Information Technology Sector

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4QFY23 Result Preview

Turn around expectations in 2HFY24 - Is there visibility?

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That 4QFY23 is likely to be a weak quarter was telegraphed by most companies during 3QFY23 results. We are building in very modest revenue growth in CC terms due to the decent TCV clocked by many in previous quarters and the narrative of 'delayed/no landing' that had been building up on the US macro in late CY22 and early CY23 (before banking problems arose in both US/Europe in March 2023). While further deterioration of the banking problems has been stemmed, we need to watch out for any collateral damage to the economies affected by the crisis and impact on customer health (something we highlighted in our recent sector update Sell into delayed landing outperformance). Incrementally, we believe that customer health, which had been broadly deteriorating through much of CY22, would have turned weaker post these events. We continue to hold on to our below consensus 3-5% CC revenue growth for Tier-1 IT companies for FY24 - a view we have held since July 2022. We expect margin improvement for most coverage companies QoQ due to pyramid benefits, cross currency tailwinds, higher utilization (with possible shedding of employees on a net basis), easing of backfilling costs as attrition eases, lower sub-con costs, etc. This would be somewhat offset by lack of operating leverage, higher travel costs, elevated sales & marketing spends, likely pricing pressure and transition costs for some of the cost optimization/vendor consolidation deals. Most managements have been indicating two weak quarters till June 2023 and then a pick-up in growth. The implied view being taken by companies is that the worst on the macro front in the US is behind us. Our explicit view of a shallow recession in CY23 (likely in 2HCY23, delayed by six months from our earlier expectation) implies that the worst on the customer health front is still to play out and not behind us. Delays in decision making, focus on cost optmisation and vendor consolidation will remain common themes across company commentaries for 4QFY23. Although 3QFY23 was the shortest quarter due to furloughs, almost all companies in our coverage registered their highest-ever deal flows, driven by longer tenure cost optimization deals. Seasonally, we think the October-March timeframe tends to be the peak in terms of order inflow for most companies and we expect that to repeat. The issue lies with conversion of TCV to revenue and whether there are any leakages from the signed up TCV of the prior quarters. While we expect QoQ CC revenue growth for players under our coverage to come in at (-)0.5%–3.9% with QoQ margin improvement, the investors' focus is more on FY24. Key things to watch out for: (1) Growth and margin outlook for FY24. With all the macro uncertainty compounded by the recent banking sector events in the developed economies, we expect Infosys and HCL Tech to guide towards a CC revenue growth of 4-8% for FY24 (with a 400bps range compared to 200bps range typically given due to weaker visibility). We expect companies to point to a back-ended growth pick-up in FY24, something the market may not like. We also expect companies to point towards a flat to modestly improving margin picture for FY24 (2) TCV in 4QFY23 and outlook on the same for FY24. (3) Net hiring – we expect an aggregate negative figure for our coverage universe as companies focus on utilization improvement. (4) The extent of deterioration in demand in sub/verticals beyond Mortgage, Retail, Hi-Tech and Telecom. (5) Update on the BFSI sector demand in the backdrop of SVB-Credit Suisse events (6) Strength in Europe and if it can continue to hold its own as the energy crisis seems behind us now (7) Commentary on vendor consolidation and cost optimization projects and their implications for pricing (8) Is the delay in conversion of deal pipeline to TCV and from TCV to revenue easing up or deteriorating? (9) Commentary around salary increases going into FY24, especially for onsite employees (10) Any announcements of buybacks. We remain "Underweight" on the IT sector and prefer Tier-1 set to Tier-2. Brief thesis given inside.

Nifty IT modestly outperforms in 4QFY23: Nifty IT index out-performed Nifty by ~450bps in 4QFY23. The out-performance of Nifty IT was on the back of: (1) DM macro holding up better than expected (2) Indications of no material deterioration in demand pipeline, with the US market continuing to be relatively strong – this is before the banking problems in March'23 (3) Correction of valuation from Oct'21 levels. The IT sector has not run up more because of: (1) Fears of a recession in DMs over the next 6-12 months on account of stronger and swifter monetary tightening by central banks, especially by the US Federal Reserve (2) Concerns emerging around demand in FY24, especially amid adverse comments by IT ecosystem players, including those in software and hardware (3) Valuations are still higher than pre-pandemic levels despite correction from the recent peak.

