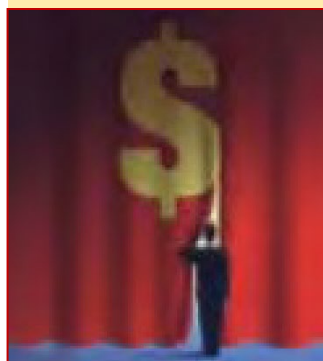


## Results Preview



## Company Name

Cyient
HCL Tech
Hexaware
Infosys
L&T Infotech
Mindtree
Mphasis
NIIT Tech
Persistent
TCS
Tech Mahindra
Wipro
Zensar

## Could BFSI wane seasonal strength?

Modest expectation in a seasonally strong quarter

## Aggregate performance

- We expect our coverage universe to deliver sales/EBIT/PAT growth of 8.7%/2.5%/-1.8% YoY in 2QFY20.
- Although July-September is the strongest quarter for the industry, softening BFS momentum (owing to macro concerns in Europe and weak spending by capital market clients across geographies) is a cause for concern.
- Sequential organic constant currency (CC) growth across our tier-I universe is estimated at 0-2.5%, with TCS, and INFO likely to grow at the higher end of the range. Overall CC growth at INFO and HCLT will better that range, led by inorganic contribution.
- TCS and INFO are likely to deliver sequential margin expansion off a low base, while HCLT is likely to benefit from the integration of the high-margin IP business. WPRO's margin performance is expected to be the softest across tier-I with an impact from two months of wage hikes.
- However, we note that increasing supply crunch, higher visa/sub-contracting expense and elevated investments in digital have been driving a structural contraction in margins. EBIT margin for Tier 1 companies is estimated to shrink 120bp YoY but expand 80bp QoQ due to a low base (impacted by seasonal expenses).

## Expect continued polarization of mid-cap performance

- While growth across midcaps is expected to be relatively good compared to tier-1 (aggregate 8.2% YoY in USD terms for tier1 v/s 10% for tier 2), LTI's performance (1% QoQ CC) might lag given some client-specific challenges. Particularly, the revenue performance at MPHL, MTCL, NITEC and HEXW is likely to be strong, with the latter two getting a boost from the integration of inorganic transactions in the quarter.
- In terms of margins, wage hikes at LTI, PSYS and ZENT are likely to drag the performance. While a sharp recovery on the low 1Q base is crucial for MTCL and CYL, we do not see that happening due to limited levers for the former and revenue pressures for the latter. Overall, as cited in the past, the supply situation will hurt tier-II more than tier-I, and we expect a continuum of this trend.
- Aggregate EBIT margin for 2QFY20 is estimated at 21% for tier 1 and 13.5% for tier II. On a YoY basis, the differential between the margins of tier I and tier II is estimated to have increased by 70bp, indicating cost pressure on tier II companies amid supply crunch and digital investments.

## Watch out for commentary on BFS, margins

- Slight deceleration that we expect in FY20 CC organic revenue growth can mainly be attributed to the softer BFS. This is manifesting more prominently at TCS and WPRO, while the inorganic Stater NV deal is driving BFS for INFO.

- Margins are yet to benefit meaningfully from currency, as the slight depreciation of the INR v/s the USD is largely offset by cross-currency movements of USD-GBP and USD-EUR. This means that the high attrition rates, H-1B rejections and supply crunch may continue weighing on profits.

### Maintaining our bottom-up approach at current valuations; Prefer INFO

- Barring pockets of weakness, the overall environment remains stable. Earnings estimates, however, have somewhat moderated across the board due to the ongoing pressure on profitability. With valuation multiples already running high (at the upper half of historical band if not at the higher end), upsides in such an environment will likely be capped over the near term.
- We maintain our bottom-up stance – INFO is our top pick in tier-I, and MPHL and ZENT in tier-II.

**Exhibit 1: Expected quarterly performance summary**

Sector Technology	CMP (INR)	RECO	Sales (INR M)			EBDITA (INR M)			Net Profit (INR M)		
			Sep-19	Var % YoY	Var % QoQ	Sep-19	Var % YoY	Var % QoQ	Sep-19	Var % YoY	Var % QoQ
Cyient	464	Buy	11,226	-5.4	3.1	1,672	2.8	15.7	1,266	-0.5	40.0
HCL Technologies	1,060	Neutral	176,686	18.9	7.6	41,281	18.0	21.4	25,208	-0.8	13.6
Hexaware Tech.	376	Neutral	14,843	22.7	13.5	2,412	19.2	23.9	1,746	1.4	15.5
Infosys	794	Buy	225,688	9.5	3.5	55,037	2.7	6.8	39,670	-3.5	4.4
L&T Infotech	1,505	Neutral	25,290	8.5	1.8	4,620	-3.6	0.9	3,563	-11.0	0.2
Mindtree	721	Neutral	19,073	8.7	4.0	2,592	-3.9	11.8	1,790	-13.2	40.1
Mphasis	936	Buy	21,586	12.7	4.7	4,033	21.1	7.7	2,853	5.3	7.8
NIIT Tech.	1,348	Neutral	10,506	15.8	9.5	1,845	12.9	12.4	1,201	7.4	17.5
Persistent Systems	560	Buy	8,656	3.6	4.0	1,148	-20.1	-4.5	764	-13.4	-7.4
TCS	2,060	Neutral	392,067	6.4	2.7	105,855	3.0	5.5	80,759	0.5	-0.7
Tech Mahindra	705	Buy	88,718	2.8	2.5	13,746	-15.1	4.6	9,488	-10.8	-1.1
Wipro	234	Neutral	150,256	3.3	2.1	30,110	5.1	4.7	22,388	-2.1	-4.0
Zensar Tech	215	Buy	10,841	14.5	1.7	1,386	8.7	-8.5	843	-11.4	7.2
<b>Sector Aggregate</b>			<b>1,155,436</b>	<b>8.4</b>	<b>3.7</b>	<b>265,736</b>	<b>4.2</b>	<b>7.9</b>	<b>191,539</b>	<b>-1.8</b>	<b>2.5</b>

**Exhibit 2: Revenue prospects intact, but YoY margin headwinds persist**

Company	Revenue (USD m)					Revenue (INR b)				
	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)
TCS	5,553	5,215	6.5	5,485	1.2	392	369	6.4	382	2.7
Infosys	3,197	2,921	9.4	3,131	2.1	226	206	9.5	218	3.5
Wipro	2,052	2,010	2.1	2,039	0.6	150	145	3.3	147	2.1
HCLT	2,503	2,099	19.3	2,364	5.9	177	149	18.9	164	7.6
TECHM	1,257	1,218	3.2	1,247	0.8	89	86	2.8	87	2.5
<b>Aggregate</b>	<b>14,561</b>	<b>13,462</b>	<b>8.2</b>	<b>14,266</b>	<b>2.1</b>	<b>1,033</b>	<b>955</b>	<b>8.2</b>	<b>998</b>	<b>3.6</b>
Company	EBITDA Margin (%)					PAT (INR b)				
	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)
TCS	27.0	27.9	(160)	26.3	70	81	80	0.5	81	(0.7)
Infosys	24.4	26.0	(240)	23.6	80	40	41	(3.4)	38	4.4
Wipro	18.7	15.0	340	18.4	30	22	23	(2.1)	23	(4.0)
HCLT	23.4	23.5	(280)	20.7	270	25	25	(0.8)	22	13.6
TECHM	15.5	18.8	(360)	15.2	30	9	11	(10.8)	10	(1.1)
<b>Aggregate</b>	<b>23.6</b>	<b>24.0</b>	<b>(40)</b>	<b>22.7</b>	<b>100</b>	<b>178</b>	<b>180</b>	<b>(1.6)</b>	<b>174</b>	<b>1.8</b>

Source: Company, MOFSL

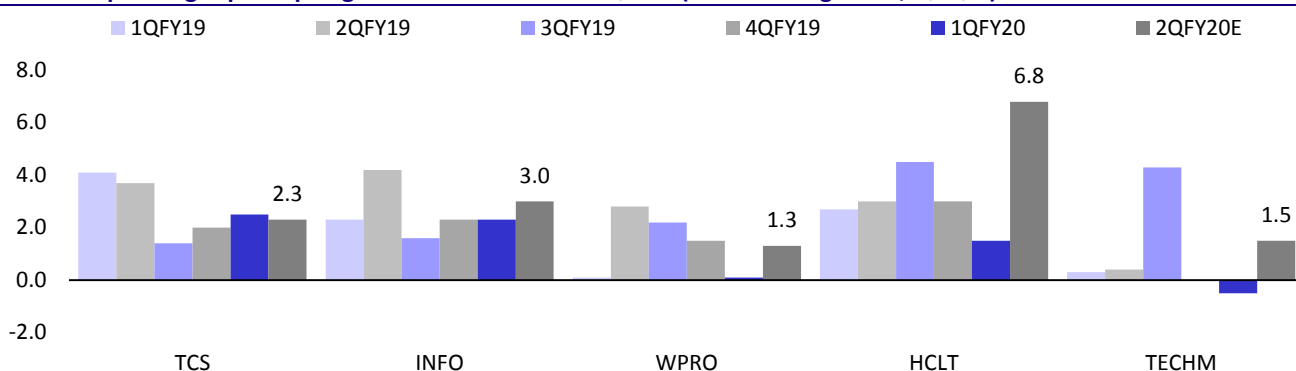
**Exhibit 3: YoY revenue growth for Tier-II to significantly exceed Tier I**

Company	Revenue (USD m)					Revenue (INR b)				
	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)
Persistent Sys	123	118	3.7	120	2.5	8.7	8.4	3.6	8.3	4.0
Hexaware	210	171	22.9	189	11.5	14.8	12.1	22.7	13.1	13.5
Mindtree	270	246	9.6	264	2.3	19.1	17.6	8.7	18.3	4.0
Mphasis	307	276	11.5	297	3.5	21.6	19.1	12.7	20.6	4.7
Cyient	161	169	(4.4)	157	3.1	11.2	11.9	(5.4)	10.9	3.1
NIIT Tech	148	131	13.0	138	7.2	10.5	9.1	15.8	9.6	9.5
Zensar	155	135	14.8	153	1.0	10.8	9.5	14.5	10.7	1.7
LTI	358	329	9.0	357	0.5	25.3	23.3	8.5	24.8	1.8
<b>Aggregate</b>	<b>1,733</b>	<b>1,575</b>	<b>10.0</b>	<b>1,674</b>	<b>3.5</b>	<b>122.0</b>	<b>110.9</b>	<b>10.1</b>	<b>116.4</b>	<b>4.9</b>

