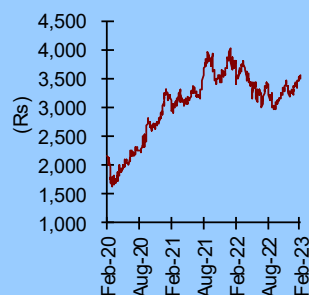


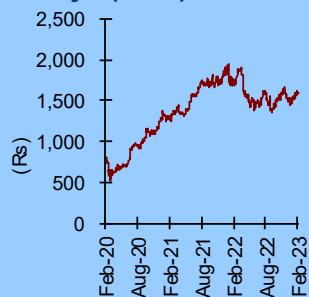
Company update

Technology

TCS (ADD)



Infosys (ADD)



Research Analyst:

Sumeet Jain

sumeet.jain@icicisecurities.com
+91 22 6807 7573

Aditi Patil

aditi.patil@icicisecurities.com
+91 22 6807 7452

INDIA

Capgemini

Unrated

CAP's Q4CY22 result shows continued resilience in technology demand; we reiterate **ADD** on Infosys and TCS

Capgemini (CAP) reported strong revenue growth and bookings in Q4CY22 despite macro weakness: CAP's revenue growth was at 14% (12.8% organic) YoY CC in Q4CY22, resulting in full-year growth of 16.6% YoY CC in CY22 – higher than its guidance of 14-15%. Company won record-high bookings of EUR6,685mn (+11.4% YoY CC) despite macro weakness and slippage of some deals (not material though), leading to a strong book-to-bill ratio at 1.16x. Headcount addition slowed down with net addition of 1,200 employees, +0.3% QoQ (similar to peers). CAP is also focusing on improving utilisation (+100bps QoQ in Q4). Attrition is cooling off (25.5%, -130bps QoQ) in line with industry trends.

Soft revenue guidance for CY23: CAP's revenue guidance of 4-7% YoY CC (3.5-6% organic) for CY23 seems conservative. Lower end of the guidance assumes further deterioration of the macro in H2CY23, while the higher end assumes revival of growth in Q4CY23. EBIT margin guidance increased to 13-13.2% for CY23 vs the 13% delivered in CY22.

Clients' technology spend remains largely resilient; softness seen in a few verticals: CAP management mentioned there is some caution among clients due to the volatile macro-environment, but most of them are continuing to invest in strategic digital initiatives while a minority are shifting towards cost optimisation and vendor consolidation. CAP is seeing strong demand around cloud, data, *Intelligent Industry 4.0* and sustainability. In terms of verticals, CAP is seeing softness in demand in the tech sector while retail is also slowing down. Company is experiencing demand led by vendor consolidation in financial services. Sectors such as manufacturing, consumer packaging and public sector are still growing at a healthy pace for CAP.

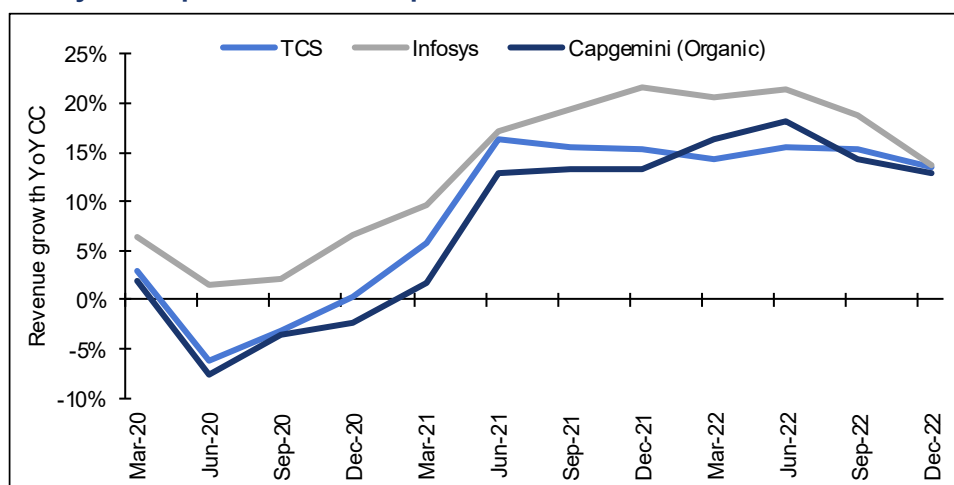
Talent crunch is leading to shift to global delivery centres: CAP management mentioned that shortage of talent in the developed markets is driving a shift towards global delivery centres. Management noted that European clients are now more open to offshore delivery, especially in countries like Italy and Spain. Capgemini is balancing the onsite talent crunch through a combination of automation and offshoring.