Exhibit 1: Summary of financial performance by IT companies in our coverage universe for 4QFY23E

(Rsmn) Companies	Revenue						EBIT			EBIT Margin (%)			PAT		
	USD (mn)	4QFY23E	YoY (%)	QoQ (%)	QoQ Growth CC (%)	QoQ Growth USD (%)	4QFY23E	YoY(%)	QoQ(%)	4QFY22	3QFY23	4QFY23E	4QFY23E	YoY (%)	QoQ (%)
TCS	7,307	601,349	18.9	3.3	1.5	3.3	149,557	18.4	4.7	25.0	24.5	24.9	117,187	18.1	8.0
Infosys	4,772	392,741	21.7	2.5	0.9	2.4	87,904	26.4	6.7	21.6	21.5	22.4	68,578	20.4	4.1
Wipro	2,848	238,997	14.6	2.9	-0.5	1.6	39,667	13.0	5.4	16.8	16.2	16.6	32,623	5.7	6.9
HCL Tech	3,321	273,289	20.9	2.4	1.5	2.4	50,854	25.0	-2.7	18.0	19.6	18.6	39,852	10.9	-2.7
Tech Mahindra	1,714	141,101	16.5	2.7	1.0	2.8	18,119	12.9	10.1	13.2	12.0	12.8	13,951	-7.6	8.3
Persistent	276	22,717	38.7	4.7	3.9	4.4	3,646	58.5	9.4	14.0	15.4	16.0	2,855	42.0	20.0
LTIMindtree	1,082	89,052	23.7	3.3	2.0	3.4	14,551	12.5	21.6	18.0	13.9	16.3	12,149	9.4	17.0
Mphasis	442	36,357	10.9	3.7	2.0	2.9	5,610	12.8	4.8	15.2	15.3	15.4	4,321	10.2	4.8
Coforge	266	21,883	25.6	6.4	3.5	5.7	3,393	23.2	13.4	15.8	14.5	15.5	2,374	14.3	4.0

Source: Company, Nirmal Bang Institutional Equities Research. Wipro's USD revenue is only for IT services where as other numbers are for the entire company.

Exhibit 2: Key things to focus on in the numbers and in the management commentary

TCS	• Expect TCS to report revenue growth of ~0.9% QoQ on CC basis, backed by strong order inflow of the last 12 months (consisting of large and mid-sized deals). It is likely to face cross-currency tailwind of ~175bps on QoQ basis. • For 4QFY23, we think that EBIT margin will expand by 40bps QoQ, driven largely by very controlled hiring, higher utilization, pyramid rationalization and lower subcon costs. This will be offset somewhat by aggressively normalizing travel and S&M expenses. • TCV for the first three quarters of FY23 have been within the guided range of US$7-9bn and we believe that 4QFY23 TCV will possibly come in higher than the top end of the range (going by the record numbers seen for Accenture on the manged services side where TCS is a key player and also the recent newsflow around deal wins). Unless we see a good spike in order inflow in 4QFY23, we believe that total order inflow for FY23 will at best be flat YoY (in FY22 it was US$34.6bn) and most likely it will be lower due to the high base TCV of 4QFY22 (US$11.3bn). FYTD, the TCV has been US$24.1bn. • While the new CEO, K Krithivasan, has not indicated any radical change in strategy, we would wait to see if there are any minor tweaks to it (especially around the new corporate structure of addressing different sets of clients which was instituted a year back and was indicated to be ex-CEO, Rajesh Gopinathan's idea). • Commentary around BFSI will be keenly watched - as TCS has likely got the highest exposure in the Tier-1 set with large relationships developed over the decades in both US as well as Europe.
Infosys	• We expect Infosys to grow revenue by 1.6% QoQ in CC terms and expect cross-currency tailwind of ~150bps. • We expect EBIT margin to expand by 90bps QoQ largely on the back of higher utilization, lower sub-con costs, pyramid gains, net headcount reduction and recovery from furlough headwinds faced in 3QFY23. • We expect Infosys to give out 4-8% CC revenue growth guidance for FY24 with a 400bps range, unlike the usual 200bps range. This is likely due to poor visibilty. We think the margin guidance will be ~21-23% • After record large deal TCV of US$3.3bn in 3QFY23, we believe that 4QFY23 TCV number will be flattish to possibly marginally lower on QoQ basis. • We expect net headcount reduction in 4QFY23 as Infosys tightens its operating parameters. • Also, third-party items in the P&L statement will be keenly watched as these have been much higher compared to peers (~6-7% run rate) and has been margin dilutive for the company. The unbilled number is also a close monitorable as it has been rising significantly compared to other players. • We await to see what happens to the positions vacated by Ravi Kumar (who has become the Cognizant CEO) and Mohit Joshi (CEO Desginate of Tech Mahindra). Would wait to see if the responsibilities are filled internally.
HCL Technologies	• We are expecting 1.5% CC growth QoQ compared to 5% CC growth seen in 3QFY23 mainly due to a seasonal dip expected in the P&P business, which had grown by ~30% QoQ in 3QFY23. The company is likely to face cross-currency tailwind of ~90bps. • We expect the company to guide towards 4-8% CC revenue growth with EBIT margin guidance of 18-20% for FY24. • We expect EBIT margin to contract by 100bps QoQ. Lower contribution from the P&P business will lead to margin correction. On the positive side, pyramind rationalization and improvement in utilization will be key levers to watch. • We expect TCV to be flattish in 4QFY23 ~US$2-2.5bn as guided by the company and achieved consistently in the last six quarters. • After below-average hiring in 9MFY23, we believe there should be some uptick in hiring for 4QFY23 as the company has left its guidance of hiring 30,000 freshers unchanged. Quarterly attrition (21.7% in 3QFY23 compared to 23.8% in 2QFY23) is moderating and this trend is expected to continue in 4QFY23 as well. • Key things to watch out for: (1) whether it can continue to deliver the strong TCV numbers of the last many quarters on the services side (2) will services margins move back to their traditional levels after disappointment in 1HFY23?
Wipro	• We estimate (-)0.5% CC QoQ revenue growth in 4QFY23 as against (-)0.6-1% CC growth guidance given by the company. Cross-currency tailwind will be ~210bps. We think Wipro will guide towards (-)0.5-1.5% CC growth on QoQ basis for 1QFY24. Typically, 1Q has been weak due to productivity gains being passed on to some large customers. • We expect TCV to be lower than the US$4.3bn clocked in 3QFY23 as this was the highest-ever TCV in the history of the company. • We expect IT Services EBIT margin to expand by only 40bps QoQ as Wipro had guided for 16.3% to be the new base for EBIT margin and slow & steady growth would be seen on this front on the back of higher utilization, lower sub-con costs and pyramid benefits. • Attrition has been moderating for the last four quarters and this trend is expected to continue in 4QFY23 as well after the company rolled out quarterly promotions and salary increases spread over the last two quarters. Wipro had guided for intake of ~5,000 freshers in 4QFY23, but we believe that it will fall short of this guidance and miss the overall ~30,000 fresher intake guidance for FY23 given at the start of the year. Hiring was exceptionally low in 3QFY23 (~3,000) in a bid to improve utilization and we expect Wipro to shed employees on a net basis in 4QFY23. • We believe that margin has bottomed out and will improve only gradually, but will not hit the medium-term target of 17-17.5% in FY24 due to weak demand. • Things to watch out for: (1) When will the conversion of TCV to revenue pick up? (2) How impacted have been the consulting parts of its business – especially Capco, not only because of general weak macro but also due to the recent problems in the US and European banking space (3) Will it be able to deliver in line with industry organic growth in FY24? We believe it has fallen short in FY23 (4) How it is handling the recent loss of top managers – like Angan Guha (he has joined Birlasoft as the CEO) and Rajan Kohli (who has joined as CEO of CitiusTech)