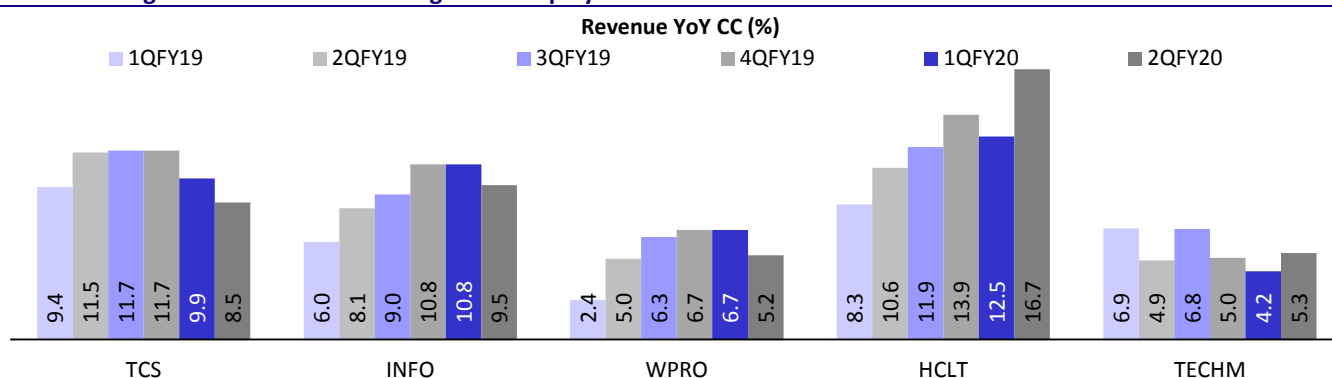
  

Company	EBITDA margin (%)					PAT (INR b)				
	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)	2QFY20E	2QFY19	YoY (%)	1QFY20	QoQ (%)
Persistent Sys	13.3	17.2	(390)	14.4	(120)	0.3	0.4	(25.2)	0.3	6.1
Hexaware	16.2	16.7	(50)	14.9	140	1.7	1.7	1.4	1.5	15.5
Mindtree	13.6	15.4	(180)	12.6	100	1.8	2.1	(13.2)	1.3	40.1
Mphasis	18.7	17.4	130	18.1	50	2.9	2.7	5.3	2.6	7.8
Cyient	14.9	13.7	120	13.3	160	1.3	1.3	(0.9)	0.9	40.3
NIIT Tech	17.6	18.0	(40)	17.1	50	1.2	1.1	7.4	1.0	17.5
Zensar	12.8	13.5	(70)	14.2	(140)	0.9	1.0	(11.6)	0.8	7.0
LTI	18.3	20.5	(230)	18.4	(20)	3.6	4.0	(11.0)	3.6	0.2
<b>Aggregate</b>	<b>16.2</b>	<b>17.0</b>	<b>(80.0)</b>	<b>15.8</b>	<b>30.0</b>	<b>13.6</b>	<b>14.2</b>	<b>(4.8)</b>	<b>12.0</b>	<b>13.1</b>

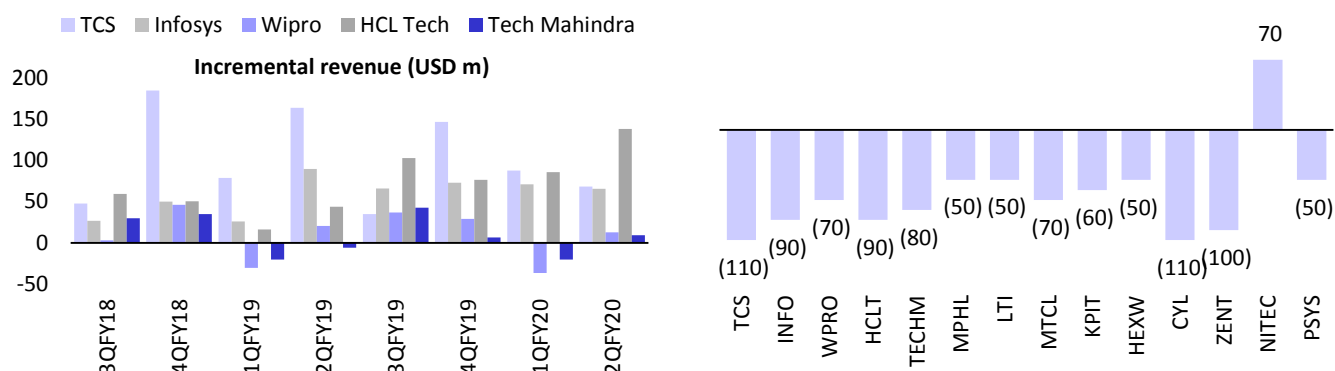
Source: Company, MOFSL

**Exhibit 4: Expect slight pick-up in growth after subdued 1QFY20 (CC revenue growth, QoQ %)**

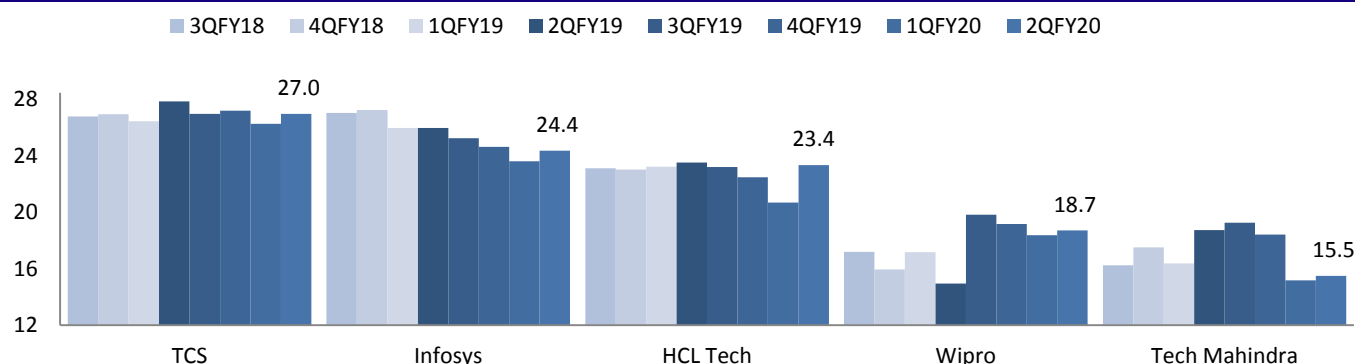
Source: Company, MOFSL

**Exhibit 5: YoY growth rate seen softening for most players**

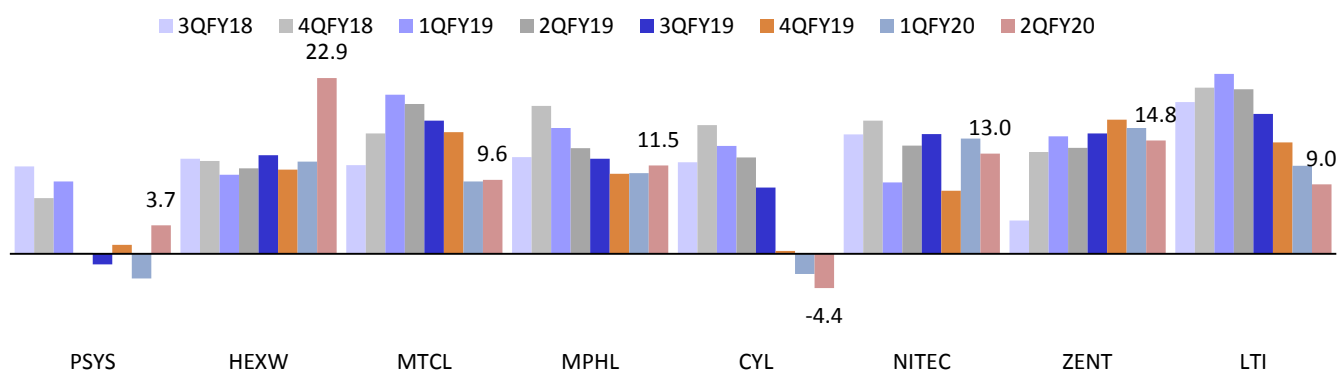
Source: Company, MOFSL

**Exhibit 6: HCL to drive incremental revenue; cross-currency headwinds of 50-110bp**

Source: Company, MOFSL

**Exhibit 7: Expect margin revival in 2QFY20 after seasonally weak 1Q, but YoY contraction likely due to structural factors**

Source: Company, MOFSL

**Exhibit 8: Among Tier II, Cyient continues struggling in terms of revenue growth; expect revival in Persistent**

Source: Company, MOFSL

**Exhibit 9: 2QFY20 currency highlights (INR)**

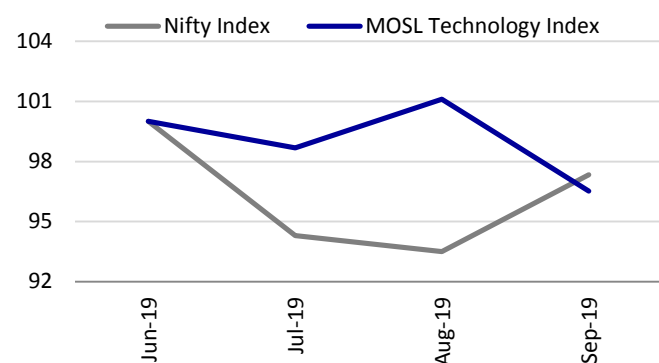
	Rates (INR)				Change (QoQ)			
	USD	EUR	GBP	AUD	USD	EUR	GBP	AUD
Average	70.29	78.3	86.7	48.3	1.0%	0.1%	-3.0%	-0.9%
Closing	70.88	78.0	88.2	48.1	2.7%	-0.8%	0.7%	-0.6%