Read-across for Indian IT: Strong revenue growth and record-high order book with a healthy book-to-bill ratio of 1.16x reported by CAP in Q4CY22, imply resilient demand on the back of cloud migration and continuation of multi-year strategic digital initiatives of clients. TCS and Infosys too indicated resilient tech spending in their earnings commentary. IT services deal activity was reasonably healthy with TCV improving on QoQ basis for Infosys, Wipro, TechM and Mphasis. Commentaries from large US banks suggest that the banks will continue with their multi-year technology transformation agendas. Citi and Bank of America plan to increase their tech spend by 5% and 9% YoY respectively, in CY23.

However, CAP's soft revenue growth guidance of 4-7% YoY CC (3.5-6% organic) implies slowdown in growth in CY23 over CY22 due to macro weakness. We are also factoring-in slowdown in growth in CY23 over CY22: we estimate 8.9%/10% YoY CC revenue growth for TCS/Infosys in CY23E vs 14.7%/18.4% in CY22, respectively.

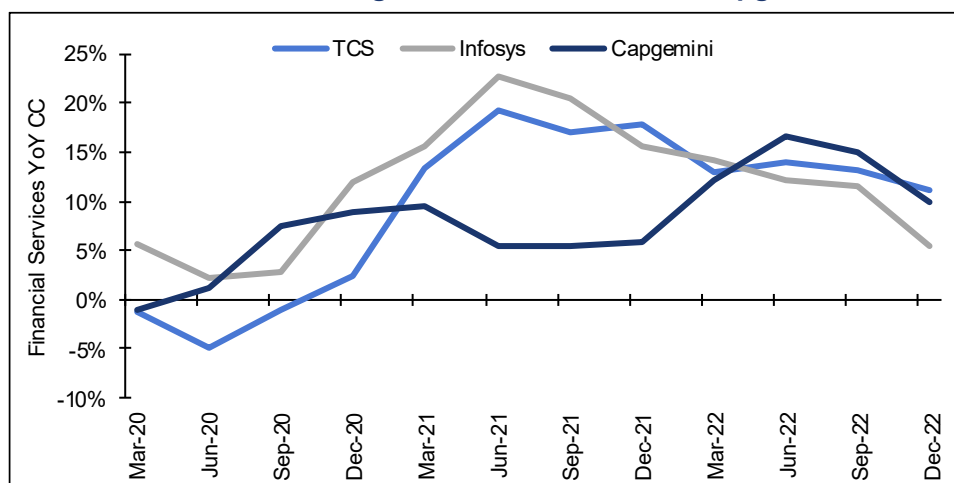
We believe Indian IT's higher presence in India bodes well amid shift towards global delivery centres due to talent shortage in the developed markets. TCS and Infosys stand to gain from the offshore shift. Plus, they are best placed to cater to clients' cost optimisation and vendor consolidation agendas. We reiterate **ADD on TCS and Infosys with target price of Rs3,834 and Rs1,772, implying upside of 11%/12% respectively.**

Chart 1: Organic revenue growth of Capgemini was a tad lower than TCS and Infosys in Sep'22 and Dec'22 quarters



