

# Information Technology

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## *1QFY19E Results Preview*

**06 JUL 2018**

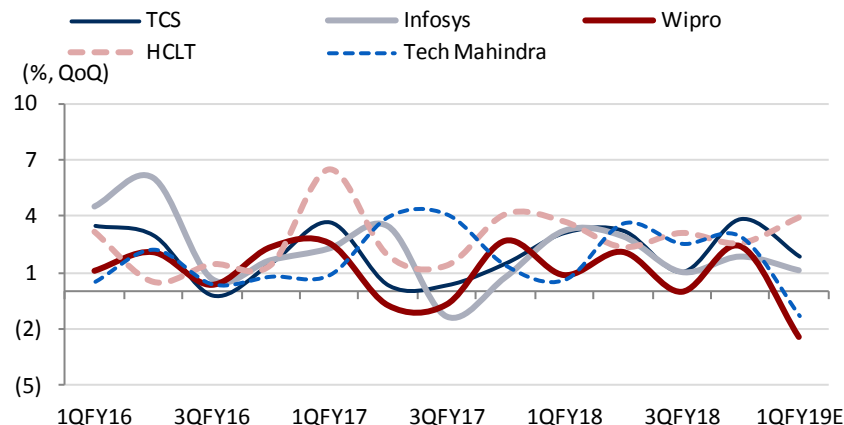
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# 1QFY19E: Performance divergence

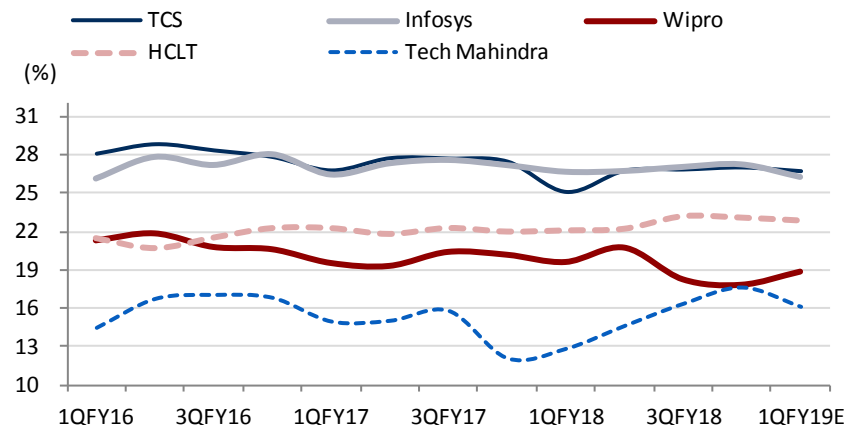
IT sector (coverage universe) is expected to accelerate, despite cross currency headwinds after six quarters. Revenue growth is expected at 1.3/9.6% QoQ/YoY with Tier-1 IT growth estimated at 1.0/8.3% QoQ/YoY. Midcap IT growth estimated at 2.9/17.7% QoQ/YoY. We expect divergent growth trends within Tier-1 IT with HCLT (inorganic-led) and TCS posting stronger growth, whereas Wipro/TECHM expected to post sequential decline. Within midcaps, Hexaware, Mindtree and Persistent are expected to lead growth, whereas Cyient and Intellect expected to post muted sequential performance.

- Operating performance is expected to remain stable despite headwinds of cross currency, wage increase, visa cost impact, which are expected to be offset by higher efficiencies (automation) and INR depreciation. Expect aggregate EBITDA impact of -21/88bps QoQ/YoY in 1Q, with midcap IT margin expansion of 30/143bps QoQ/YoY (strong sequential increase for LTI, eClerx, Persistent, Zensar, KPIT).
- Our bullish stance on the sector *“Skin in the game”* has been validated with 7/18/27% (3/6/12mnths) outperformance of IT index over the benchmark (~50% attributed to P/E re-rating). Revise earnings higher by ~3% for Tier-1 IT and ~5% of midcap IT, reset USD-INR estimates at 67.5 (65 earlier). Prefer HCL Tech, INFY and TECHM from Tier-1 IT. Within midcap IT we prefer L&T Tech, Persistent, Hexaware, Zensar and Majesco.
- Key Monitorables:** (1) Outlook on BFSI and Retail & CPG verticals, (2) Commentary on demand environment/ deal wins and performance of Digital segment, and (3) Operational performance with increase in onsite investments, large accounts’ performance.