Source: Company, MOFSL

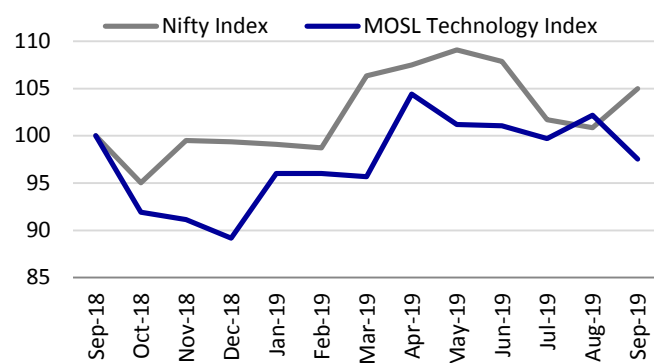
**Exhibit 10: 2QFY20 currency highlights (in USD)**

	Rates (USD)			Change (QoQ)		
	EUR	GBP	AUD	EUR	GBP	AUD
Average	1.11	1.23	0.69	-0.9%	-4.1%	-2.0%
Closing	1.10	1.24	0.68	-3.3%	-2.0%	-3.4%

Source: Company, MOFSL

**Exhibit 11: Relative performance—3m (%)**

Source: Bloomberg, MOFSL

**Exhibit 12: Relative performance—1Yr (%)**

Source: Bloomberg, MOFSL

**Exhibit 13: Comparative valuation**

Sector / Companies	CMP (INR)	RECO	EPS (INR)			PE (x)			PB (x)			EV/EBIDTA (x)			ROE (%)		
			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Cyient	464	Buy	43.4	43.9	51.0	10.7	10.6	9.1	2.0	1.8	1.6	6.9	6.4	4.9	18.7	17.2	18.1
HCL Technologies	1,060	Neutral	73.6	73.0	84.2	14.4	14.5	12.6	3.4	3.1	2.8	9.6	8.5	7.5	25.7	22.3	23.2
Hexaware Tech.	376	Neutral	19.3	21.0	25.3	19.5	17.9	14.9	4.7	4.1	3.4	14.3	13.2	10.1	26.5	24.5	25.0
Infosys	794	Buy	35.4	36.2	42.0	22.4	21.9	18.9	5.3	5.6	5.2	15.6	15.3	13.3	25.0	24.8	28.7
L&T Infotech	1,505	Neutral	86.6	83.8	96.6	17.4	18.0	15.6	5.4	4.4	3.6	12.7	12.0	9.7	34.6	26.9	25.4
Mindtree	721	Neutral	44.7	39.9	46.3	16.1	18.1	15.6	3.6	3.3	3.0	10.8	11.1	9.9	24.3	20.1	20.4
Mphasis	936	Buy	56.1	64.5	71.2	16.7	14.5	13.1	3.3	3.0	2.6	13.6	10.9	9.3	20.0	22.5	22.3
NIIT Tech.	1,348	Neutral	66.2	76.6	86.1	20.4	17.6	15.6	4.0	3.5	3.1	11.8	10.2	8.5	21.2	21.3	21.0
Persistent Systems	560	Buy	44.0	46.4	57.7	12.7	12.1	9.7	1.9	1.8	1.6	5.9	5.9	4.1	15.7	15.2	17.7
TCS	2,060	Neutral	83.5	87.2	98.3	24.7	23.6	21.0	8.4	8.7	8.3	19.4	18.4	16.3	35.6	36.3	40.5
Tech Mahindra	705	Buy	48.2	45.7	53.1	14.6	15.4	13.3	3.1	2.8	2.6	10.8	11.7	10.3	22.0	19.1	20.3
Zensar Tech	215	Buy	14.4	16.0	19.6	15.0	13.5	11.0	2.5	2.2	1.9	9.5	7.8	6.0	18.0	17.3	18.6
Wipro	234	Neutral	14.8	15.9	17.0	15.8	14.7	13.7	2.5	2.7	2.6	9.0	9.2	8.6	17.4	17.1	19.4
<b>Sector Aggregate</b>						<b>20.8</b>	<b>20.9</b>	<b>18.4</b>	<b>5.3</b>	<b>5.5</b>	<b>5.1</b>	<b>14.9</b>	<b>14.2</b>	<b>12.5</b>	<b>25.7</b>	<b>26.1</b>	<b>27.5</b>

Bloomberg	CYL IN
Equity Shares (m)	113.0
M. Cap. (INR b)/(USD b)	52 / 1
52-Week Range (INR)	777 / 414
1,6,12 Rel Perf. (%)	8 / -27 / -44

## Financial Snapshot (INR b)

Y/E MAR	2018	2019	2020E	2021E
Sales	39.2	46.2	45.5	50.3
EBITDA	5.5	6.4	7.0	8.3
PAT	4.3	4.9	4.8	5.6
EPS (INR)	38.2	43.4	43.9	51.0
EPS Gr. (%)	24.8	11.6	1.2	16.4
BV/Sh. (INR)	208.9	232.1	254.9	281.4
RoE (%)	18.3	18.7	17.2	18.1
RoCE (%)	17.3	17.8	16.5	17.4
Payout (%)	34.0	30.0	29.6	29.4

## Valuation

P/E (x)	12.2	10.8	10.6	9.1
P/BV (x)	2.2	2.0	1.8	1.6
EV/EBITDA (x)	8.1	7.1	6.5	5.0
Div yld (%)	2.8	2.8	2.8	3.2

CMP: INR464

TP: INR660 (+42%)

Buy

- We expect revenue to grow marginally by 3.1% QoQ to USD161m. Services revenue growth is expected to be muted at 1.1% QoQ. DLM revenue is expected to grow 18% QoQ owing to a big contract that got deferred in 1Q.
- Taking into consideration the cross-currency impact of 110bp, we expect CYL to report growth of 2.0% QoQ CC on a consolidated basis.
- Loss of efficiencies and the lack of SG&A absorption due to revenue shortfall, coupled with investment spends had impacted margins by 360bp in 1QFY20. We expect this to partially reverse this quarter. Our EBIT margin estimate is pegged at 11%, implying an expansion of 180bp sequentially.
- Consequently, our PAT estimate of INR1266m implies 40% sequential growth, led by higher top line and operational income.
- Stock trades at 10.6x FY20E and 9.1x FY20E EPS. Maintain **Buy**.

## Key issues to watch for

- Update on trajectory of top customer and aerospace.
- Trajectory in Communications.
- Outlook on investments and profitability.
- Outlook for Rangsons.

## Quarterly Performance

Y/E March	FY19				FY20E				FY19E	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	161	169	165	165	157	161	165	172	660	654
QoQ (%)	-2.3	5.0	-2.2	0.1	-5.2	3.1	2.1	4.1	8.6	-0.9
Revenue (INR m)	10,800	11,870	11,876	11,629	10,890	11,226	11,460	11,933	46,175	45,510
YoY (%)	19.1	23.0	20.8	9.5	0.8	-5.4	-3.5	2.6	17.9	-1.4
GPM (%)	34.3	34.5	35.0	35.3	34.4	34.6	35.0	36.3	34.8	35.1
SGA (%)	22.1	20.8	20.3	20.2	21.2	19.7	19.1	19.3	20.8	19.8
EBITDA	1,316	1,627	1,749	1,752	1,445	1,672	1,817	2,022	6,444	6,956
EBITDA Margin (%)	12.2	13.7	14.7	15.1	13.3	14.9	15.9	16.9	14.0	15.3
EBIT Margin (%)	9.5	11.3	12.4	12.8	9.2	11.0	12.0	13.1	11.5	11.4
Other income	170	568	-187	789	283	543	413	396	1,340	1,635
ETR (%)	27.2	29.8	22.4	14.5	22.0	23.5	23.5	23.5	22.6	23.2
PAT	825	1,272	921	1,770	904	1,266	1,269	1,404	4,788	4,843
QoQ (%)	-30.1	54.2	-27.6	92.2	-48.9	40.0	0.3	10.6		
YoY (%)	-5.8	14.0	-15.2	49.9	9.6	-0.5	37.8	-20.7	11.6	1.2
EPS (INR)	7.4	11.4	8.2	16.0	8.2	11.5	11.5	12.7	43.4	43.9
Headcount	13,851	13,845	14,002	13,916	13,912	14,062	14,612	14,892	13,916	14,892
Util incl. trainees (%)	75.0	78.0	78.1	77.8	78.0	78.0	76.0	77.0		
Attrition (%)	16.9	16.9	18.4	19.9	17.4					
Offshore rev. (%)	41.9	42.8	42.4	42.7	43.5	43.5	43.5	43.5		

E: MOFSL Estimates

# HCL Technologies

Bloomberg	HCLT IN
Equity Shares (m)	1360.7
M. Cap. (INR b)/(USD b)	1442 / 20
52-Week Range (INR)	1190 / 920
1,6,12 Rel Perf. (%)	-6 / -3 / -8

## Financial Snapshot (INR b)

Y/E MAR	2018	2019	2020E	2021E
Sales	505.7	604.3	699.2	779.1
EBITDA	114.4	139.7	159.6	181.6
PAT	87.8	101.2	99.2	114.6
EPS (INR)	62.6	73.6	73.0	84.2
EPS Gr. (%)	4.5	17.6	-0.7	15.2
BV/Sh. (INR)	264.5	311.3	345.4	381.3
RoE (%)	25.0	25.7	22.3	23.2
RoCE (%)	22.6	23.2	18.6	18.6
Payout (%)	12.8	10.9	43.8	47.5
<b>Valuation</b>				
P/E (x)	17.3	14.7	14.5	12.6
P/BV (x)	4.1	3.5	3.1	2.8
EV/EBITDA (x)	12.3	9.9	8.8	7.8
Div yld (%)	0.7	0.7	3.0	3.7

**CMP: INR1060 TP: INR1,170 (+10%) Neutral**

- We expect HCL's revenue to grow by 6.8% QoQ CC, with 1% contribution from organic traction and 5.9% from incremental revenue of the IBM IP acquisition.
- Cross-currency impact of 90bp would result in USD revenue growth of 5.9% QoQ.
- We expect the EBIT margin to be around 18.4%, an expansion of 130bp QoQ due to the lower base of 1QFY20 (resulting from IBM's large deal integration).
- PAT is expected to decline by 13.5% QoQ to INR22.2b, led by lower other income.
- The stock trades at 14.5x FY20E and 12.6x FY21E EPS. Maintain **Neutral**.