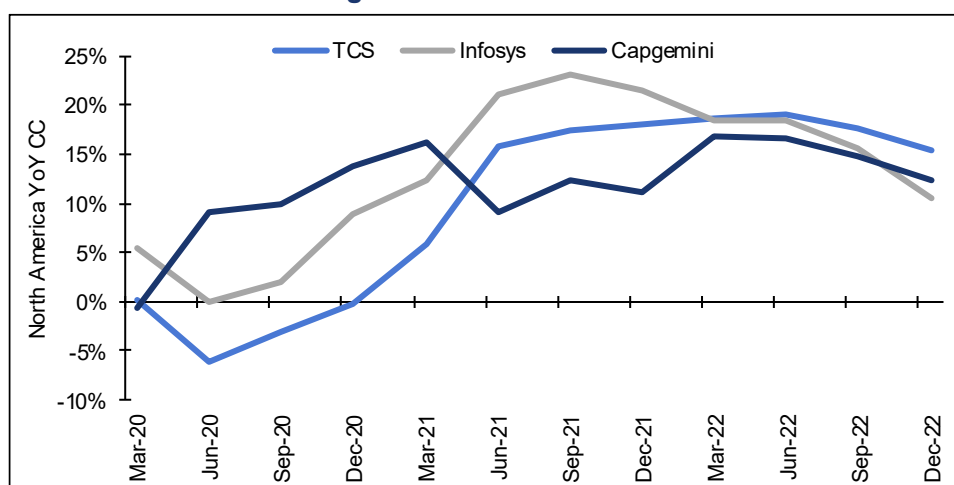
Source: Company, Bloomberg, I-Sec research

Chart 2: Financial services growth slowed down for Capgemini

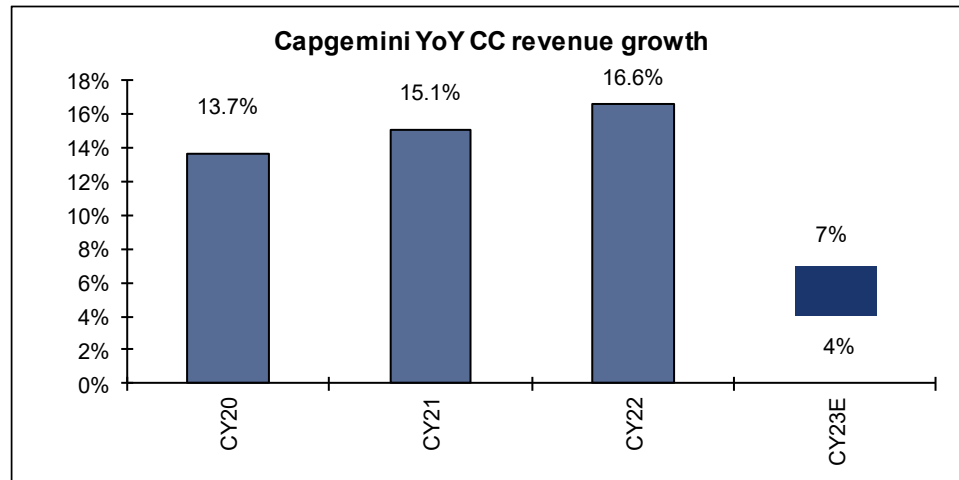


Source: Company, Bloomberg, I-Sec research

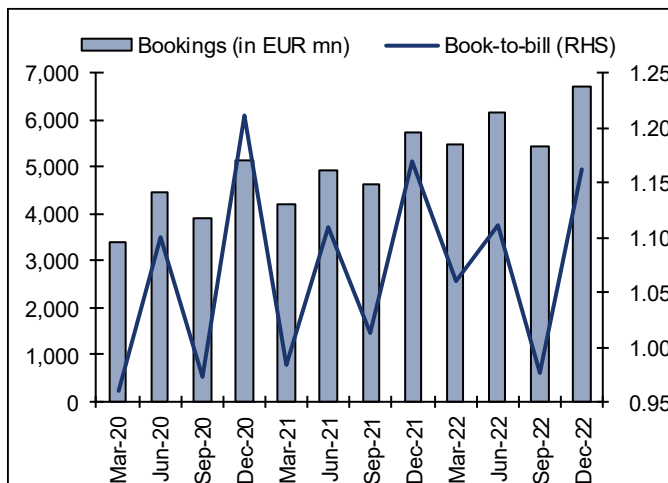
Chart 3: Growth is slowing down in North America as well