Tech Mahindra	• We expect Tech Mahindra (TML) to deliver revenue growth of 1.0% QoQ CC, which will be impacted by the general demand slowdown. Cross-currency tailwind will be ~180bps. • Lower growth is on account of some weakness seen in the top 5 client accounts and impact of furloughs, which TML had stated would continue for part of 4QFY23 as well. • In 4QFY23, we expect the TCV number to be at the lower end of the US$700mn-1,000mn range, which it has seen in the last few quarters. • We expect EBIT margin to expand by 80bps QoQ largely on the back of operational efficiencies, improved utilization and lower sub-con costs, which are still higher compared to peers. • There was headcount reduction of 6,844 employees in 3QFY23 and we expect 4QFY23 net hiring to be negative as well to improve utilization. • Would watch out for any top level attrition now that Mohit Joshi has been appointed as the CEO designate.
Persistent Systems (PSL)	• We are expecting 3.9% CC QoQ growth. We expect organic growth decelerating from the mid-to-high single digit levels due to impact from continued furloughs from some of its larger clients especially in the Hi-Tech and BFSI space. • We expect EBIT margin to expand by 60bps QoQ, driven by pyramind rationalization, better utilization and lower SG&A. • We expect TCV to moderate from US$440mn seen in 3QFY23, which was the highest ever mainly due to seasonal bunching up of renewals. We will keep an eye out for the ACV number, which has been consistently coming in above US$130mn for the past several quarters. • Hi-tech has been an area of weakness across the industry and we will await commentary on how that will shape up in the coming quarters considering that it is the vertical with the highest weight in the revenue mix of PSL. • Attrition has been improving QoQ and this trend is expected to continue as the company's hiring was low in 3QFY23. Hiring will remain muted for 4QFY23 in view of the clients shifting towards cost optimization deals where the company has less expertise as well as gradual build-up of vendor consolidation where the company may be at a disadvantage against larger tier-1 players. • Key points to watch for would be (1) when the Hi-Tech vertical will start turning around. (2) how is it cooping with an increasing part of the demand being driven by cost optimization which has never its forte
LTImindtree	• We are expecting 2% CC QoQ growth in the first full quarter for LTIM after the merger was completed on 14th November, 2022. This will be the highest revenue growth in the tier-1 set. It is likely to face cross-currency tailwinds of ~140bps. • We expect EBIT margin to expand by ~240bps vs 3QFY23 as that quarter saw one-off impacts from integration expenses, furloughs as well as increased employee & operational costs. Margin will also expand on the back of synergies realized over the past ~5 months of combined operations. • Attrition is expected to moderate in 4QFY23 as guided by LTIM in the 3QFY23 earnings call and also because the quarterly annualized attrition was lower by ~600bps in 3QFY23. • Net addition was negative in 3QFY23, but we expect that trend to continue in 4QFY23 as the combined entity would increase its utilization • TCV number for 3QFY23 was US$1.25bn, which was the first quarter where this number has been reported. No guidance was shared by LTIM and hence we will want to keep a close eye on this number for 4QFY23. This will be critical number that would be watched as street is expecting LTIM to be among the fastest growing companies in the sector. Client mining is another area that the street will closely watch.
Mphasis	• We expect 2% CC QoQ growth in 4QFY23 for Mphasis Ltd largely driven by the strong TCV growth seen by the company and despite pressure from the mortgage part of the business. It is likely to face cross-currency tailwinds of ~85bps. This comes after a 2.8% CC QoQ decline in 3QFY23 due to significant volume rampdown in the mortgage business as interest rates kept increasing. • We expect EBIT margin to expand by only 10bps due to pyramind rationalization as most new recruits have become billable. • TCV of US$401mn in 3QFY23 was 2nd highest for Mphasis Ltd, but we expect 4QFY23 TCV to be flattish or slightly lower as macro-economic slowdowns and vendor consolidation theme may impact MPHL. • There was a net reduction of ~1,200 employees in 3QFY23 and we expect this trend to continue in 4QFY23 as MPHL hiring is dependent on the overall demand and macro situation, which has been deteriorating over the past couple of months. • With about 60% of its revenue coming from BFSI sector the impact of recent events in this space in both US and Europe will be closely watched.
Coforge	• We expect 3.5% CC QoQ growth in 4QFY23. It is likely to face cross-currency tailwind of ~215bps. • We expect EBIT margin to expand by 100bps as offshore contribution increases, furlough impact subsides and utililzation improves. • In terms of TCV, we expect it to stay flattish on QoQ basis after Coforge recorded its highest ever TCV of US$345mn in 3QFY23. • Attrition at 15.8% in 3QFY23 was already the lowest among our coverage companies and we believe that it will slightly moderate in 4QFY23 as well. • As Coforge has focused on utilization, there was a net employee reduction of 138 in 3QFY23 and we expect that there will not be much uptick in hiring in 4QFY23 as well. • With the company having a larger BFS exposure to Europe, it would be interesting to hear the management commentary around the impact of the Credit Suisse collapse.