## Key issues to watch for

- Outlook on margin and revenue growth for 2HFY20.
- Mode 1: Demand for IMS services and growth in BFSI vertical.

## Quarterly Performance

Y/E March	FY19				FY20E				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	2,055	2,099	2,202	2,278	2,364	2,503	2,556	2,562	8,633	9,984
QoQ (%)	0.8	2.1	4.9	3.5	3.8	5.9	2.1	0.2	10.1	15.7
Revenue (INR m)	1,38,780	1,48,610	1,56,990	1,59,900	1,64,250	1,76,686	1,78,893	1,79,330	6,04,280	6,99,159
YoY (%)	14.2	19.5	22.6	21.3	18.4	18.9	14.0	12.2	19.5	15.7
GPM (%)	34.4	35.5	35.3	34.8	33.5	35.3	35.6	35.4	35.0	35.0
SGA (%)	11.1	11.9	12.1	12.3	12.8	12.0	12.0	11.9	11.9	12.1
EBITDA (INRm)	32,260	34,990	36,470	35,970	34,000	41,281	42,259	42,083	1,39,690	1,59,623
EBITDA Margin (%)	23.2	23.5	23.2	22.5	20.7	23.4	23.6	23.5	23.1	22.8
EBIT Margin (%)	19.7	20.0	19.7	19.0	17.1	18.4	18.7	18.6	19.6	18.2
Other income	2,960	2,520	1,050	1,520	1,280	699	603	783	8,050	3,365
ETR (%)	20.6	21.1	17.7	19.3	24.0	24.0	24.0	24.0	19.6	24.0
Adjusted PAT	24,040	25,400	26,110	25,680	22,200	25,208	25,913	25,909	1,01,230	99,230
QoQ (%)	7.9	5.7	2.8	-1.6	-13.6	13.6	2.8	0.0	15.3	-2.0
YoY (%)	10.7	16.1	19.0	15.2	-7.7	-0.8	-0.8	0.9	15.3	-2.0
EPS	17.3	18.2	19.2	18.9	16.4	18.6	19.1	19.1	73.6	73.0
Headcount	1,24,121	1,27,875	1,32,328	1,37,965	1,43,900	1,45,890	1,47,690	1,47,690	1,37,965	1,47,690
Util excl. trainees (%)	85.5	86.7	86.6	85.4	85.4				83.7	83.9
Attrition (%)	16.3	17.1		17.7	17.3					
Fixed Price (%)	62.0	61.8		63.7	63.5					

E: MOFSL Estimates



# Hexaware Technologies

Bloomberg	HEXW IN
Equity Shares (m)	301.8
M. Cap. (INR b)/(USD b)	114 / 2
52-Week Range (INR)	460 / 295
1,6,12 Rel Perf. (%)	-5 / 6 / -18

## Financial Snapshot (INR b)

Y/E DEC	2017	2018	2019	2020E
Sales	39.4	46.5	56.0	67.3
EBITDA	6.6	7.3	8.7	10.9
PAT	5.0	5.8	6.3	7.6
EPS (INR)	16.6	19.3	21.0	25.3
EPS Gr. (%)	21.2	16.5	8.5	20.5
BV/Sh. (INR)	66.0	79.7	92.1	110.3
RoE (%)	26.9	26.5	24.5	25.0
RoCE (%)	24.6	24.7	23.5	23.5
Payout (%)	23.5	40.2	32.4	23.0

## Valuation

P/E (x)	22.7	19.4	17.9	14.9
P/BV (x)	5.7	4.7	4.1	3.4
EV/EBITDA (x)	16.0	13.9	12.8	9.8
Div yld (%)	1.1	2.1	1.9	1.6

**CMP: INR376 TP: INR420 (+12%) Neutral**

- We expect USD revenue to grow at 11.5% QoQ, with cross-currency headwind of 50bp.
  - Strong revenue growth is fuelled by HEXW's acquisition of Mobiquity, a digital services firm on 14<sup>th</sup> Jun'19 – revenue will be recognized for the full quarter. We expect Mobiquity to contribute incremental revenue of ~USD17m to the top line, while organic growth is expected at 3% QoQ CC.
  - We expect EBIT margin at 13.9% (up 60bp QoQ) on account of reversal of one-time expense incurred in the previous quarter.
  - Our PAT estimate for the quarter is INR1,746m, up 15.5% from the previous quarter due to the higher top line.
  - HEXW trades at 18.1x of CY19E and 15.0x CY20E earnings.
- Neutral.**

## Key issues to watch for

- 3QCY19 deals TCV.
- Commentary on acquisitions and digital growth.
- Margin outlook given recent commentary on supply issues.

## Quarterly Performance (Indian GAAP)

Y/E Dec	CY18				CY19E				CY18	CY19E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	162.2	168.3	171.1	176.1	180.0	188.5	210.2	219.0	678	798
QoQ (%)	3.9	3.8	1.7	2.9	2.2	4.7	11.5	4.2	11.6	17.7
Revenue (INR m)	10,490	11,367	12,096	12,524	12,640	13,083	14,843	15,461	46,477	56,028
YoY (%)	9.2	15.6	21.8	24.6	20.5	15.1	22.7	23.5	17.9	20.5
GPM (%)	32.9	31.8	32.8	31.6	30.2	32.4	32.0	31.6	32.2	31.6
SGA (%)	17.4	16.2	16.0	16.3	15.3	17.5	15.8	15.8	16.5	16.1
EBITDA	1,626	1,773	2,023	1,913	1,887	1,947	2,412	2,446	7,335	8,692
EBITDA Margin (%)	15.5	15.6	16.7	15.3	14.9	14.9	16.2	15.8	15.8	15.5
EBIT Margin (%)	14.1	14.0	15.4	14.0	13.8	13.3	13.9	13.5	14.4	13.6
Other income	204	327	264	-215	-42	99	79	-18	580	118
ETR (%)	20.0	20.0	19.1	19.9	18.4	17.9	18.5	18.5	19.7	18.3
PAT	1,343	1,534	1,722	1,234	1,385	1,512	1,746	1,691	5,833	6,334
QoQ (%)	10.9	14.2	12.3	-28.3	12.2	9.2	15.5	-3.2		
YoY (%)	17.9	25.3	21.3	1.9	3.1	-1.4	1.4	37.0	16.8	8.6
EPS (INR)	4.5	5.1	5.7	4.1	4.6	5.0	5.8	5.6	19.3	21.0
Headcount	14,619	15,357	16,050	16,205	16,492	18,294	20,293	21,060	16,205	21,060
Utilization (%)	81.3	78.2	79.0	78.7	79.0	80.7	81.5	81.5	80.9	83.4
Attrition (%)	13.4	14.4	15.7	17.0	18.2	18.2	0.0	0.0		
Offshore rev. (%)	34.6	34.8	35.1	36.1	36.6	37.0	38.9	39.4	35.2	38.1

E: MOFSL Estimates



## Infosys

Bloomberg	INFO IN
Equity Shares (m)	4571.2
M. Cap. (INR b)/(USD b)	3627 / 51
52-Week Range (INR)	847 / 597
1,6,12 Rel Perf. (%)	-5 / 6 / 2

## Financial Snapshot (INR b)

Y/E MAR	2018	2019	2020E	2021E
Sales	705.2	826.8	900.0	1,006.3
EBITDA	190.1	208.9	214.3	243.9
PAT	146.7	154.1	155.1	179.4
EPS (INR)	32.4	35.4	36.2	42.0
EPS Gr. (%)	3.1	9.3	2.3	15.9
BV/Sh. (INR)	144	149.2	141.0	151.6
RoE (%)	24.1	25.0	24.8	28.7
RoCE (%)	20.3	21.7	21.9	25.4
Payout (%)	126.2	66.1	116.5	61.8

## Valuations

P/E (x)	24.5	22.4	21.9	18.9
P/BV (x)	5.5	5.3	5.6	5.2
EV/EBITDA (x)	17.4	15.3	14.6	12.7
Div Yield (%)	2.0	2.7	2.9	3.2

CMP: INR794

TP: INR910 (+15%)

Buy

- We expect organic momentum to sustain with 2% QoQ CC growth. Stater N.V, which got integrated in the previous quarter, is expected to contribute USD48m to the top line (incremental revenue of USD30m).
- USD revenue growth estimate is 2.1%, with 90bp headwind from cross-currencies QoQ.
- We expect BFSI growth to withstand, unlike its peers which are feeling stress in the vertical.
- EBIT margin is expected to expand by 80bp QoQ to 21.3%, as margins in the previous quarter were subdued due to visa expenses.
- Our PAT estimate is INR39.7b, +4.4% QoQ and -3.4% YoY.
- The stock trades at 21.9x/18.9x our FY20/21 earnings estimate.

## Key issues to watch for

- Outlook on margins for FY20.
- Deal wins TCV on the back of a couple of healthy quarters.
- Attrition rate and color on that for better performers.