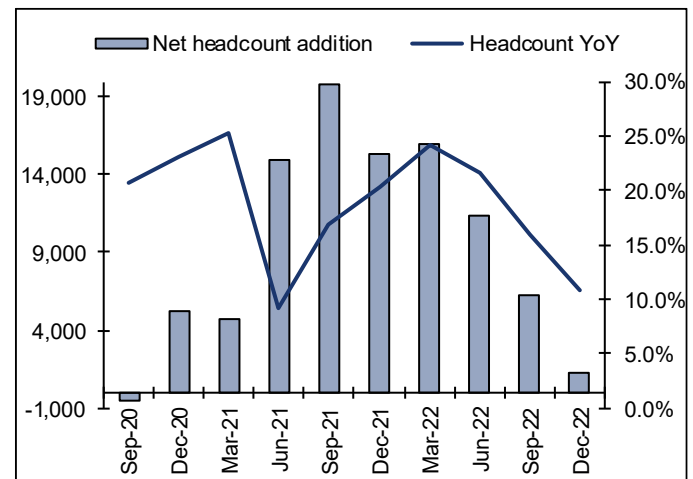
Source: Company, Bloomberg, I-Sec research

Chart 4: Soft revenue guidance for CY23E – seems conservative

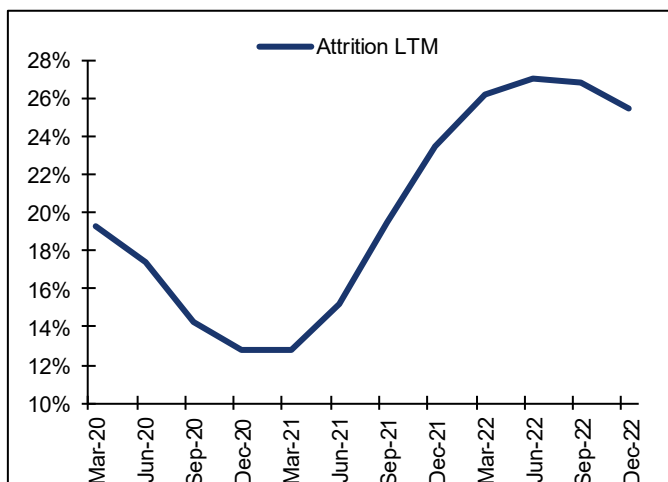
Source: Company, Bloomberg, I-Sec research

Chart 5: Strong growth in bookings implies resilient demand

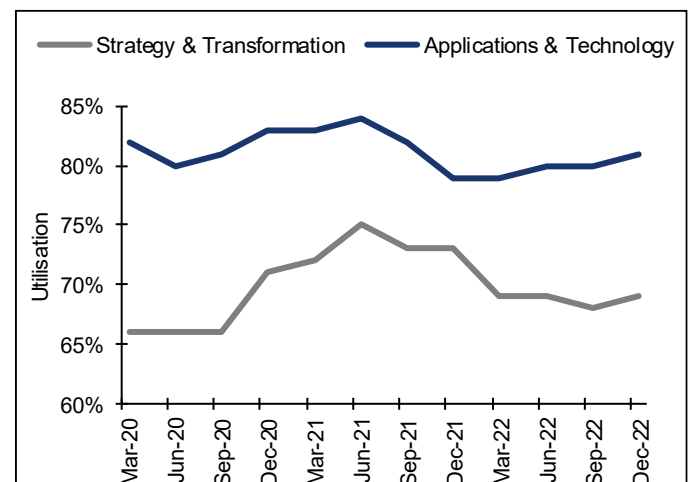
Source: Company, Bloomberg, I-Sec research

Chart 6: Slowing headcount addition factors-in softness in near-term demand and improving utilisation

Source: Company, Bloomberg, I-Sec research

Chart 7: Attrition tapering down for Capgemini – in line with the industry

Source: Company, Bloomberg, I-Sec research

Chart 8: Utilisation improved by 100bps QoQ

Source: Company, Bloomberg, I-Sec research

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