Our view on the Indian IT services sector: We had downgraded our view on the Indian IT Services sector to UW through a report on 10th April, 2022 (Positive surprises likely low in FY23; Tier-2 risky) and cut target prices further through our notes on 19th May, 2022 (Customer stress shows up), 8th July, 2022 (Negatives not in price), 10 October, 2022 (Growth expectations too high) and 20th March 2023 (Sell into delayed landing outperformance). We advocate that investors use the 'delayed/no landing' rally seen since October 2022 to pare positions if overweight, especially in the Tier-2 set. Nifty IT index advanced by ~83% from 31st Dec, 2019 till 15th March, 2023 while Nifty is up ~39% (Nifty Bank up by ~21%) during the same period. This massive outperformance of Nifty IT was on the back of pandemic-driven Digital Transformation (DT) services-based earnings acceleration and significant multiple expansion on unprecedented monetary stimulus in the US/Europe. DT high tide over the last 36 months has lifted all boats (including weak ones). However, accelerated normalization of monetary policy in the US raises probabilities of a hard landing there and consequently high probability of negative surprises on the fundamental side over the next 12 months. We believe consensus is under-estimating growth and margin risks in FY24/FY25. While DT services will continue to remain a key theme for the next several years, we believe that 'willingness-to-spend' will be constrained by 'ability-to-spend' as enterprise customers battle earnings pressure from commodity and wage inflation, supply chain challenges, reduced customer spending power, higher interest rates and likely below-trend growth in western developed economies. This, in our view, will mean that the corporate profits of S&P 500 for CY23 are likely be weaker than currently estimated. We also believe that the broader enterprise customer profit picture might look worse. Beyond FY23, we see customers shifting from the current democratic 'skills/capability' focused vendor model to a more discriminating one based on 'ability-to-deliver' (1) cost take outs and (2) business model changes - in that order. It is here that one will see divergence in growth and valuation. Incrementally, risks are to the downside from both valuation as well as fundamental perspective. We favour Tier-1 IT companies vs Tier-2.

While the chances of a near term Fed pivot (due to likely financial/economic stress event rather than lower inflation) and the consequent risk-assets run-up are fair, we persist with our 'UW' stance. This is because: (1) we believe that a conclusive Fed pivot is likely only when US inflation falls to ~2%, which we think is unlikely in the next six months. Financial stress/accident related stopping/easing of current hawkish monetary policy could induce a short-term rally that may not be sustainable (2) consensus earnings estimates for FY24/FY25 continue to be too high and seem to implicitly assume a soft/no landing of the US economy while probability of a recession (shallow/deep) has risen significantly. The latter could lead to pressure on business volume and pricing. We are explicitly pricing in a shallow recession. (3) even if one were to ignore the next 12–18-month risks around recession and take a 5-year view, we believe that starting valuations are expensive and can at best deliver mid to high single-digit total stock returns (including dividends) for TCS/Infosys, as we believe that structural revenue/earnings growth are being overestimated by the street. We believe that revenue/earnings growth over a 5-year period (FY23-FY28) will be 100-200bps higher than the FY15-FY20 period (~7%), whereas peers believe it will be 300-500bps higher. *Ceteris Paribus,* this has valuation/return implications. In our base case of a shallow recession in the US in CY23, we are expecting low-to-mid single-digit USD revenue growth for Tier-1 IT companies in FY24. In our estimates for FY24, we are assuming modest pricing compression while we believe the street is not considering the same. We continue to have a 'SELL' rating on all IT stocks under our coverage. Despite having EPS estimates lower than the street, we suspect it could still see downsides if there is a deep recession in the US.