## Quarterly Performance (IFRS)

Y/E March	FY19				FY20E				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	2,831	2,921	2,987	3,060	3,131	3,197	3,238	3,281	11,799	12,847
QoQ (%)	0.9	3.2	2.3	2.4	2.3	2.1	1.3	1.3	7.9	8.9
Revenue (INR m)	1,91,280	2,06,090	2,14,000	2,15,390	2,18,030	2,25,688	2,26,654	2,29,671	8,26,760	9,00,043
YoY (%)	12.0	17.3	20.3	19.1	14.0	9.5	5.9	6.6	17.2	8.9
GPM (%)	38.0	37.8	37.2	36.2	35.3	36.1	35.2	35.4	37.3	35.5
SGA (%)	12.0	11.8	11.9	12.2	11.7	11.7	11.7	11.6	12.0	11.7
EBITDA	49,730	53,580	54,100	51,490	51,520	55,037	53,216	54,563	2,08,890	2,14,336
EBITDA Margin (%)	26.0	26.0	25.3	23.9	23.6	24.4	23.5	23.8	25.3	23.8
EBIT Margin (%)	23.7	23.7	23.0	21.4	20.5	21.3	20.5	20.8	22.9	20.8
Other income	7,260	7,390	7,530	6,650	6,960	6,345	5,801	5,988	28,830	25,094
ETR (%)	26.2	27.0	26.8	22.8	26.4	27.0	27.0	27.0	25.8	26.9
PAT	36,120	41,100	36,100	40,740	37,980	39,670	38,131	39,276	1,54,050	1,55,057
QoQ (%)	-2.1	13.8	-12.2	12.9	-6.8	4.4	-3.9	3.0		
YoY (%)	3.6	10.3	-2.4	10.4	5.1	-3.5	5.6	-3.6	-3.9	0.7
EPS (INR)	8.3	9.4	8.3	9.4	8.8	9.3	8.9	9.2	35.4	36.2
Headcount	2,09,905	2,17,739	2,25,501	2,28,123	2,29,029	2,27,649	2,30,738	2,33,971	2,28,123	2,33,971
Util excl. trainees (%)	86.1	86.0	84.2	82.7	83.5	87.2	88.2	88.3	85.4	87.3
Attrition (%)	23.0	22.2	19.9	20.4	23.4			20.4		
Fixed Price (%)										

E: MOFSL Estimates

LTI

Bloomberg	LTI IN
Equity Shares (m)	172.0
M. Cap. (INR b)/(USD b)	259 / 4
52-Week Range (INR)	1956 / 1437
1,6,12 Rel Perf. (%)	-10 / -11 / -27

**Financial Snapshot (INR b)**

Y/E MAR	2018	2019	2020E	2021E
Sales	73.1	94.5	103.1	116.4
EBITDA	12.5	18.8	19.4	23.1
PAT	11.6	15.2	14.7	16.9
EPS (INR)	66.3	86.6	83.8	96.6
EPS Gr. (%)	19.6	30.6	-3.3	15.3
BV/Sh. (INR)	220.6	279.6	343.3	416.8
RoE (%)	33.1	34.6	26.9	25.4
RoCE (%)	31.2	41.5	31.8	31.1
Payout (%)	21.2	32.3	20.0	20.0

**Valuations**

P/E (x)	22.8	17.5	18.0	15.6
P/BV (x)	6.9	5.4	4.4	3.6
EV/EBITDA (x)	19.9	12.9	12.2	9.9
Div yld (%)	0.9	1.9	1.1	1.3

**CMP: INR1,505 TP: INR1,670 (+11%) Neutral**

- We expect organic growth to be muted at 1% QoQ CC and 10.3% YoY CC. Cross-currency impact of 50bp will result in 0.5% QoQ growth in USD terms.
- Organic growth will be dragged down by softness in BFSI. While there has been no market share loss in the top account, muted growth is led by lower IT spending from the client. Growth is expected to be back-ended once client-specific issues bottom out.
- We expect EBIT margin to contract by 70bp to 15.3% in 2QFY20 led by wage hike (170bp) and normalization of utilization partially offset by reversal of visa cost (+100bp) and non-recurring S&M expense (150bp).
- Our PAT estimate is INR3.5b is expected to be flat sequentially.
- LTI trades at 18x FY20E and 15.6x FY21E earnings. **Neutral**.

**Key issues to watch for**

- Timeline for revival of client-specific issues.
- Outlook in top client.
- Growth in digital revenue.

**Quarterly Performance**

Y/E March	FY19				FY20				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	320	329	347	354	357	358	369	380	1,349	1,464
QoQ (%)	3.5	2.7	5.6	2.0	0.8	0.5	3.1	3.0	19.1	8.5
Revenue (INR m)	21,557	23,312	24,729	24,860	24,849	25,290	26,068	26,849	94,458	1,03,055
YoY (%)	29.0	33.1	31.3	24.2	15.3	8.5	5.4	8.0	29.3	9.1
GPM (%)	35.2	35.1	34.8	34.0	33.1	32.6	33.3	34.0	34.7	33.3
SGA (%)	15.7	14.6	14.2	14.8	14.7	14.3	14.3	14.3	14.8	14.4
EBITDA	4,190	4,790	5,090	4,765	4,579	4,620	4,965	5,286	18,835	19,449
EBITDA Margin (%)	19.4	20.5	20.6	19.2	18.4	18.3	19.0	19.7	19.9	18.9
EBIT Margin (%)	17.7	19.0	19.1	17.7	16.0	15.3	16.0	16.7	18.4	16.0
Other income	1,036	943	288	648	812	890	677	722	2,915	3,100
ETR (%)	25.5	25.4	25.2	24.9	25.6	25.0	25.0	25.0	25.3	25.2
Adj PAT	3,612	4,003	3,755	3,787	3,555	3,563	3,645	3,902	15,157	14,665
QoQ (%)	6.9	10.8	-6.2	0.9	-6.1	0.2	2.3	7.0		
YoY (%)	35.1	46.6	32.7	12.0	-1.6	-11.0	-2.9	3.0	30.5	-3.2
EPS (INR)	20.6	22.9	21.5	21.6	20.3	20.3	20.8	22.3	86.6	83.8
Headcount	25,150	26,414	27,513	28,169	29,347	29,377	30,397	31,187	28,169	31,187
Util incl. trainees (%)	79.7	80.4	82.1	80.1	80.5					
Attrition (%)	15.1	15.3	16.5	17.5	18.3					
Offshore rev. (%)	53.2	52.4	52.2	52.2	50.5				52.5	51.0

E: MOFSL Estimates

# MindTree

Bloomberg	MTCL IN
Equity Shares (m)	167.7
M. Cap. (INR b)/(USD b)	121 / 2
52-Week Range (INR)	1073 / 653
1,6,12 Rel Perf. (%)	2 / -20 / -36

## Financial Snapshot (INR b)

Y/E MARCH	2018	2019	2020E	2021E
Sales	54.6	70.2	77.1	87.4
EBITDA	7.4	10.6	10.9	12.1
PAT	4.8	7.4	6.9	7.6
EPS (INR)	28.8	44.7	39.9	46.3
EPS Gr. (%)	15.5	55.5	-10.8	16.1
BV/Sh. (INR)	162.9	201.3	216.4	237.3
RoE (%)	17.9	24.3	20.1	20.4
RoCE (%)	20.6	29.5	21.8	21.3
Payout (%)	38.2	73.8	52.7	45.4
<b>Valuation</b>				
P/E (x)	25.1	16.1	18.1	15.6
P/BV (x)	4.4	3.6	3.3	3.0
EV/EBITDA (x)	14.6	10.0	9.7	8.6
Div Yld (%)	1.6	4.7	3.0	3.0

**CMP: INR721**
**TP: INR680 (-6%)**
**Neutral**

- We expect 2QFY20 revenue growth at 3% QoQ CC, led by healthy outlook in Hi-tech vertical and in top client. With a cross-currency impact of 130bp, we expect dollar revenue growth of 1.7% QoQ.
  - EBIT margin is expected to inch up hereon after remaining unexpectedly low in the previous quarter. We expect EBIT margin for 2Q to be 10%, an expansion of 170bp sequentially due to absence of any one-off items. Consequently, we expect the EBIT margin for FY20 to be 10.5%.
  - Our PAT estimate for the quarter is INR1.8b, which implies sequential growth of 40%, mainly due to an increase in profitability and absence of one-time expenses as incurred in the previous quarter.
  - The stock trades at 18.1x FY20E and 15.6x FY21E earnings.
- Neutral.**

### Key issues to watch for

- Update on the weak performing Retail and BFS verticals.
- Margin trajectory, going forward, given the expected improvement in organic growth next year too.
- Deal wins during the quarter and growth in Digital.

## Quarterly Performance

Y/E March	FY19				FY20E				FY19	FY20E
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE		
Revenue (USD m)	242	246	252	262	264	270	277	285	1,001	1,096
QoQ (%)	6.8	2.0	2.1	4.2	0.8	2.3	2.6	2.8	18.3	9.5
Revenue (INR m)	16,395	17,554	17,872	18,394	18,342	19,073	19,565	20,116	70,215	77,096
YoY (%)	27.1	31.8	29.7	25.6	11.9	8.7	9.5	9.4	28.5	9.8
GPM (%)	36.6	36.4	37.7	37.5	34.3	34.9	35.3	35.6	37.0	35.0
SGA (%)	22.5	21.0	21.8	22.2	21.6	21.3	20.5	20.0	21.9	20.8
EBITDA	2,310	2,699	2,833	2,803	2,318	2,592	2,886	3,144	10,645	10,940
EBITDA Margin (%)	14.1	15.4	15.9	15.2	12.6	13.6	14.8	15.6	15.2	14.2
EBIT Margin (%)	11.5	13.1	13.6	12.9	8.3	10.0	11.2	12.2	12.8	10.5
Other income	279	524	-200	290	220	522	259	320	893	1,320
ETR (%)	26.8	26.8	22.5	25.6	26.5	26.5	26.5	26.5	25.5	26.5
Adj. PAT	1,582	2,063	1,722	1,984	1,278	1,790	1,806	2,034	7,351	6,908
QoQ (%)	-6.7	30.4	-16.5	15.2	-35.6	40.1	0.9	12.6		
YoY (%)	70.0	102.8	54.5	17.0	-19.2	-13.2	4.9	2.5	54.5	-6.0
EPS (INR)	9.6	12.6	10.5	12.1	5.6	10.9	11.0	12.4	44.7	39.9
Headcount	18,990	19,402	19,908	20,204	20,935	21,305	21,855	22,355	20,204	22,355
Util incl. trainees (%)	75.4	74.5	74.6	75.3	77.2	76.0	76.0	76.0	74.9	76.3
Attrition (%)	12.2	13.0	13.4	14.2						
Fixed Price (%)	56.4	56.1	56.0	55.9						

E: MOFSL Estimates

# Mphasis

Bloomberg	MPHL IN
Equity Shares (m)	193.0
M. Cap. (INR b)/(USD b)	181 / 3
52-Week Range (INR)	1184 / 855
1,6,12 Rel Perf. (%)	-7 / -4 / -24

## Financial Snapshot (INR b)

Y/E MAR	2018	2019	2020E	2021E
Sales	65.5	77.3	87.9	99.8
EBITDA	10.6	13.2	16.8	19.0
PAT	8.5	10.7	12.4	13.7
EPS (INR)	44.0	56.1	64.5	71.2
EPS Gr. (%)	13.2	27.4	15.0	10.4
BV/Sh. (INR)	283.6	281.9	310.3	364.3
RoE (%)	14.6	20.0	22.5	22.3
RoCE (%)	13.8	18.4	19.9	19.5
Payout (%)	45.4	140.6	43.4	39.3
<b>Valuations</b>				
P/E (x)	21.3	16.7	14.5	13.1
P/BV (x)	19.6	15.2	11.8	10.3
EV/EBITDA(x)	16.1	12.9	10.6	8.4
Div Yld (%)	2.0	7.9	2.8	2.8

**CMP: INR936**
**TP: INR1,120 (+20%)**
**Buy**

- Strong growth in Direct channel, continued recovery in HP channel and strong traction from Blackstone portfolio are expected to drive 4% QoQ CC growth for MPHL in 2QFY20.
- Cross-currency headwind of 50bp would push USD revenue growth to 3.5% QoQ.
- EBIT margin in 1Q was impacted by higher US visa processing fees, mid-cycle salary increments, one-time client specific provision for receivables and transition impact of certain large deals. We expect margins to recoup with expansion of 50bp sequentially; our EBIT margin estimate stands at 16% for 2QFY20.
- Our PAT estimate is INR2.8b (+7.8% QoQ) due to higher operational income.
- The stock trades at 14.5x FY20E and 13.1x FY21E EPS. Maintain **Buy**.