## QoQ USD Revenue Growth Trend

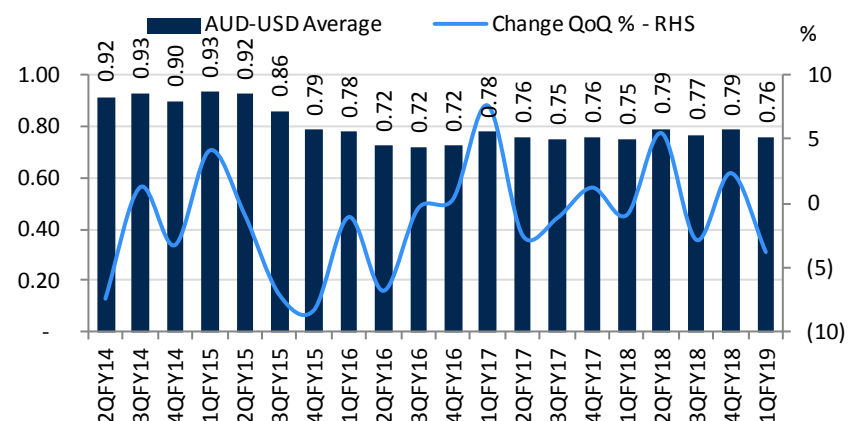
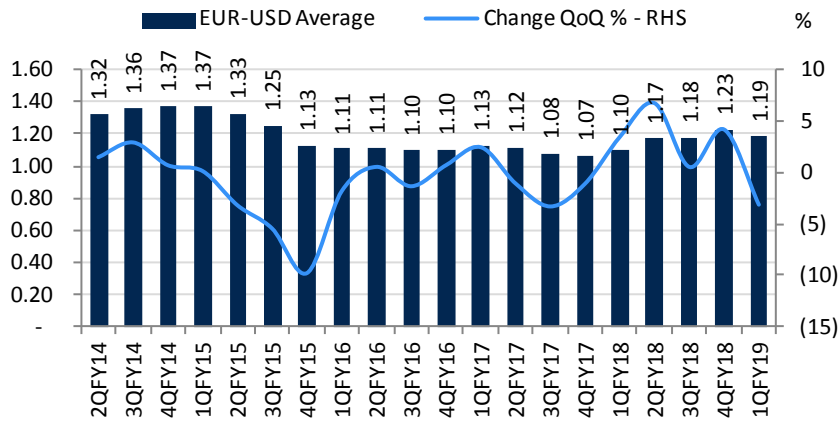
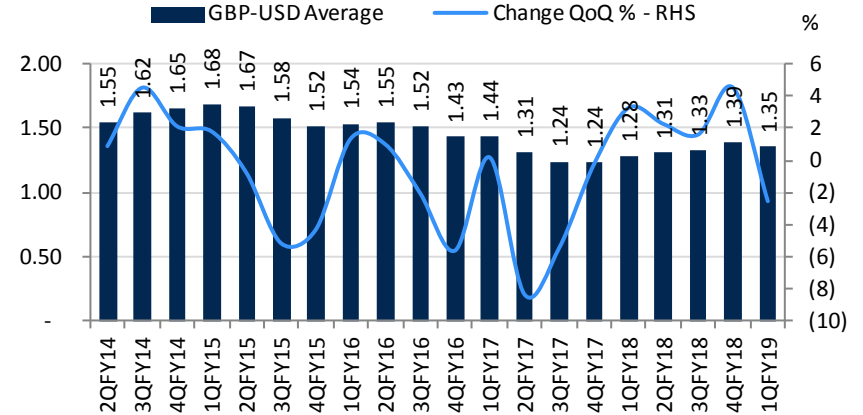
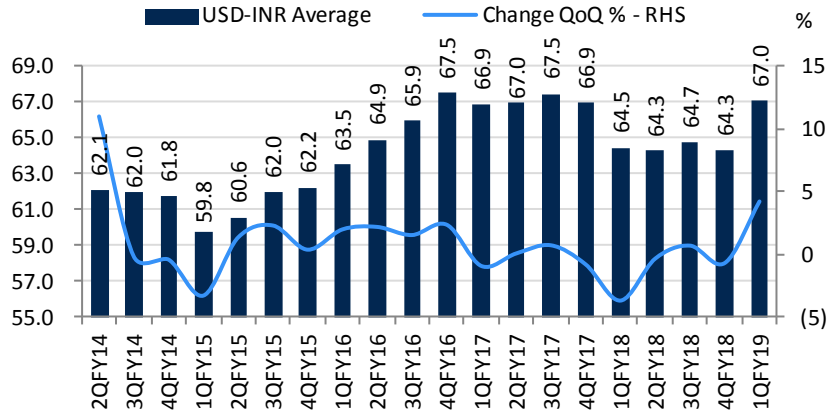


## EBITDA Margin Trend



Source : Company, HDFC sec Inst Research

# Currency movements



Source : Bloomberg, HDFC sec Inst Research

# 1QFY19E : Performance divergence

| COMPANY | 1QFY19E OUTLOOK | WHAT'S LIKELY   | KEY MONITORABLES  |
|---------|-----------------|---|---|
| TCS     | <b>GOOD</b>     | <ul style="list-style-type: none"> <li>Revenue is estimated at USD 5,063mn, 1.8/10.3% QoQ/YoY based on 3% QoQ CC and -120bps cross currency impact.</li> <li>INR revenue estimated at Rs 339.25bn, 5.8/14.7% QoQ/YoY. EBIT margin estimated to decline 40bps QoQ to 25% (target band of 26 to 28%) impacted by wage increase (-200bps margin impact) offset by INR depreciation and efficiency gains. APAT estimated at Rs 70.31bn, 1.5/18.2% QoQ/YoY.</li> </ul> | <ul style="list-style-type: none"> <li>Growth outlook for FY19E wrt. 1H seasonality</li> <li>Digital performance and large account metrics</li> <li>Core vertical (BFSI and Retail &amp; CPG) performance and outlook (commentary on large NorthAm BFS accounts)</li> <li>Margin outlook with increased onsite investments</li> <li>Commentary on deal wins and deal pipeline</li> </ul>  |
| Infosys | <b>AVG</b>      | <ul style="list-style-type: none"> <li>Revenue estimated at USD 2,835mn, 1.1/7.0% QoQ/YoY supported by 2.1% QoQ CC and -100bps cross currency impact.</li> <li>INR revenue estimated at Rs 189.96bn, 5.1/11.2% QoQ/YoY. EBIT margin estimated at 23.8%, -96bps QoQ impacted by wage increase (85% of employees), cross currency mitigated by INR depreciation. APAT estimated at Rs 37.49bn, -0.7/6.1% QoQ/YoY.</li> </ul>  | <ul style="list-style-type: none"> <li>FY19 growth outlook, we expect revenue guidance of 6 to 8% CC to be unchanged</li> <li>Performance of digital, top accounts and large deal TCV (USD 907mn 10 deals in 4Q)</li> <li>Performance and outlook of BFSI (33% of rev) and Retail &amp; CPG (13.3% of rev and soft commentary earlier) verticals</li> <li>Progress on increased investment outlay towards onsite hiring, investments in digital/IPs, S&amp;M</li> <li>EBIT margin guidance (currently at 22 to 24%) with expectation of upside risk (+50bps)</li> </ul> |