We continue to maintain TCS as our industry valuation benchmark: We are valuing TCS at target 12-month forward PE of 19.3x on FY25E EPS, which represents 0.5SD below the last 10-year mean. We have changed the valuation multiple from the previous Target PE multiple of 19.9x that we were using, which was 1SD below the 5-year mean. We move away from looking at the 5-year mean because there was a pre-ponderance of high valuations during FY20-FY23. Target multiples for others are at a discount to TCS. If one were to look back in history, our Target PE multiples are not overly pessimistic as PE multiples of many Tier-1 IT stocks, including that of TCS and Infosys, had reached single-digit levels during GFC. Our target multiples are in fact at the higher end of the pre-pandemic PE range.

Tier-2 could face significant risks in the new environment: We fear that the Indian Tier-2 set would suffer more because of vendor consolidation under the pressured profit picture for customers, a less diversified revenue mix (client, service line, vertical), which could throw up negative growth surprises, and a larger exposure to non-Global 1000 clientele, whose profits are more vulnerable in the current macro environment. Indian Tier-2 IT is now at a PE premium of ~21% to Tier-1 (from peak of ~60% in November 2021) from a discount of 14% on 1st Jan, 2020, that too on elevated earnings. This premium reflects expectations of big positive earnings growth gap between Tier-2 and Tier-1 IT companies over FY21-FY24 and improving return ratios. We don't think this level of growth gap will sustain much beyond FY23. The high PE multiples are also reflection of market's view that some Tier-2 IT companies will become US$5-10bn enterprises in the next 10-20 years. Once the 'Digital' high tide recedes, it remains to be seen which of the current Tier-2 set will continue to show promise. In the initial phase of any new tech cycle, customers tend to be open to new vendors, but as the cycle matures (post FY23 in our view), vendors that have scale – Tier-1 - tend to do better. We think customers are looking for revolutionary transformation, which Tier-1 companies with multi-vertical exposure and deeper domain/technology skills are best placed to deliver.