### Key issues to watch for

- Outlook for Digital Risk.
- Comments on DXC channel and potential pricing risk.
- Traction in Direct International channel and the Blackstone portfolio.

## Quarterly Performance

Y/E March	FY19				FY20E				FY19	FY20E
	Jun 18	Sep 18	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20		
Revenue (USD m)	269	276	283	292	297	307	319	330	1,119	1,253
QoQ (%)	1.7	2.6	2.6	3.2	1.8	3.5	3.7	3.5	13.1	12.0
Revenue (INR m)	18,202	19,149	19,710	20,250	20,626	21,586	22,451	23,254	77,310	87,918
YoY (%)	18.5	19.3	18.7	16.1	13.3	12.7	13.9	14.8	18.1	13.7
GPM (%)	28.9	28.1	27.9	26.8	28.4	29.4	30.5	30.5	27.9	29.7
SGA (%)	11.2	10.7	11.2	10.0	10.2	10.8	10.7	10.7	10.8	10.6
EBITDA	3,201	3,329	3,306	3,404	3,743	4,033	4,437	4,603	13,239	16,816
EBITDA Margin (%)	17.6	17.4	16.8	16.8	18.1	18.7	19.8	19.8	17.1	19.1
EBIT Margin (%)	16.6	16.4	15.8	15.8	15.5	16.0	17.1	17.2	16.1	16.5
Other income	449	467	499	332	541	353	667	739	1,747	2,301
ETR (%)	24.7	24.5	24.5	24.5	24.5	24.5	24.5	24.5	23.7	24.6
PAT	2,583	2,709	2,780	2,662	2,647	2,853	3,384	3,553	10,733	12,437
QoQ (%)	3.0	4.9	2.6	-4.2	-0.5	7.8	18.6	5.0		
YoY (%)	38.0	37.0	29.3	6.2	2.5	5.3	21.8	33.5	26.2	15.9
EPS (INR)	13.4	14.0	14.4	14.3	14.2	14.8	17.6	18.4	56.1	65.0
Headcount	22,566	23,478	24,215	24,485	25,500	25,573	26,378	27,283	24,485	27,283
Net Additions	302	912	737	270	1015	73	805	905	2221	2798
HP Channel rev. (%)	27.4	28.3	29.0	28.0	28.0	0.0	0.0		28.0	
Fixed Price (%)	26.5	24.6	24.1	23.0	24.0	0.0	0.0	23.0	24.0	

E: MOFSL Estimates

# NIIT Technologies

Bloomberg	NITEC IN
Equity Shares (m)	61.2
M. Cap. (INR b)/(USD b)	83 / 1
52-Week Range (INR)	1541 / 1031
1,6,12 Rel Perf. (%)	-13 / 2 / 10

## Financial Snapshot (INR b)

Y/E MARCH	2018	2019	2020E	2021E
Sales	29.9	36.1	42.0	47.9
EBITDA	5.0	6.4	7.5	8.4
PAT	2.8	4.1	4.7	5.3
EPS (INR)	45.6	66.2	76.6	86.1
EPS Gr. (%)	19.8	45.3	15.7	12.5
BV/Sh. (INR)	288.5	337.0	382.2	437.1
RoE (%)	16.2	21.2	21.3	21.0
RoCE (%)	16.2	19.9	20.1	20.1
Payout (%)	32.9	22.7	30.0	30.2
<b>Valuations</b>				
P/E (x)	29.6	20.4	17.6	15.7
P/BV (x)	4.7	4.0	3.5	3.1
EV/EBITDA (x)	15.6	11.9	10.2	8.6
Div Yld (%)	1.1	1.1	1.6	1.9

**CMP: INR1,348 TP: INR1,450 (+8%) Neutral**

- Our revenue growth estimate stands at 6.5% QoQ CC, of which we have pegged organic growth at 3.5% QoQ CC based on the traction in deal wins. We estimate ~USD4.5m incremental revenue from Wishworks during the quarter.
- Cross-currency tailwind of 70bp will result in 7.2% QoQ growth in USD terms.
- We expect EBIT margins to expand by 80bp QoQ on account of reversal of 90bp impact from visa cost in 1QFY20.
- Our PAT estimate is INR1.2b (+17.5% QoQ) on account of higher profitability.
- The stock trades at 17.6x FY20E and 15.7x FY21E earnings. **Neutral**.

## Key issues to watch for

- Traction in Digital and the international business.
- Progress on development of strategy under new leadership.
- Deal wins and outlook for the year.

## Quarterly Performance (IND-AS)

Y/E March	FY19				FY20E				FY19	FY20E
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Rev. (USD m) Ex. forex & bought outs	121	131	135	132	138	148	153	158	519	597
QoQ (%)	-1.3	8.5	3.0	-1.9	4.4	7.2	3.2	3.4	11.9	15.0
Revenue (INR m)	8,005	9,074	9,717	9,319	9,597	10,506	10,762	11,119	36,115	41,985
YoY (%)	12.9	23.1	28.4	18.1	19.9	15.8	10.8	19.3	20.7	16.3
GPM (%)	33.8	35.0	35.4	34.7	33.9	34.2	34.4	34.8	34.8	34.3
SGA (%)	17.7	17.0	16.8	17.1	16.8	16.6	16.5	16.5	17.1	16.6
EBITDA (INRm)	1,287	1,634	1,805	1,641	1,641	1,845	1,930	2,039	6,367	7,455
EBITDA Margin (%)	16.1	18.0	18.6	17.6	17.1	17.6	17.9	18.3	17.6	17.8
EBIT Margin (%)	12.2	14.5	15.3	14.4	12.9	13.7	14.1	14.6	14.2	13.8
Other income	206	215	5	45	75	145	99	149	471	469
ETR (%)	25.3	23.7	29.7	17.5	20.5	21.7	27.5	21.7	24.1	22.9
Minority Interest	45.0	49.0	49.0	34.0	24.0	39.0	36.5	33.4	177.0	132.9
PAT	841	1,118	1,002	1,111	1,022	1,201	1,135	1,352	4,072	4,710
QoQ (%)	-2.3	32.9	-10.4	10.9	-8.0	17.5	-5.5	19.1	45.3	15.7
YoY (%)	63.9	66.6	32.4	29.0	21.5	7.4	13.3	21.7		
EPS (INR)	13.7	18.2	16.3	18.1	16.6	19.5	18.5	22.0	66.2	76.6
Headcount	9,764	10,025	10,144	10,263	10,297	11,497	11,837	12,237	10,263	12,237
Util excl. trainees (%)	80.1	80.4	79.0	79.3	80.5	79.0	79.0	82.0	79.7	81.7
Attrition (%)	10.1	10.8	11.7	11.7	12.9					
Offshore rev. (%)	36.0	36.0	35.0	35.0	34.0				35.2	59.7
Fixed Price (%)	47.0	45.0	47.0	47.0	48.0					

E: MOFSL Estimates

# Persistent Systems

Bloomberg	PSYS IN
Equity Shares (m)	80.0
M. Cap. (INR b)/(USD b)	45 / 1
52-Week Range (INR)	786 / 472
1,6,12 Rel Perf. (%)	1 / -10 / -31

## Financial Snapshot (INR b)

Y/E MARCH	2018	2019	2020E	2021E
Sales	30.3	33.7	35.1	38.6
EBITDA	4.7	5.8	5.4	6.6
Adj. PAT	3.2	3.5	3.6	4.5
Adj. EPS (INR)	40.4	44.0	46.4	57.7
EPS Gr. (%)	7.2	8.9	5.5	24.2
BV/Sh.(INR)	273.8	294.1	307.3	345.6
RoE (%)	16.0	15.7	15.2	17.7
RoCE (%)	15.2	14.2	14.6	13.8
Payout (%)	24.8	42.1	80.5	27.8
<b>Valuations</b>				
P/E (x)	13.9	12.7	12.1	9.7
P/BV (x)	2.0	1.9	1.8	1.6
EV/EBITDA (x)	7.0	5.8	5.5	3.8
Div. Yield (%)	1.8	1.9	2.8	2.8

CMP: INR560

TP: INR680 (+21%)

Buy

- We expect USD3m increment in IP revenue in 2Q. Our estimate for IP revenue stands at USD28.8m.
- We expect services revenue growth to be soft at -0.1% QoQ in dollar terms. Combining these two, we expect revenue for 2Q to grow by 2.5% QoQ in USD terms.
- We expect 100bp QoQ contraction in the EBIT margin due to wage hikes (+250-270bp), partially offset of reversal of one-time expenses incurred in 1QFY20. Our margin estimate for 2Q stands at 8.8%.
- Consequently, PAT estimate for the quarter is INR764m, a decline by 7.4% QoQ, primarily because of lower operational income.
- The stock trades at 12.1x FY20E and 9.7x FY21E earnings. **Buy.**

## Key issues to watch for

- Performance and outlook for top clients in ISV (ex-IBM).
- Commentary on traction with Enterprise customers and potential of winning large deals in Digital.
- Outlook on sustainable profit margins in the near-to-medium term.