# 1QFY19E : Performance divergence

| COMPANY                 | 1QFY19E OUTLOOK | WHAT'S LIKELY   | KEY MONITORABLES  |
|-------------------------|-----------------|---|---|
| <b>Wipro</b>            | <b>BAD</b>      | <ul style="list-style-type: none"> <li>Expect USD revenue de growth of 2.5% QoQ (USD 2,0311n), CC revenue growth -1.4% QoQ (in line with management guidance of +0.3 to -2.3% CC growth).</li> <li>EBITDA margin to expand 102bps to 18.8% due to benefits of currency and reversal of exceptional IT Services EBIT margin to be at 15.1% vs 14.4% last quarter.</li> <li>Net profit is expected to increase 5.4% QoQ to Rs 19.00bn.</li> </ul> | <ul style="list-style-type: none"> <li>2QFY19E guidance is expected to be in the range of 0-2%. Expected timeline , as when we see the client specific issues behind and return of growth.</li> <li>Commentary on energy vertical and outlook for Healthcare and HPS performance. Signals of recovery in communication vertical, strategy to grow Top-10 accounts and margin outlook.</li> <li>Digital deal pipeline, strategy around winning large Digital deals.</li> </ul> |
| <b>HCL Technologies</b> | <b>GOOD</b>     | <ul style="list-style-type: none"> <li>Revenue expected at USD 2,118mn, 3.9/12.4% QoQ/YoY. Sequential growth of 3.9% QoQ supported by organic growth 1.7% (3% CC and -130bps cross) and inorganic 2.2% QoQ (C3i consolidation).</li> <li>INR revenue estimated at Rs 141.90bn, 7.7/16.8% QoQ/YoY. EBIT margin estimated at 20.2%, +56bps QoQ supported by INR depreciation. APAT estimated at Rs 23.71bn, 6.5/9.2% QoQ/YoY.</li> </ul>          | <ul style="list-style-type: none"> <li>Performance of IMS (recovery expected in 1H) and ER&amp;D services; deal wins (63 deals in FY18)</li> <li>Performance of Mode-1,2,3 business segments and organic business outlook (Mode-1 grew 5.7% YoY in FY18)</li> <li>FY19 revenue guidance (9.5 to 11.5% YoY CC – 4.25 to 6.25% organic) expected to be maintained. EBIT margin outlook (currently at 19.5 to 20.5%)</li> </ul>  |
| <b>Tech Mahindra</b>    | <b>BAD</b>      | <ul style="list-style-type: none"> <li>USD revenue to decline by 1.3% QoQ (USD 1,228mn, CC -0.3%), owing to weak telecom (Comviva seasonality). Enterprise growth will be soft in the quarter.</li> <li>EBITDA margin will decline 150bps QoQ to 16.0% on account of salary hike, visa fees offset by currency. Net profit to decline 23.7% QoQ to Rs 9.33bn due to lower forex gain vs 4Q.</li> </ul>  | <ul style="list-style-type: none"> <li>Update on deal pipeline (TCV) for the Enterprise business.</li> <li>Demand outlook for Telecom vertical and growth out for top Telecom account.</li> <li>Update on the upcoming 5G opportunity</li> <li>Margin outlook for the rest of the year specially when the start is weak.</li> </ul>   |

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| COMPANY      | 1QFY19E OUTLOOK | WHAT'S LIKELY   | KEY MONITORABLES  |
|--------------|-----------------|---|---|
| L&T Infotech | GOOD            | <ul style="list-style-type: none"> <li>Revenue expected at USD 316mn, 2.1/21.7% QoQ/YoY based on 3.3% QoQ CC and -120bps cross currency impact.</li> <li>INR revenue estimated at Rs 21.14bn, 5.6/26.5% QoQ/YoY. EBITDA margin estimated at 17.8%, flat sequentially (adjusted for -311bps one-time margin impact in 4Q). APAT estimated at Rs 2.84bn, -15.9/6.4% QoQ/YoY factoring lower forex gains.</li> </ul> | <ul style="list-style-type: none"> <li>Digital revenue performance</li> <li>Top account performance and new logo additions</li> <li>Deal pipeline, large deal wins (USD 350mn in last 7 quarters) and progress of ramp-up of large deal wins (USD 50mn net-new in 4Q from Exxon Mobil and BFS account)</li> </ul> |
| Mphasis      | AVG             | <ul style="list-style-type: none"> <li>Revenue estimated at USD 271mn, 2.7/17.5% QoQ/YoY factoring HP-DXC channel growth at 3% QoQ.</li> <li>INR revenue estimated at Rs 18.15bn, 4/18.2% QoQ/YoY. EBIT% estimated at 15.8%, -100bps QoQ as compared to its EBIT guidance of 15 to 17%. APAT estimated at Rs 2.38bn, -5/27.3% QoQ/YoY.</li> </ul>   | <ul style="list-style-type: none"> <li>HP-DXC channel performance and growth outlook</li> <li>Direct core performance and growth outlook and Blackstone portfolio wins (USD 158mn TCW in FY18 and 29% of Direct International wins.</li> <li>Performance and outlook of Digital Risk</li> </ul>                   |
| Mindtree     | GOOD            | <ul style="list-style-type: none"> <li>Revenue estimated at USD 235mn, 3.8/17.3% QoQ/YoY factoring 4.5% QoQ CC growth and -70bps cross currency impact.</li> <li>INR revenue estimated at Rs 15.72bn, 7.4/21.9% QoQ/YoY. EBITDA margin estimated at 14.7%, -137bps QoQ impacted by wage hike (-300bps impact) offset by INR depreciation. APAT estimated at Rs 1.50bn, -11.8% QoQ.</li> </ul>                     | <ul style="list-style-type: none"> <li>Digital revenue performance and TCW of digital deals (Mindtree's largest digital deal win in 4Q – airline account)</li> <li>Performance of top-10 accounts and outlook, TCW of total deal wins</li> <li>Top account performance and outlook</li> </ul>                     |