Exhibit 3: Stock and Index Performance

Stock Performance(%)	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	2QCY21	3QCY21	4QCY21	1QCY22	2QCY22	3QCY22	4QCY22	1QCY23	QTD	YTD
TCS	11.3	(5.7)	3.0	(15.5)	14.0	19.7	14.9	11.0	5.3	12.8	(1.0)	0.0	(12.6)	(8.0)	8.4	(1.6)	(0.2)	(1.7)
Infosys	(1.6)	10.1	(9.2)	(12.3)	14.7	37.0	24.6	8.9	15.6	6.0	12.7	1.0	(23.3)	(3.3)	6.7	(5.3)	(1.2)	(6.5)
Wipro	10.1	(14.5)	2.5	(20.0)	11.7	42.7	23.2	7.2	31.8	16.2	12.8	(17.3)	(29.7)	(5.2)	(0.4)	(7.0)	0.8	(6.3)
HCL Tech	(2.1)	1.5	5.1	(23.2)	27.6	45.7	16.6	3.9	0.1	30.1	3.1	(11.8)	(16.4)	(4.2)	11.5	4.4	1.2	5.7
Tech Mahindra	(8.9)	1.1	6.7	(25.8)	(3.9)	45.7	22.9	1.9	10.5	26.0	29.7	(16.3)	(33.3)	0.9	0.8	8.4	0.3	8.7
Persistent	(1.9)	(7.7)	18.3	(18.3)	15.3	111.2	13.1	26.7	52.9	26.5	32.0	(2.8)	(28.6)	(4.7)	19.4	19.1	(1.6)	17.1
Mindtree	(1.8)	(23.7)	13.0	3.6	11.7	44.6	24.0	25.5	24.8	61.5	13.8	(10.0)	(32.9)	9.4	NA	NA	NA	NA
Coforge	1.5	3.7	14.0	(27.8)	22.8	64.8	16.5	8.2	42.0	26.1	12.4	(24.3)	(20.6)	(5.0)	15.5	(1.8)	0.7	(1.1)
DXC	(14.2)	(46.5)	27.4	(65.3)	26.4	8.2	44.3	21.4	24.6	-13.7	(4.2)	1.4	(6.4)	(19.2)	8.3	(3.5)	0.0	(3.5)
Endava	46.3	(5.9)	23.1	(24.5)	37.4	30.7	21.5	10.3	33.9	19.8	23.6	(20.8)	(29.9)	(8.7)	(5.1)	(12.2)	0.0	(12.2)
Cognizant	(12.5)	(4.9)	2.9	(25.1)	22.3	22.2	18.0	(4.7)	(11.3)	7.1	19.6	1.1	(23.6)	(14.9)	(0.4)	6.5	0.0	6.5
Accenture	5.0	4.1	9.5	(22.5)	31.5	5.2	15.6	5.8	6.7	8.5	29.6	(18.7)	(17.0)	(7.3)	3.7	7.1	0.0	7.1
Globant SA	41.5	(9.4)	15.8	(17.1)	70.5	19.6	21.4	(4.6)	5.6	28.2	11.8	(16.6)	(30.5)	7.5	(10.1)	(2.5)	0.0	(2.5)
Epam Systems INC	2.3	5.3	16.4	(12.5)	35.7	28.3	10.8	10.7	28.8	11.6	17.2	(55.6)	3.6	22.9	(9.5)	(8.8)	0.0	(8.8)
Cap Gemini	1.2	(1.1)	0.7	(29.3)	32.4	7.7	15.5	14.4	11.6	11.2	19.6	(6.0)	(16.5)	1.3	(5.8)	9.5	(0.1)	9.5
Cyient	(16.5)	(14.2)	(11.8)	(44.1)	20.3	39.1	33.8	26.2	32.8	23.6	(3.7)	(9.3)	(18.4)	4.8	2.3	22.7	0.3	23.1
Mphasis	1.3	(4.7)	(3.6)	(28.0)	32.3	57.4	11.3	15.4	20.1	45.5	9.4	(0.6)	(32.1)	(9.0)	(5.5)	(9.0)	0.1	(8.9)
LTIM	7.5	(17.4)	15.8	(18.4)	37.0	29.9	43.9	10.8	0.4	41.6	27.2	(16.0)	(35.4)	12.1	(2.1)	9.0	(0.3)	8.7
LTTS	11.0	(12.8)	(3.6)	(20.9)	10.5	26.1	44.6	13.4	9.4	61.8	19.2	(8.8)	(40.6)	18.5	2.6	(8.3)	1.7	(6.7)
Tata Elxsi	(8.1)	(23.5)	22.0	(23.8)	42.6	43.4	42.6	46.7	59.8	30.0	4.9	50.7	(7.6)	4.7	(26.5)	(5.2)	1.2	(4.1)
Intellect Design	30.6	(31.3)	(24.2)	(60.7)	105.2	100.0	41.1	134.9	(2.2)	-1.9	4.5	27.4	(33.0)	(18.3)	(13.8)	(8.0)	3.4	(4.9)
OFSS	(6.4)	0.1	(13.7)	(26.1)	41.5	7.3	4.6	(0.4)	14.1	24.8	(13.1)	(9.4)	(13.3)	(3.7)	1.4	8.0	0.3	8.3
Ramco Systems	(11.5)	(23.1)	4.2	(56.7)	50.2	285.4	41.3	(11.7)	14.9	-21.1	(1.5)	(44.1)	6.3	(6.3)	(3.5)	(24.7)	3.1	(22.4)
Just Dial	26.1	(9.3)	(17.2)	(48.6)	36.9	(5.4)	66.5	36.3	11.4	2.9	(17.4)	(12.9)	(20.5)	0.7	5.6	(0.9)	(1.6)	(2.6)
Infoedge	22.0	(10.1)	25.2	(19.6)	35.7	31.6	30.9	(10.0)	14.8	30.8	(13.3)	(19.1)	(16.6)	2.7	1.9	(5.3)	(1.0)	(6.3)