## Quarterly Performance (IFRS)

Y/E March	FY19				FY20E				FY19E	FY20E
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	123.6	118.2	120.8	118.3	119.6	122.6	130.1	128.5	481	501
QoQ (%)	5.7	-4.3	2.2	-2.1	1.1	2.5	6.1	-1.2	2.2	4.1
Revenue (INR m)	8,343	8,356	8,642	8,318	8,321	8,656	9,107	8,998	33,659	35,082
QoQ (%)	10.9	0.2	3.4	-3.8	0.0	4.0	5.2	-1.2		
YoY (%)	14.6	9.8	9.1	10.5	-0.3	3.6	5.4	8.2	11.0	4.2
GPM (%)	35.6	35.3	38.2	36.8	34.7	33.9	36.7	37.7	36.5	35.8
SGA (%)	18.8	18.0	18.3	21.6	20.2	20.1	20.2	20.5	19.2	20.4
EBITDA	1,400	1,436	1,703	1,265	1,202	1,148	1,502	1,544	5,805	5,396
EBITDA Margin (%)	16.8	17.2	19.7	15.2	14.4	13.3	16.5	17.2	17.2	15.4
EBIT Margin (%)	12.0	12.4	15.1	10.7	9.8	8.8	12.2	12.3	12.6	10.8
Other income	187	231	-12	224	282	292	248	280	631	1,102
ETR (%)	26.4	30.5	29.2	24.1	24.9	27.5	27.5	27.5	27.7	26.9
PAT	873	881	917	844	825	764	988	1,006	3,516	3,583
QoQ (%)	18.5	0.9	4.1	-7.9	-2.3	-7.4	29.4	1.9		
YoY (%)	16.3	6.7	0.1	14.6	-5.6	-13.4	7.7	19.2	8.8	1.9
EPS (INR)	10.9	11.0	11.5	10.6	10.7	9.9	12.8	13.0	44.0	46.4
Headcount	8,902	9,302	9,530	9,962	10,167	10,311	10,375	10,389	9,962	10,389
Util excl. trainees (%)	80.7	81.9	82.1	79.7	77.9	81.0	82.0	79.0	82.9	81.9
Attrition (%)	14.8	15.4								
IP rev. proportion (%)	27.4	25.6	25.0	21.6	21.5	23.5	25.8	25.9	24.9	24.2

E: MOFSL Estimates



TCS

Bloomberg	TCS IN
Equity Shares (m)	3940.9
M. Cap. (INR b)/(USD b)	8117 / 114
52-Week Range (INR)	2296 / 1784
1,6,12 Rel Perf. (%)	-11 / 3 / -14

**Financial Snapshot (INR b)**

Y/E MAR	2018	2019	2020E	2021E
Sales	1,231.0	1,464.6	1,571.1	1,748.9
EBITDA	325.2	397.3	424.0	478.4
PAT	258.3	318.7	327.2	368.8
EPS (INR)	66.0	83.5	87.2	98.3
EPS Gr. (%)	-1.0	26.4	4.5	12.7
BV/Sh. (INR)	228.3	244.1	236.6	248.9
RoE (%)	29.4	35.6	36.3	40.5
RoCE (%)	28.8	34.8	34.3	37.1
Payout (%)	101.5	88.2	74.7	72.4

**Valuation**

P/E (x)	31.2	24.3	23.6	21.0
P/BV (x)	9.0	8.4	8.7	8.3
EV/EBITDA(x)	23.4	18.8	17.8	15.8
Div. yield (%)	3.2	3.6	3.1	3.4

**CMP: INR 2,060****TP: INR2,060****Neutral**

- We expect QoQ revenue growth to be constrained at 2.3% CC, implying YoY growth of 8.8%.
- USD revenue growth is expected to be 1.2% QoQ, implying cross-currency headwind of 110bp (majorly led by GBP depreciation against USD).
- Segment-specific issues in BFS, especially in capital markets, are expected to exert pressure. Weak IT spending couple of European banks can further drag growth. In addition, the recovery in retail may be delayed, putting further pressure on the growth rates. All of these may lead to divergence from double-digit growth expected earlier.
- Our EBIT margin estimate is 24.9%, an expansion of 70bp sequentially. This is led by a lower base of 1Q on seasonality factors.
- Our PAT estimate of INR80.7b is lower QoQ by 0.7% while its up 0.5% YoY.

**Key issues to watch for**

- Outlook and visibility for double-digit growth in FY20.
- Commentary on BFS.
- Trajectory of margins amid rising sub-contractor expenses.

**TCS Quarterly Performance (IFRS)**

Y/E March	FY19				FY20E				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	5,051	5,215	5,250	5,397	5,485	5,553	5,637	5,752	20,913	22,428
QoQ (%)	1.6	3.2	0.7	2.8	1.6	1.2	1.5	2.0	9.6	7.2
Revenue (INR m)	3,42,610	3,68,540	3,73,380	3,80,100	3,81,720	3,92,067	3,94,604	4,02,665	14,64,630	15,71,056
YoY (%)	15.8	20.7	20.8	18.5	11.4	6.4	5.7	5.9	19.0	7.3
GPM (%)	42.5	43.6	42.9	42.9	42.1	43.0	43.2	43.4	43.0	42.9
SGA (%)	16.1	15.7	15.9	15.8	15.8	16.0	16.0	15.9	15.9	15.9
EBITDA	90,710	1,02,780	1,00,830	1,03,011	1,00,370	1,05,855	1,07,295	1,10,437	3,97,331	4,23,956
EBITDA Margin (%)	26.5	27.9	27.0	27.1	26.3	27.0	27.2	27.4	27.1	27.0
EBIT Margin (%)	25.0	26.5	25.6	25.7	24.2	24.9	25.1	25.4	25.7	24.9
Other income	12,250	7,300	11,630	11,650	14,180	9,675	8,430	9,580	42,830	41,866
ETR (%)	24.7	23.2	24.1	23.3	23.4	24.5	24.5	24.5	23.8	24.2
PAT	73,570	80,380	81,210	83,541	81,310	80,759	80,955	84,160	3,18,701	3,27,183
QoQ (%)	6.6	9.3	1.0	2.9	-2.7	-0.7	0.2	4.0		
YoY (%)	23.8	24.7	24.3	21.0	10.5	0.5	-0.3	0.7	23.4	2.7
EPS (INR)	19.2	21.0	21.6	21.7	21.7	21.5	21.6	22.4	83.5	87.2
Headcount	4,00,875	4,11,102	4,17,929	4,24,285	4,36,641	4,36,225	4,40,319	4,24,285	4,24,285	4,49,311
CC QoQ rev gr (%)	4.1	3.7	1.8	2.4	2.3	1.2	1.5	2.4	9.6	7.2
Attrition (%)	11.7	10.9		11.3	11.5					

E: MOFSL Estimates



# Tech Mahindra

Bloomberg	TECHM IN
Equity Shares (m)	984.7
M. Cap. (INR b)/(USD b)	694 / 10
52-Week Range (INR)	846 / 608
1,6,12 Rel Perf. (%)	-1 / -9 / -12

## Financial Snapshot (INR b)

Y/E MARCH	2018	2019	2020E	2021E
Sales	307.7	347.4	365.0	404.0
EBITDA	47.2	63.4	58.8	65.8
Adj. PAT	38.0	43.0	40.3	46.8
Adj. EPS (INR)	42.7	48.2	45.7	53.1
EPS Gr. (%)	33.6	12.8	-5.1	16.2
BV/Sh.(INR)	213.4	228.7	251.8	275.9
RoE (%)	21.5	22.0	19.1	20.3
RoCE (%)	17.8	18.7	16.4	17.2
Payout (%)	32.8	29.0	48.1	47.1

## Valuation

P/E (x)	16.9	14.9	15.7	13.6
P/BV (x)	3.4	3.1	2.9	2.6
EV/EBITDA (x)	13.4	9.9	10.6	9.3
Div. Yield (%)	1.9	1.9	3.1	3.5

CMP: INR705

TP: INR820 (+16%)

Buy

- We expect revenue growth of 1.5% QoQ CC. Most of the incremental revenue is expected to come from growth in Communication segment. Enterprise is expected to be muted in the near term (led by client-specific issues and macros distress in manufacturing segment).
- We continue expecting high-single-digit growth in Communication and mid-single digit growth in Enterprise.
- Our EBIT margin estimate is 12.2%, up 70bp QoQ off a low base (~150bp of one-time expenses). Recent deal win in Communication will weigh on profitability due to initial transaction expenses.
- We expect net income of INR9.6b, a decline of 1.1% QoQ, mainly due to lower other income (our hedge gain expectation is at USD15m).

## Key issues to watch for

- Commentary on 5G and related impact on TECHM's Communication vertical.
- Outlook for BFSI and Healthcare in Enterprise.
- Deal wins on the back of two quarters of above-average TCV.

