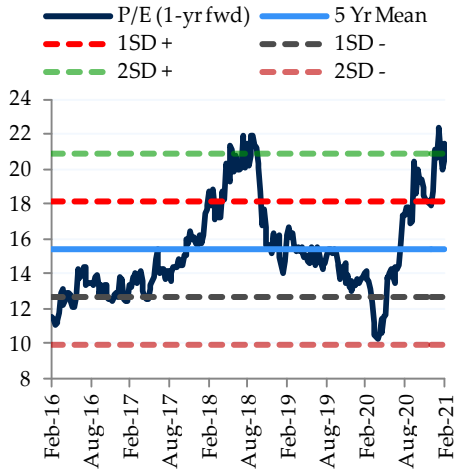
TECHM P/E (1-yr fwd) Trend



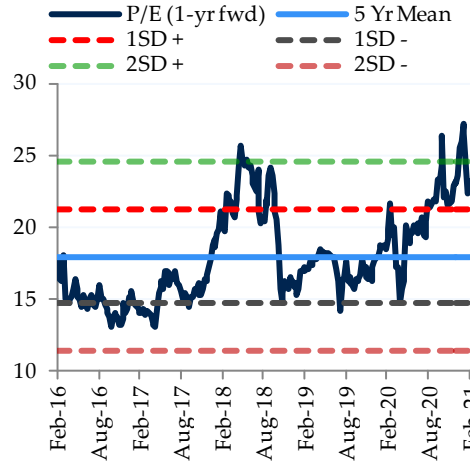
L&T Infotech P/E (1-yr fwd) Trend



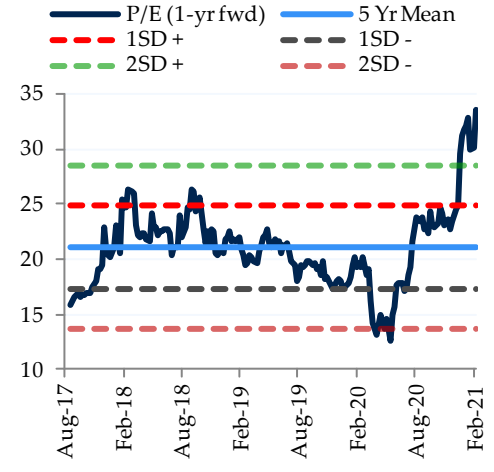
Mphasis P/E (1-yr fwd) Trend



Mindtree P/E (1-yr fwd) Trend

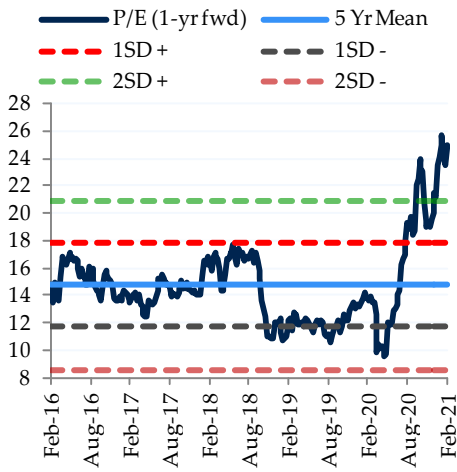


L&T Tech P/E (1-yr fwd) Trend

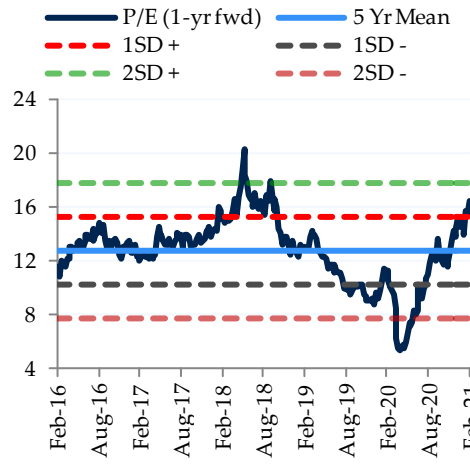


Source: Bloomberg, HSIE Research

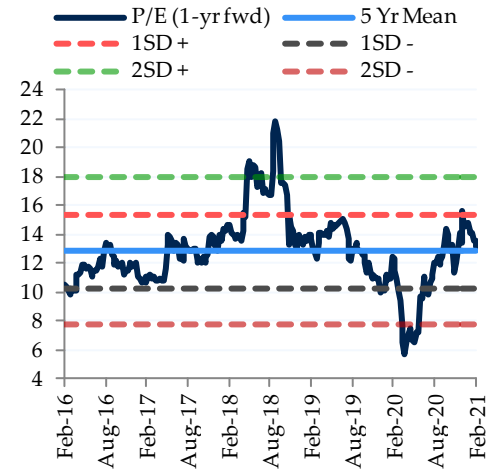
Persistent P/E (1-yr fwd) Trend



Cyient P/E (1-yr fwd) Trend

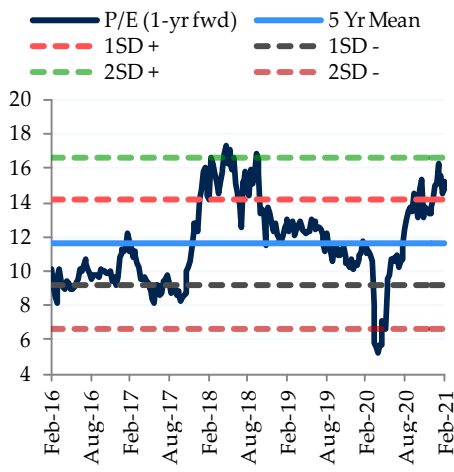


Zensar P/E (1-yr fwd) Trend

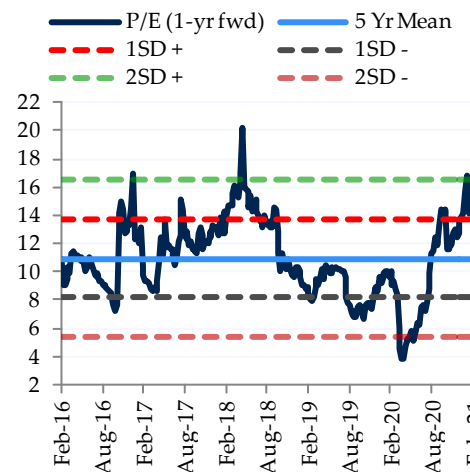


Source: Bloomberg, HSIE Research

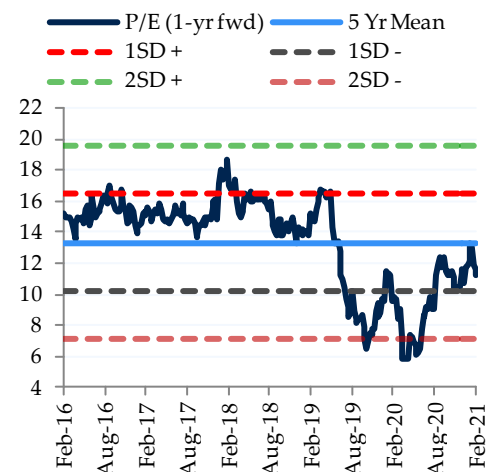
Sonata P/E (1-yr fwd) Trend



Mastek P/E (1-yr fwd) Trend



eClerx P/E (1-yr fwd) Trend



Source: Bloomberg, HSIE Research

Rating Criteria

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

Disclosure:

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