Makemytrip	(10.1)	(8.5)	0.9	(47.8)	28.1	0.3	92.3	6.9	(4.8)	-9.5	1.9	(3.2)	(6.0)	19.5	(10.2)	(11.2)	NA	(11.2)
Birlasoft	(12.5)	(19.8)	2.1	(13.7)	46.6	118.2	26.5	2.5	57.9	2.5	33.0	(16.5)	(22.4)	(20.0)	5.8	(12.6)	2.1	(10.7)
Mastek	7.5	(26.9)	20.1	(54.6)	110.3	116.6	31.0	7.7	85.8	37.6	(3.2)	10.0	(35.4)	(18.8)	(1.8)	(9.8)	(0.6)	(10.4)
Zensar	12.3	(15.2)	(20.4)	(49.6)	40.7	55.3	23.4	15.4	13.7	53.5	9.2	(29.6)	(25.8)	(22.2)	0.6	28.8	0.8	29.8
Newgen Software	(5.7)	(13.8)	(27.0)	(45.7)	40.9	45.2	23.8	5.5	125.3	-8.5	1.0	(21.0)	(23.2)	(0.3)	1.0	25.1	(1.0)	23.8
Happiest Minds							(1.3)	56.9	85.9	37.4	(6.0)	(18.5)	(21.5)	19.9	(11.3)	(12.9)	3.1	(10.2)
Hinduja Global Solutions	3.8	(10.3)	1.2	(13.3)	29.6	6.0	62.7	53.0	39.2	19.1	15.5	(38.1)	4.2	18.5	5.2	(22.6)	(0.3)	(22.8)
Perficient Inc	25.3	12.4	19.4	(41.2)	32.1	19.5	11.5	23.2	37.0	43.9	11.7	(14.9)	(17.4)	(29.1)	7.4	3.4	0.0	3.4
Index Performance (%)																		
Nasdaq	4.0	1.0	12.7	(10.5)	30.0	12.4	12.9	1.6	11.2	0.9	11.1	(9.1)	(21.4)	(4.6)	(0.3)	20.5	0.0	20.5
S&P 500	3.8	1.2	8.5	(20.0)	20.0	8.5	11.7	5.8	8.2	0.2	10.6	(4.9)	(15.7)	(5.3)	7.1	7.0	0.0	7.0
Stox 600	1.5	2.2	5.8	(23.0)	12.6	0.2	10.5	7.7	5.4	0.4	7.3	(6.5)	(9.3)	(4.8)	9.6	7.8	0.0	7.8
DAX	7.6	0.2	6.6	(25.0)	23.9	3.7	7.5	9.4	3.5	-1.7	4.1	(9.3)	(9.8)	(5.2)	14.9	12.2	0.0	12.2
Nikkei	0.3	2.3	8.7	(20.0)	17.8	4.0	18.4	6.3	(1.3)	2.3	(2.2)	(3.4)	(3.7)	(1.7)	0.6	7.5	0.5	7.5
MSCI EM	(0.3)	(5.1)	11.4	(23.9)	17.3	8.7	19.3	1.9	4.4	-8.8	(1.7)	(7.3)	(11.3)	(12.5)	9.2	3.5	0.0	3.5
Bovespa	5.8	3.7	10.4	(36.9)	30.2	(0.5)	25.8	(2.0)	8.7	-12.5	(5.5)	14.5	(17.0)	11.7	NA	NA	NA	NA
HSCEI	(4.4)	(6.3)	9.5	(14.1)	1.7	(3.7)	14.3	2.2	(2.8)	-18.2	(5.6)	(8.6)	2.2	(22.9)	13.4	3.9	0.0	3.9
NIFTY IT	2.0	(2.5)	0.7	(18.5)	15.6	35.2	21.6	6.6	12.8	20.1	10.5	(6.2)	(23.3)	(3.1)	6.1	0.3	(0.2)	0.0
NIFTY BANK	2.2	(6.4)	10.5	(40.5)	11.6	0.4	45.7	6.5	4.4	7.6	(5.2)	2.5	(8.1)	15.6	11.3	(5.5)	0.5	(5.1)
NIFTY FMCG	(2.6)	5.4	(3.3)	(9.3)	10.0	(0.7)	14.5	2.2	3.3	12.0	(7.0)	(3.4)	3.8	17.9	(0.5)	3.9	(0.4)	3.5
NIFTY AUTO	(4.9)	(5.5)	10.1	(42.6)	42.0	17.7	16.3	7.3	7.5	0.0	3.2	(3.5)	10.9	8.5	(0.7)	(2.9)	1.5	(1.5)
NIFTY ENERGY	(2.7)	(3.4)	2.6	(30.1)	29.4	4.4	12.6	7.5	9.0	15.3	(1.0)	14.1	(2.8)	1.9	1.1	(11.8)	(0.0)	(11.8)
NIFTY PHARMA	(13.7)	(6.4)	6.5	(10.7)	39.1	17.9	9.7	(5.0)	16.6	1.1	(1.7)	(4.5)	(10.5)	6.7	(2.9)	(4.6)	0.4	(4.2)
NIFTY METAL	(2.1)	(18.1)	14.8	(43.4)	25.6	12.6	45.1	22.2	31.1	7.6	(1.6)	16.3	(27.4)	23.8	16.6	(18.2)	(0.4)	(18.5)
NIFTY INFRA	5.0	(4.8)	1.5	(27.5)	28.5	1.6	18.5	12.0	6.2	15.8	(1.5)	1.4	(7.9)	7.3	5.9	(3.1)	0.3	(2.8)
NIFTYMIDCAP	(3.3)	(9.2)	6.7	(31.6)	25.6	15.5	22.7	13.7	13.8	12.7	0.2	(2.5)	(10.9)	15.9	2.7	(4.7)	0.4	(4.3)
NIFTY SMALLCAP	(7.1)	(9.8)	4.3	(38.4)	28.4	26.2	21.7	14.5	20.0	11.9	3.7	(7.6)	(19.1)	11.8	3.1	(7.6)	0.7	(6.9)
NIFTY	1.4	(2.7)	6.0	(29.3)	19.8	9.2	24.3	5.1	7.0	12.1	(1.5)	0.6	(9.6)	8.3	5.9	(4.1)	0.2	(3.9)
USD/INR	69.5	70.3	71.4	72.4	75.9	74.4	73.8	72.9	73.8	74.1	75.0	75.2	77.3	79.8	82.2	82.3	82.3	82.3