# 1QFY19E : Performance divergence

| COMPANY                       | 1QFY19E OUTLOOK | WHAT'S LIKELY  | KEY MONITORABLES   |
|-------------------------------|-----------------|--|--|
| <b>Hexaware Technologies*</b> | <b>GOOD</b>     | <ul style="list-style-type: none"> <li>Revenue estimated at USD 168mn, 3.9/10.4% QoQ/YoY. INR revenue estimated at Rs 11.29bn, 7.6/14.8% QoQ/YoY.</li> <li>EBITDA margin estimated at 14.7%, -80bps QoQ impacted by visa cost. APAT estimated at Rs 1.31bn, -2.2/7.2% QoQ/YoY.</li> </ul>  | <ul style="list-style-type: none"> <li>TCV of net-new deal bookings (USD 28mn net-new in 1Q)</li> <li>Large accounts' performance and outlook</li> <li>Enterprise solutions performance and offshore revenue growth</li> <li>IMS/BPM performance</li> </ul>  |
| <b>L&amp;T Tech</b>           | <b>AVG</b>      | <ul style="list-style-type: none"> <li>Revenue estimated at USD 166mn, 2.1/29.9% QoQ/YoY. INR revenue estimated at Rs 11.11bn, 5.3/35% QoQ/YoY.</li> <li>EBITDA margin estimated at 15.7%, +20bps QoQ and APAT estimated at Rs 1.44bn, -3.5%/47% QoQ/YoY.</li> </ul>   | <ul style="list-style-type: none"> <li>Deal trends and margin outlook (transportation and telecom, hi-tech margins expected to improve)</li> <li>Top accounts' performance and outlook</li> <li>Commentary on verticals and performance of Process industry (Covestro &amp; Exxon deal ramp-up), Industrial product</li> </ul>   |
| <b>Cyient</b>                 | <b>AVG</b>      | <ul style="list-style-type: none"> <li>Expect USD revenue growth to be soft, +0.1% QoQ to USD 165mn led by weak DLM. Core IT services (87% of rev) will grow by 2.4% QoQ while DLM (13% of rev) is expected to decline by 15% QoQ.</li> <li>EBITDA margin will expand 34bps QoQ to 14.4% due to INR depreciation offset by wage hike and visa fee cost.</li> <li>Net profit to grow 0.7% QoQ to Rs 1.19bn led by margin expansion offset by lower forex gains .</li> </ul> | <ul style="list-style-type: none"> <li>Growth guidance for FY19E, new order bookings in DLM and Core IT business.</li> <li>Possible indicators for growth acceleration in Aerospace &amp; Defense and sustainability of on going growth momentum in communication and Transportation verticals.</li> <li>Possible levers for margin expansion led by recovery in DLM business and utilisation improvements.</li> </ul> |

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| COMPANY             | 1QFY19E OUTLOOK | WHAT'S LIKELY   | KEY MONITORABLES   |
|---------------------|-----------------|---|--|
| Persistent Systems  | GOOD            | <ul style="list-style-type: none"> <li>Revenue estimated at USD 121mn, 3.8/7.5% QoQ/YoY factoring 3.5% QoQ in services and 5% QoQ in IP-led revenue.</li> <li>INR revenue estimated at Rs 8.13bn, 8.1/11.7% QoQ/YoY. EBITDA margin estimated at 16.6%, +189bps QoQ with recovery in IP revenue. APAT estimated at Rs 0.88bn, 19.5/17.3% QoQ/YoY.</li> </ul>   | <ul style="list-style-type: none"> <li>Performance of Accelerite and Alliance business and outlook</li> <li>Digital segment performance and ISV performance</li> <li>Margin outlook (wage hike cycle in 2Q)</li> </ul>   |
| Zensar Technologies | GOOD            | <ul style="list-style-type: none"> <li>Expect USD revenue growth at 2.5% QoQ (USD 130mn, CC +3.4%) led by cynosure acquisition, digital growth offset by the impact of one retail client bankruptcy.</li> <li>EBITDA margin will expand 88bps QoQ to 13.1% led by INR depreciation, integration of higher margin acquisition offset by wage hike.</li> <li>Net profit is likely to decline by 4.2% QoQ to Rs 0.70bn in the quarter led by lower forex gains.</li> </ul> | <ul style="list-style-type: none"> <li>Strategy around client mining and steps undertaken to penetrate Digital in existing client accounts.</li> <li>Deals pipeline, TCV and likely acquisition.</li> <li>Margins outlook in FY19E and strategy to hive-off MVS business.</li> <li>Timeline for the Integration of larger deal wins and commentary on the existing deal pipeline.</li> </ul> |
| KPIT Technologies   | AVG             | <ul style="list-style-type: none"> <li>Revenue estimated at USD 154mn, 2.2/14.2% QoQ/YoY. INR revenue estimated at Rs 10.29bn, 6.4/18.2% QoQ/YoY.</li> <li>EBITDA margin estimated at 12.2%, +85bps QoQ and APAT is estimated at Rs 0.82bn, 7.4/52.3% QoQ/YoY.</li> </ul>   | <ul style="list-style-type: none"> <li>PES, Automotive vertical performance and outlook</li> <li>SAP and IES performance</li> <li>Margin outlook</li> </ul>  |



# 1QFY19E : Performance divergence

| COMPANY         | 1QFY19E OUTLOOK | WHAT'S LIKELY  | KEY MONITORABLES  |
|-----------------|-----------------|--|---|
| eClerx Services | AVG             | <ul style="list-style-type: none"> <li>eClerx expected to post revenue of USD 53mn, 1.6/9.4% QoQ/YoY. INR revenue estimated at Rs 3.75bn.</li> <li>EBIT% estimated at 21.4%, +272bps QoQ (wage hike impact offset by absence of 4Q one-offs). APAT estimated at Rs 0.69bn, 7.2/-13.3% QoQ/YoY.</li> </ul>  | <ul style="list-style-type: none"> <li>Outlook of finance and digital verticals</li> <li>Growth/ margin outlook</li> <li>Performance of top accounts and emerging accounts</li> </ul>   |
| Sonata Software | GOOD            | <ul style="list-style-type: none"> <li>Expect International IT services (IITS) USD revenue to grow by 3.0% QoQ to USD 39mn led by traction in top-5 accounts, continued growth in OPD, Travel and Retail verticals.</li> <li>International IT services/DPS EBITDA margin is expected to be at 20.0/3.6%, +20/-50 bps QoQ.</li> <li>Consolidated revenue will stand at Rs 7.08bn up 13.1% QoQ due to DPS seasonality (DPS business is measured on absolute EBITDA).</li> <li>Net profit is expected to be Rs 0.53bn down 2.6% QoQ.</li> </ul> | <ul style="list-style-type: none"> <li>Growth outlook of the IITS segment, large deal flows. Timeline for completion of major S&amp;M investments for scaling up Digital business in the US &amp; UK region.</li> <li>Updated on the ongoing Platformation strategy and possible growth levers to further accelerate the IP-led business.</li> <li>Growth trends in the platforms namely Rezopia, Halosys and IBIS, and cross-selling efforts.</li> <li>Margin outlook for the IITS and DPS business and possible margin levers.</li> </ul> |