## Tech Mahindra Quarterly Performance

Y/E March	FY19				FY20E				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	1,224	1,218	1,261	1,268	1,247	1,257	1,305	1,383	4,971	5,191
QoQ (%)	-1.6	-0.5	3.5	0.5	-1.6	0.8	3.9	5.9	4.2	4.4
Revenue (INR m)	82,763	86,298	89,437	88,923	86,530	88,718	92,146	97,609	3,47,421	3,65,003
YoY (%)	12.8	13.5	15.0	10.4	4.6	2.8	3.0	9.8	12.9	5.1
GPM (%)	30.7	34.0	33.1	33.1	28.8	29.7	30.1	31.2	32.8	30.0
SGA (%)	14.3	15.3	13.8	14.7	13.6	14.2	13.9	13.8	14.5	13.9
EBITDA	13,569	16,186	17,226	16,387	13,141	13,746	14,938	17,022	63,368	58,847
EBITDA Margin (%)	16.4	18.8	19.3	18.4	15.2	15.5	16.2	17.4	18.2	16.1
EBIT Margin (%)	13.0	15.3	16.1	15.4	11.5	12.2	13.0	14.4	15.0	12.8
Other income	1,114	1,751	806	1,671	3,413	2,527	1,683	1,892	5,342	9,515
Interest expense	305	388	358	281	454	598	598	597	1,332	2,247
ETR (%)	21.2	26.8	17.8	23.5	25.7	25.0	25.0	25.0	22.4	25.2
PAT excl. BT amort & EOI	8,979	10,642	12,029	11,325	9,593	9,488	9,749	11,460	42,975	40,290
QoQ (%)	-26.5	18.5	13.0	-5.9	-15.3	-1.1	2.8	17.6		
YoY (%)	12.4	27.3	27.7	-7.3	6.8	-10.8	-19.0	1.2	13.1	-6.2
EPS (INR)	10.1	11.9	13.5	12.6	10.9	10.8	11.1	13.0	47.7	52.0
Headcount	1,13,552	1,18,391	1,21,842	1,21,082	1,25,773	1,24,348	1,29,578	1,34,751	1,21,082	1,34,751
Util excl. trainees (%)	81.0	81.0	82.0	82.0	80.0	84.2	84.3	87.0	81.5	83.9
Attrition (%)	19.0	20.0	21.0	21.0	21.0	0.0	0.0	0.0		
Offshore rev. (%)	33.4	35.5	34.5	34.8	34.7	37.2	36.1	36.7	34.5	36.2

E: MOFSL Estimates

## Wipro

Bloomberg	WPRO IN
Equity Shares (m)	5702.3
M. Cap. (INR b)/(USD b)	1332 / 19
52-Week Range (INR)	302 / 221
1,6,12 Rel Perf. (%)	-11 / -9 / -11

## Financial Snapshot (INR b)

Y/E MAR	2018	2019	2020E	2021E
Sales	544.9	585.8	608.8	658.3
EBITDA	109.2	117.0	122.5	129.2
PAT	85.3	91.6	90.0	96.9
EPS (INR)	13.4	14.8	15.9	17.0
EPS Gr. (%)	7.7	10.1	7.7	6.8
BV/Sh. (INR)	80.4	94.5	85.3	90.2
RoE (%)	17.0	17.4	17.1	19.4
RoCE (%)	13.2	14.6	15.6	17.3
Payout (%)	142.3	6.8	62.8	58.9
<b>Valuations</b>				
P/E (x)	17.8	16.2	15.0	14.1
P/BV (x)	3.0	2.5	2.8	2.6
EV/EBITDA (x)	11.6	9.8	9.3	8.7
Div Yld (%)	0.3	0.4	4.2	4.2

CMP: INR234

TP: INR260 (+11%)

Neutral

- We expect revenue growth of 1.3% QoQ CC/0.1% QoQ in USD terms (within its guided band of 0-2% QoQ CC) for 2QFY20.
- Some delays in decision making within BFSI would mean back-ended growth for FY20. Growth in BFSI is expected to be partially impacted by weak IT spending's by European banks. We expect WIPRO to guide for 1-3% QoQ CC growth for 3QFY20.
- We expect IT Services EBIT margin to be at 18.7%, up 30bp QoQ; cost optimization measures will be partially offset by two months of wage hike in 2QFY20.
- Our PAT estimate for the quarter is INR22.4b, -4% QoQ and -2.1% YoY, due to lower other income.
- The stock trades at 14.8x/13.9x our FY20/21 earnings estimates.

Neutral.

## Key issues to watch for

- Performance of Healthcare vertical.
- Comments on growth in BFSI vertical.
- Outlook on margin for FY20.

## Quarterly Performance (IFRS)

Y/E March	FY19				FY20E				FY19E	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
IT Services Revenue (USD m)	1,989	2,010	2,047	2,076	2,039	2,052	2,101	2,149	8,120	8,340
QoQ (%)	-1.5	1.0	1.8	1.4	-1.8	0.6	2.4	2.3	2.9	2.7
Overall Revenue (INR m)	1,39,777	1,45,410	1,50,595	1,50,063	1,47,161	1,50,256	1,53,859	1,57,490	5,85,845	6,08,766
QoQ (%)	1.5	4.0	3.6	-0.4	-1.9	2.1	2.4	2.4		
YoY (%)	2.6	8.3	10.2	9.0	5.3	3.3	2.2	4.9	7.5	3.9
GPM (%)	28.2	30.0	31.0	28.7	29.1	29.6	29.9	30.2	29.5	29.7
SGA (%)	13.9	13.3	12.5	11.8	13.0	12.9	12.9	12.9	12.9	12.9
EBITDA	24,343	28,641	32,929	31,053	28,771	30,110	31,129	32,448	1,16,966	1,22,458
EBITDA Margin (%)	17.4	19.7	21.9	20.7	19.6	20.0	20.2	20.6	20.0	20.1
IT Serv. EBIT (%)	17.2	15.0	19.8	19.0	18.4	18.7	17.0	17.4	17.8	17.9
EBIT Margin (%)	14.3	16.7	18.4	17.0	16.2	16.7	16.9	17.3	16.6	16.8
Other income	4,319	5,053	4,646	6,560	6,221	3,821	2,006	1,942	20,578	13,990
ETR (%)	24.1	22.1	21.5	22.1	22.3	22.5	22.5	22.5	22.3	22.4
PAT	18,407	22,860	25,444	24,937	23,322	22,388	21,708	22,619	91,648	90,037
QoQ (%)	-8.4	24.2	11.3	-2.0	-6.5	-4.0	-3.0	4.2		
YoY (%)	-11.6	4.4	12.9	24.2	26.7	-2.1	-14.7	-9.3	7.4	-1.8
EPS (INR)	3.5	2.9	4.2	4.1	4.0	3.9	3.8	4.0	14.8	15.9
Headcount	1,60,846	1,71,451	1,72,379	1,71,425	1,74,850	1,75,765	1,79,350	1,71,425	1,71,425	1,82,435
Util excl. trainees (%)	85.2	85.5	83.2	85.4	85.0	85.0	85.0	85.0	79.6	78.7
Attrition (%)	17.1	17.5	17.9	17.6	17.6					
Offshore rev. (%)	47.1	47.2	47.8	48.5	47.7	48.0	47.8	47.9	47.7	47.8
Fixed Price (%)	58.9	58.9	59.8	60	61.6					

E: MOFSL Estimates

# Zensar Technologies

Bloomberg	ZENT IN
Equity Shares (m)	226.0
M. Cap. (INR b)/(USD b)	49 / 1
52-Week Range (INR)	333 / 196
1,6,12 Rel Perf. (%)	-5 / -5 / -38

## Financial Snapshot (INR b)

Y/E MAR	2018	2019	2020E	2021E
Sales	30.1	39.0	43.7	49.9
EBITDA	3.6	5.1	6.3	7.6
PAT	2.3	3.2	3.6	4.4
EPS (INR)	10.2	14.4	16.0	19.6
EPS Gr. (%)	-1.8	40.6	11.6	22.8
BV/Sh. (INR)	74.0	85.9	98.0	113.1
RoE (%)	14.7	18.0	17.3	18.6
RoCE (%)	17.7	21.4	20.7	22.6
Payout (%)	21.5	19.5	21.0	19.8

## Valuations

P/E (x)	21.0	15.0	13.7	11.2
P/BV (x)	2.9	2.5	2.2	1.9
EV/EBITDA (x)	12.6	9.3	7.7	5.9
Div Yld (%)	1.0	1.3	1.6	1.8

CMP: INR215

TP: INR300 (+39%)

Buy

- We expect revenue of USD153m, representing growth of 1.0% QoQ. This breaks up into 2.0% QoQ CC growth, a cross-currency headwind of 50bp.
- We expect EBIT margin to contract by 150bp QoQ to 9.2%, led by wage hike (~280bp headwind). It is expected to revive in the following quarters with high digital percentage and other operational efficiency.
- Our PAT estimate is INR843m, up by 7.2% QoQ, led by higher other income, partly offset by lower operational income.
- The stock trades at 13.7x FY20E and 11.2x FY21E earnings. **Buy.**

## Key issues to watch for

- Traction in Digital, large deals and other new initiatives.
- Margin outlook, given restructuring of IMS business.
- Progress on revival of revenue growth post US turnaround.

## Quarterly Performance

Y/E March	FY19				FY20E				FY19	FY20E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Revenue (USD m)	132	135	142	149	153	155	157	160	557	626
QoQ (%)	4.1	2.4	5.1	4.9	3.1	1.0	1.4	2.2	15.6	12.3
Revenue (INR m)	8,827	9,465	10,220	10,476	10,661	10,841	10,991	11,234	38,988	43,727
YoY (%)	19.8	24.1	28.8	28.6	20.8	14.5	7.5	7.2	29.7	12.2
GPM (%)	31.1	29.4	27.5	28.9	29.4	28.8	30.7	31.9	29.1	30.2
SGA (%)	16.5	16.5	16.0	15.7	15.2	16.0	16.0	16.0	16.1	15.8
EBITDA	1,252	1,275	1,171	1,381	1,515	1,386	1,615	1,781	5,079	6,297
EBITDA Margin (%)	14.2	13.5	11.5	13.2	14.2	12.8	14.7	15.9	13.0	14.4
EBIT Margin (%)	12.1	11.1	9.1	10.8	10.7	9.2	11.1	12.3	10.7	10.8
Other income	169	391	5	228	146	232	107	153	793	637
ETR (%)	27.8	28.1	28.0	29.9	28.4	28.0	28.0	28.0	28.5	28.1
PAT	836	951	587	870	787	843	919	1,070	3,244	3,618
QoQ (%)	15.1	13.8	-38.3	48.3	-9.6	7.2	8.9	16.4		
YoY (%)	77.1	52.1	-0.7	19.9	-5.8	-11.4	56.6	22.9	40.6	11.6
EPS (INR)	3.7	4.2	2.6	3.9	3.5	3.7	4.1	4.7	14.4	16.0
Headcount	8,790	9,138	9,456	9,748	10,166	10,116	10,226	10,176	9,748	10,176
Utilization (%)	85.8	82.6	81.7	83.4	82.4	82.0	80.5	81.0	83.4	81.5
Offshore rev. (%)	35.4	33.6	32.6	32.6	31.9	32.4	31.7	31.6	33.5	31.9

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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