# 1QFY19E : Performance divergence

| COMPANY                | 1QFY19E OUTLOOK | WHAT'S LIKELY   | KEY MONITORABLES   |
|------------------------|-----------------|---|--|
| Intellect Design Arena | AVG             | <ul style="list-style-type: none"> <li>We expect USD revenue to decline 0.6% QoQ to USD 47mn due to high license revenue booked last quarter. Deal momentum continues to be strong and revenue growth will revive. Non linearity will kick in with growth in top-line.</li> <li>We expect cash burn breakeven next quarter while cash burn this quarter is expected to be at Rs 17mn vs Rs 119mn YoY.</li> <li>EBITDA to come at Rs 263 mn vs Rs 246mn in the last quarter. EBITDA margin to be at 8.3% vs. 8.0% QoQ due to INR benefit.</li> </ul> | <ul style="list-style-type: none"> <li>Deal wins ratio, Deal funnel size, deal pursuits and clarity on the recent IBM partnership.</li> <li>Improvement in deal sizes and growth outlook for iGTB and iSEEC business units.</li> <li>Gross margin outlook for FY19E and the amount of R&amp;D being capitalised for new product development.</li> <li>Cash burn rate and comment on further improvement in cash collection cycle.</li> </ul>                                 |
| Majesco Ltd            | GOOD            | <ul style="list-style-type: none"> <li>We expect USD revenue of USD 34mn (+2.6% QoQ), fourth consecutive quarter of QoQ growth. Deal wins, healthy order book and stability in legacy business will fuel growth.</li> <li>Recovery will continue for the next few quarters and deal wins to improve from the IBM partnership channel.</li> <li>Gross margin will stand at 49.2% vs 47.5% QoQ while EBITDA margin will stand at 7.6% led by top-line growth offset by investments made in anticipation of future growth.</li> </ul>                  | <ul style="list-style-type: none"> <li>Growth drivers for the cloud business (32% of rev) and extent of erosion possible in the legacy business (30% of rev).</li> <li>Update on the IBM partnership and progress on the delivery of the first deal won through the IBM partnership.</li> <li>Order-book growth and deal pipe-line both from the IBM and core channel.</li> <li>Update on the planned acquisition from the money raised from the QIP (Rs 2.31bn).</li> </ul> |

# 1QFY19E: Exchanges

| COMPANY | 1QFY19E OUTLOOK | WHAT'S LIKELY  | KEY MONITORABLES  |
|---------|-----------------|--|---|
| BSE     | AVG             | <ul style="list-style-type: none"> <li>We expect revenue to grow 1.4% QoQ to Rs 1.38bn led by 3.4% QoQ rise in security services (StAR MF contribution). Cash daily volume dropped 30% QoQ to Rs 32.96bn while currency derivative volume was up 53% QoQ to Rs 309.86bn. BSE cash/currency derivative market share is at 9.8/52% down 229bps in cash while up 364bps in currency.</li> <li>EBITDA margin to expand 29bps to 19.6% while APAT to increase 2.2% QoQ to Rs 0.65bn.</li> </ul> | <ul style="list-style-type: none"> <li>Management view regarding the continuous fall in cash market share and frequent change in price mechanism for the cash segment.</li> <li>Strategy to increase volume in India INX and update on quantum of money received from the StAR MF platform.</li> <li>Strategy to gain market share in new emerging segments like SME, StAR MF, Insurance.</li> </ul>      |
| MCX     | GOOD            | <ul style="list-style-type: none"> <li>We expect revenue to grow 5.2% QoQ to Rs 0.74 bn led by 5.5% QoQ rise in ADTV. Bullion (22.7% of total vol) have started to recover after the demonetisation and GST impact. Bullion/Metals ADTV were up by 5.7/9.0% QoQ to Rs 55.2/104.6bn in 1QFY19.</li> <li>EBITDA margin to expand 232bps to 34.9% led by growth. APAT to grow 9.3% QoQ to Rs 0.37bn.</li> </ul>   | <ul style="list-style-type: none"> <li>Outlook regarding sustainability of recovery in Bullion ADTV. Timeline for the launch of additional options contracts and its pricing.</li> <li>Commentary on the launch of new products (Indices) and strategy to increase Agri ADTV.</li> <li>Update on Institutional participation in Commodity derivatives and clarity on possible merger with NSE.</li> </ul> |
| CDSL    | BAD             | <ul style="list-style-type: none"> <li>We expect revenue to decline 2.5% QoQ to Rs 0.50bn due to weak market condition and lower retail participation. Annual Issuer charges is seasonally weak in 1QFY19 while transaction charges is market linked.</li> <li>EBITDA margin will decline 161bps QoQ to 55.4% due to non-linearity.</li> <li>PAT will come at Rs 0.25bn down 3.8% QoQ due to lower revenue and margin.</li> </ul>  | <ul style="list-style-type: none"> <li>Update on the possible revenue opportunity emerging from the compulsory demat of unlisted public companies.</li> <li>Progress on NAD, GST Suvidha Kendra's and e-warehouse receipts.</li> <li>Growth outlook for FY19E and the possible impact of the weak market conditions.</li> </ul>   |

# 1QFY19E: Staffing & Processing

| COMPANY           | 1QFY19E<br>OUTLOOK | WHAT'S LIKELY  | KEY MONITORABLES  |
|-------------------|--------------------|--|---|
| TeamLease         | GOOD               | <ul style="list-style-type: none"> <li>We expect revenue to increase 5.3% QoQ to Rs 10.30bn led by uptick in core staffing and NETAP trainees.</li> <li>EBITDA margin will remain stable at 2.2% (-9 bps QoQ) and gradually move towards 3% range with better business mix (specialised staffing, higher margin).</li> <li>Rising demand for formal players will boost mark-ups. APAT will come at Rs 0.23bn up 9.9% QoQ.</li> <li>Core staffing mark-up will be at Rs 773/employee/month vs Rs 755 last quarter.</li> </ul> | <ul style="list-style-type: none"> <li>Business outlook for the core staffing business after a soft FY18.</li> <li>Associate addition in core staffing and NETAP trainee program.</li> <li>Growth outlook for specialised staffing in FY19E and margin profile.</li> <li>Levers for increasing mark-up in core staffing business.</li> <li>Update on the acquisition strategy.</li> </ul>   |
| BLS International | AVG                | <ul style="list-style-type: none"> <li>Revenue to grow 3.9% QoQ to Rs 2.13bn led by addition of new contract and strong Spain visa application count.</li> <li>Punjab contract is going to end in July-18 and the company is looking to renew it at a lower scale and negotiations are going on with the Punjab government.</li> <li>EBITDA margin to expand 30bps QoQ to 17.0%. EBITDA is expected to come in at Rs 0.36bn up 6.2% QoQ.</li> <li>Net profit will stand at Rs 0.22bn up 8.0% QoQ.</li> </ul>                 | <ul style="list-style-type: none"> <li>No of Spain visa applications processed and drag of the core visa business.</li> <li>More clarity on the Punjab e-governance project. No of applications processed and realisation per application.</li> <li>Update on the outstanding receivable with the Punjab government and the quantum of money collected from the Govt. as of date.</li> <li>New deal pipeline in the global visa outsourcing space.</li> </ul> |

# 1QFY19E : Financial summary

| Company          | NET SALES (USD mn) |            |            | NET SALES (Rs bn) |            |             | EBITDA (Rs bn) |            |             | EBITDA Margin (%) |             |             | APAT (Rs bn)  |              |             | Adj. EPS (Rs) |            |            |
|------------------|--------------------|------------|------------|-------------------|------------|-------------|----------------|------------|-------------|-------------------|-------------|-------------|---------------|--------------|-------------|---------------|------------|------------|
|                  | 1Q<br>FY19E        | QoQ<br>(%) | YoY<br>(%) | 1Q<br>FY19E       | QoQ<br>(%) | YoY<br>(%)  | 1Q<br>FY19E    | QoQ<br>(%) | YoY<br>(%)  | 1Q<br>FY19E       | 4Q<br>FY18  | 1Q<br>FY18  | 1Q<br>FY19E   | QoQ<br>(%)   | YoY ( %)    | 1Q<br>FY19E   | 4Q<br>FY18 | 1Q<br>FY18 |
| TCS              | 5,063              | 1.8        | 10.3       | 339.25            | 5.8        | 14.7        | 90.53          | 4.6        | 22.1        | 26.7              | 27.0        | 25.1        | 70.31         | 1.5          | 18.2        | 18.3          | 36.1       | 31.1       |
| Infosys          | 2,835              | 1.1        | 7.0        | 189.96            | 5.1        | 11.2        | 49.98          | 1.4        | 9.6         | 26.3              | 27.3        | 26.7        | 37.49         | (0.7)        | 6.1         | 17.2          | 17.4       | 15.5       |
| Wipro            | 2,011              | (2.5)      | 2.0        | 139.52            | 1.3        | 2.4         | 26.28          | 7.1        | (1.5)       | 18.8              | 17.8        | 19.6        | 19.00         | 5.4          | (8.5)       | 4.2           | 4.0        | 4.6        |
| HCLT             | 2,118              | 3.9        | 12.4       | 141.90            | 7.7        | 16.8        | 32.38          | 6.6        | 20.8        | 22.8              | 23.0        | 22.1        | 23.71         | 6.5          | 9.2         | 17.0          | 16.0       | 15.2       |
| Tech M.          | 1,228              | (1.3)      | 7.9        | 82.25             | 2.1        | 12.1        | 13.18          | (6.7)      | 41.0        | 16.0              | 17.5        | 12.7        | 9.33          | (23.7)       | 16.8        | 10.5          | 13.7       | 9.0        |
| L&T Infotech     | 316                | 2.1        | 21.7       | 21.14             | 5.6        | 26.5        | 3.76           | 28.9       | 34.5        | 17.8              | 14.6        | 16.8        | 2.84          | (15.9)       | 6.4         | 16.5          | 19.7       | 15.7       |
| Mphasis          | 271                | 2.7        | 17.5       | 18.15             | 4.0        | 18.2        | 3.09           | (0.2)      | 34.7        | 17.0              | 17.7        | 14.9        | 2.38          | (5.0)        | 27.3        | 12.8          | 13.0       | 9.7        |
| Mindtree         | 235                | 3.8        | 17.3       | 15.72             | 7.4        | 21.9        | 2.31           | (1.8)      | 61.2        | 14.7              | 16.1        | 11.1        | 1.50          | (11.8)       | 60.7        | 9.1           | 10.3       | 5.5        |
| Hexaware*        | 168                | 3.9        | 10.4       | 11.29             | 7.6        | 14.8        | 1.65           | 1.8        | 3.5         | 14.7              | 15.5        | 16.2        | 1.31          | (2.2)        | 7.2         | 4.4           | 4.5        | 4.1        |
| L&T Tech         | 166                | 2.1        | 29.9       | 11.11             | 5.3        | 35.0        | 1.74           | 6.4        | 38.8        | 15.7              | 15.5        | 15.3        | 1.44          | (3.5)        | 47.1        | 14.1          | 14.6       | 9.6        |
| Tata Elxsi       | 61                 | 4.0        | 21.2       | 4.07              | 8.4        | 25.8        | 1.03           | 8.0        | 39.9        | 25.2              | 25.3        | 22.7        | 0.69          | (1.5)        | 39.1        | 11.1          | 11.3       | 8.0        |
| Cyient           | 165                | 0.1        | 16.9       | 11.04             | 4.0        | 21.7        | 1.59           | 6.5        | 37.0        | 14.4              | 14.1        | 12.8        | 1.19          | 0.7          | 35.6        | 10.6          | 10.5       | 7.8        |
| Persistent       | 121                | 3.8        | 7.5        | 8.13              | 8.1        | 11.7        | 1.35           | 21.9       | 29.8        | 16.6              | 14.8        | 14.3        | 0.88          | 19.5         | 17.3        | 11.0          | 9.2        | 9.4        |
| Zensar           | 130                | 2.5        | 13.6       | 8.72              | 6.6        | 18.2        | 1.14           | 14.3       | 50.6        | 13.1              | 12.2        | 10.3        | 0.70          | (4.2)        | 47.7        | 15.3          | 16.0       | 10.4       |
| KPIT Tech.       | 154                | 2.2        | 14.2       | 10.29             | 6.4        | 18.2        | 1.26           | 14.4       | 58.1        | 12.2              | 11.4        | 9.1         | 0.82          | 7.4          | 52.3        | 4.1           | 3.8        | 2.7        |
| eClerx           | 53                 | 1.6        | 9.4        | 3.75              | 4.0        | 12.7        | 0.93           | 15.9       | (7.0)       | 24.9              | 22.3        | 30.1        | 0.69          | 7.2          | (13.3)      | 17.8          | 16.6       | 19.9       |
| Take Soln        | 73                 | 4.2        | 33.4       | 4.91              | 8.1        | 38.5        | 0.94           | 3.8        | 41.9        | 19.1              | 19.9        | 18.7        | 0.50          | 8.5          | 37.8        | 3.4           | 3.1        | 2.7        |
| Sonata           | 39                 | 3.0        | 17.8       | 7.08              | 13.1       | 11.5        | 0.68           | 6.3        | 41.7        | 9.6               | 10.2        | 7.5         | 0.53          | (2.6)        | 25.2        | 5.1           | 5.2        | 4.1        |
| Intellect        | 47                 | (0.6)      | 26.8       | 3.18              | 3.5        | 31.8        | 0.26           | 6.7        | 62.6        | 8.3               | 8.0         | 6.7         | 0.20          | (22.8)       | NM          | 1.6           | 2.1        | 0.1        |
| HGS              | 168                | 7.8        | 16.7       | 11.24             | 12.0       | 21.2        | 1.02           | (2.1)      | 2.4         | 9.1               | 10.3        | 10.7        | 0.41          | (28.8)       | (2.3)       | 19.5          | 27.4       | 20.0       |
| Majesco          | 34                 | 2.6        | 21.1       | 2.27              | 4.5        | 23.8        | 0.17           | 5.8        | NM          | 7.6               | 7.5         | (2.9)       | 0.09          | NM           | NM          | 3.4           | 3.7        | (1.1)      |
| <b>Aggregate</b> | <b>15,254</b>      | <b>1.3</b> | <b>9.6</b> | <b>1,031.46</b>   | <b>5.1</b> | <b>13.2</b> | <b>234.09</b>  | <b>4.1</b> | <b>17.8</b> | <b>22.5</b>       | <b>22.7</b> | <b>21.6</b> | <b>175.51</b> | <b>(0.4)</b> | <b>11.3</b> |               |            |            |
| BSE              | NA                 | NA         | NA         | 1.38              | 1.4        | 34.9        | 0.27           | 2.9        | 71.3        | 19.6              | 19.3        | 15.5        | 0.65          | 2.2          | 30.5        | 12.2          | 11.9       | 9.3        |
| MCX              | NA                 | NA         | NA         | 0.74              | 5.2        | 25.4        | 0.26           | 12.7       | 101.1       | 34.9              | 32.5        | 21.7        | 0.37          | 9.3          | 41.9        | 7.3           | 6.7        | 5.2        |
| CDSL             | NA                 | NA         | NA         | 0.50              | (2.5)      | 24.5        | 0.28           | (5.3)      | 21.8        | 55.4              | 57.0        | 56.6        | 0.25          | (3.8)        | (1.9)       | 2.4           | 2.5        | 2.4        |
| TeamLease        | NA                 | NA         | NA         | 10.30             | 5.3        | 20.7        | 0.23           | 1.3        | 76.8        | 2.2               | 2.3         | 1.5         | 0.23          | 9.9          | 42.1        | 13.6          | 12.4       | 9.6        |
| BLS              | NA                 | NA         | NA         | 2.13              | 3.9        | 9.0         | 0.36           | 6.2        | (16.3)      | 17.0              | 16.7        | 22.2        | 0.22          | 8.3          | (25.2)      | 2.2           | 2.0        | 2.9        |

Source : Company, HDFC sec Inst Research

\* YE Dec estimates for Q2CY18

# Peer valuation

| Company                    | MCap<br>(Rs bn) | CMP<br>(Rs) | TP<br>(Rs) | RECO | EPS (Rs) |       |       |       | P/E (x)     |             |             |             | RoE (%)     |             |             |             | Rev CAGR%<br>FY18-20 | EPS<br>CAGR%<br>FY18-20 |
|----------------------------|-----------------|-------------|------------|------|----------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|-------------------------|
|                            |                 |             |            |      | FY17     | FY18  | FY19E | FY20E | FY17        | FY18        | FY19E       | FY20E       | FY17        | FY18        | FY19E       | FY20E       |                      |                         |
| TCS                        | 7,178           | 1,913       | 1,720      | NEU  | 66.7     | 67.5  | 78.5  | 85.8  | 28.7        | 28.4        | 24.4        | 22.3        | 33.4        | 30.1        | 35.1        | 36.8        | 8.8                  | 8.8                     |
| Infosys                    | 2,791           | 1,284       | 1,430      | BUY  | 62.8     | 66.1  | 72.3  | 79.4  | 20.5        | 19.4        | 17.8        | 16.2        | 22.0        | 24.5        | 24.5        | 26.1        | 8.4                  | 8.1                     |
| Wipro                      | 1,189           | 263         | 280        | NEU  | 18.8     | 17.7  | 19.3  | 21.5  | 14.0        | 14.8        | 13.6        | 12.2        | 16.4        | 16.5        | 17.1        | 17.1        | 5.2                  | 4.7                     |
| HCL Tech                   | 1,314           | 944         | 1,160      | BUY  | 57.6     | 62.7  | 71.2  | 77.5  | 16.4        | 15.1        | 13.2        | 12.2        | 27.0        | 25.3        | 25.5        | 24.7        | 10.3                 | 10.4                    |
| TechM                      | 566             | 635         | 780        | BUY  | 31.6     | 42.7  | 45.9  | 51.8  | 20.1        | 14.9        | 13.8        | 12.3        | 18.1        | 21.5        | 20.3        | 20.2        | 9.8                  | 10.2                    |
| <b>Large-cap IT AVG</b>    |                 |             |            |      |          |       |       |       | <b>19.9</b> | <b>18.5</b> | <b>16.6</b> | <b>15.0</b> | <b>23.4</b> | <b>23.6</b> | <b>24.5</b> | <b>25.0</b> | <b>8.5</b>           | <b>10.0</b>             |
| <b>Large-cap IT Median</b> |                 |             |            |      |          |       |       |       | <b>20.1</b> | <b>15.1</b> | <b>13.8</b> | <b>12.3</b> | <b>22.0</b> | <b>24.5</b> | <b>24.5</b> | <b>24.7</b> | <b>8.8</b>           | <b>8.8</b>              |
| LTI                        | 287             | 1,668       | 1,755      | BUY  | 56.9     | 64.7  | 74.3  | 87.7  | 29.3        | 25.8        | 22.5        | 19.0        | 36.9        | 33.5        | 31.0        | 31.1        | 16.4                 | 15.5                    |
| Mphasis                    | 214             | 1,109       | 1,200      | BUY  | 38.8     | 43.8  | 51.8  | 60.1  | 28.6        | 25.3        | 21.4        | 18.5        | 13.4        | 14.6        | 17.5        | 18.5        | 10.7                 | 15.7                    |
| Mindtree                   | 163             | 993         | 1,115      | BUY  | 24.9     | 29.4  | 42.8  | 50.7  | 39.9        | 33.8        | 23.2        | 19.6        | 16.8        | 21.4        | 23.9        | 24.7        | 13.6                 | 26.8                    |
| Hexaware*                  | 134             | 450         | 505        | BUY  | 13.9     | 16.9  | 19.7  | 24.2  | 32.4        | 26.7        | 22.9        | 18.6        | 26.7        | 26.9        | 27.1        | 28.8        | 13.5                 | 20.3                    |
| LTT                        | 131             | 1,282       | 1,535      | BUY  | 41.8     | 46.4  | 56.3  | 69.9  | 30.7        | 27.6        | 22.8        | 18.4        | 33.3        | 27.7        | 26.5        | 26.7        | 18.6                 | 18.7                    |
| Tata Elxsi                 | 85              | 1,365       | 1,330      | NR   | 27.8     | 38.5  | 47.7  | 55.4  | 49.1        | 35.4        | 28.6        | 24.6        | 37.0        | 37.0        | 35.7        | 33.2        | 17.6                 | 25.8                    |
| Cyient                     | 82              | 732         | 840        | BUY  | 32.9     | 38.6  | 45.5  | 52.4  | 22.3        | 19.0        | 16.1        | 14.0        | 17.4        | 18.1        | 20.6        | 21.1        | 13.5                 | 16.8                    |
| Persistent                 | 67              | 837         | 950        | BUY  | 37.7     | 40.4  | 47.8  | 55.9  | 22.2        | 20.7        | 17.5        | 15.0        | 17.0        | 16.0        | 16.9        | 17.5        | 10.3                 | 14.1                    |
| Zensar                     | 56              | 1,231       | 1,400      | BUY  | 51.6     | 53.1  | 70.4  | 87.2  | 23.9        | 23.2        | 17.5        | 14.1        | 16.7        | 15.1        | 17.5        | 18.8        | 11.9                 | 19.1                    |
| KPIT Tech                  | 53              | 268         | 260        | NEU  | 11.1     | 12.8  | 17.4  | 19.9  | 24.2        | 21.0        | 15.4        | 13.5        | 14.8        | 14.9        | 17.7        | 17.6        | 11.2                 | 21.5                    |
| eClerx                     | 50              | 1,300       | 1,290      | NEU  | 87.8     | 69.2  | 80.0  | 92.1  | 14.8        | 18.8        | 16.2        | 14.1        | 30.8        | 24.1        | 24.8        | 26.6        | 12.5                 | 1.6                     |
| Take Soln                  | 35              | 235         | 280        | NR   | 10.7     | 11.7  | 14.5  | 17.5  | 21.9        | 20.0        | 16.2        | 13.4        | 18.6        | 14.3        | 15.0        | 15.9        | 20.5                 | 17.7                    |
| Sonata                     | 29              | 284         | 380        | BUY  | 15.1     | 18.6  | 20.6  | 23.7  | 18.8        | 15.3        | 13.7        | 12.0        | 29.3        | 31.0        | 31.0        | 31.8        | 14.5                 | 16.3                    |
| Intellect                  | 23              | 186         | 280        | BUY  | (1.7)    | 3.7   | 9.3   | 13.8  | NA          | 50.1        | 20.0        | 13.5        | (3.4)       | 6.5         | 12.9        | 16.5        | 19.2                 | NA                      |
| HGS                        | 17              | 799         | 1,035      | NR   | 86.6     | 91.6  | 94.0  | 115.1 | 9.2         | 8.7         | 8.5         | 6.9         | 14.2        | 13.5        | 12.5        | 13.7        | 11.0                 | 10.0                    |
| Majesco                    | 12              | 429         | 675        | BUY  | 4.1      | (2.1) | 16.3  | 34.5  | 103.4       | NA          | 26.4        | 12.5        | 4.1         | (1.5)       | 8.5         | 16.0        | 17.1                 | NA                      |
| <b>Mid-cap AVG^</b>        |                 |             |            |      |          |       |       |       | <b>26.2</b> | <b>23.0</b> | <b>18.8</b> | <b>15.8</b> | <b>23.1</b> | <b>22.0</b> | <b>22.7</b> | <b>23.3</b> | <b>14.0</b>          | <b>17.1</b>             |
| <b>Mid-cap IT Median^</b>  |                 |             |            |      |          |       |       |       | <b>24.0</b> | <b>22.1</b> | <b>17.5</b> | <b>14.5</b> | <b>18.0</b> | <b>19.8</b> | <b>22.2</b> | <b>22.9</b> | <b>13.5</b>          | <b>17.2</b>             |
| BSE                        | 46              | 872         | 1,180      | BUY  | 37.1     | 44.6  | 48.2  | 54.8  | 23.5        | 19.6        | 18.1        | 15.9        | 7.5         | 7.7         | 8.3         | 9.4         | 11.1                 | 10.8                    |
| MCX                        | 38              | 754         | 1,035      | BUY  | 24.9     | 21.3  | 28.4  | 34.5  | 30.3        | 35.4        | 26.6        | 21.9        | 9.5         | 7.9         | 10.3        | 12.2        | 21.6                 | 27.2                    |
| CDSL                       | 28              | 267         | 400        | BUY  | 8.2      | 9.9   | 11.4  | 13.5  | 32.5        | 27.1        | 23.5        | 19.8        | 16.1        | 17.2        | 17.9        | 19.0        | 16.0                 | 16.8                    |
| TeamLease                  | 50              | 2,917       | 3,290      | BUY  | 34.0     | 43.1  | 59.8  | 82.3  | 85.8        | 67.6        | 48.8        | 35.5        | 17.1        | 18.2        | 20.7        | 22.9        | 23.4                 | 34.3                    |
| BLS International          | 18              | 171         | 230        | BUY  | 4.9      | 9.4   | 9.3   | 11.6  | 35.1        | 18.1        | 18.4        | 14.8        | 35.1        | 45.3        | 31.4        | 29.9        | 14.4                 | 33.4                    |

**INSTITUTIONAL RESEARCH**
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