Source: Bloomberg, Nirmal Bang Institutional Equities Research, Priced as of 3 April, 2023

Exhibit 4: Indian IT services sector valuations

	TCS	Infosys	Wipro	HCL Tech	Tech Mahindra	Persistent	LTIM	Mphasis	Coforge
Year ending	**March**	**March**	**March**	**March**	**March**	**March**	**March**	**March**	**March**
Prices as on 03-Apr-23	**3,200**	**1,411**	**368**	**1,098**	**1,105**	**4,534**	**4,747**	**1,798**	**3,840**
Currency	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**	**INR**
Market Value (Rs Bn)	11,664.9	5,831.0	2,013.1	2,968.8	1,072.4	345.2	1,399.0	337.4	233.7
(US$mn)	**142,255**	**71,110**	**24,549**	**36,205**	**13,078**	**4,210**	**17,061**	**4,115**	**2,850**
Sep 2023 Target Price	2,709	1218	351	944	992	2912	3842	1636	3171
Upside/(downside)	-15.3%	-13.7%	-4.7%	-14.0%	-10.2%	-35.8%	-19.1%	-9.0%	-17.4%
Recommendation	Sell	Sell	Sell	Sell	Sell	Sell	Sell	Sell	Sell
FDEPS (Rs)									
FY20	86.2	38.9	16.6	40.8	45.2	44.4	87.1	63.6	71.5
FY21	89.3	45.5	19.1	47.7	49.9	58.8	111.2	64.7	74.7
FY22	103.6	52.4	22.3	49.8	62.7	90.2	133.3	76.4	109.0
FY23E	116.1	59.3	21.0	54.9	57.8	125.0	152.4	88.5	133.9
FY24E	125.9	61.5	23.1	58.5	60.3	150.6	172.3	95.5	154.8
FY25E	140.4	70.1	26.0	65.2	73.4	167.6	199.1	105.9	182.5
FY26E	155.2	79.5	29.4	74.7	84.5	203.0	233.8	124.0	224.0
PE (x)									
FY20	37.1	36.2	22.1	26.9	24.4	102.2	54.5	28.3	53.7
FY21	35.8	31.0	19.3	23.0	22.2	77.2	42.7	27.8	51.4
FY22	30.9	26.9	16.5	22.0	17.6	50.3	35.6	23.5	35.2
FY23E	27.6	23.8	17.5	20.0	19.1	36.3	31.1	20.3	28.7
FY24E	25.4	23.0	16.0	18.8	18.3	30.1	27.5	18.8	24.8
FY25E	22.8	20.1	14.2	16.8	15.0	27.0	23.8	17.0	21.0
FY26E	20.6	17.7	12.5	14.7	13.1	22.3	20.3	14.5	17.1
EV/EBITDA (x)									
FY20	27.6	26.7	14.1	17.4	15.6	69.4	40.8	21.7	31.2
FY21	25.0	21.1	11.1	13.7	12.4	49.3	30.2	19.6	28.5
FY22	21.8	18.9	10.1	13.7	11.3	35.5	22.3	16.7	20.1
FY23E	19.6	17.0	10.3	12.3	11.6	22.6	25.4	14.4	16.3
FY24E	18.4	15.9	8.4	11.3	10.5	19.3	19.8	13.1	14.2
FY25E	16.5	14.1	7.2	10.4	9.0	17.2	17.0	11.4	12.5
FY26E	14.9	12.4	6.1	9.1	7.9	14.2	14.3	9.4	10.3
EV/Sales (x)									
FY20	7.4	6.5	2.9	4.1	2.4	9.6	7.6	4.0	5.4
FY21	7.1	5.9	2.9	3.8	2.3	8.0	6.6	3.6	4.8
FY22	6.0	4.9	2.3	3.3	2.0	6.0	4.4	3.0	3.6
FY23E	5.2	4.1	2.0	2.8	1.8	4.2	4.6	2.5	2.9
FY24E	4.9	3.8	1.8	2.6	1.7	3.6	3.8	2.4	2.6
FY25E	4.4	3.4	1.6	2.3	1.5	3.2	3.4	2.1	2.3
FY26E	3.9	3.0	1.4	2.0	1.4	2.6	2.9	1.9	1.9
Pre Tax ROIC (%)									
FY20	55.5	43.0	32.2	33.3	28.6	35.1	56.3	33.5	31.8
FY21	54.9	45.7	35.9	33.7	32.8	57.2	67.6	33.1	33.7
FY22	59.7	47.0	32.3	33.0	33.3	58.0	55.3	35.6	35.3
FY23E	62.1	49.1	24.6	37.1	26.0	47.7	53.0	37.4	31.8
FY24E	61.7	49.3	25.4	38.6	27.5	42.4	60.9	37.6	33.1
FY25E	64.6	52.9	29.1	41.0	33.1	43.9	64.7	39.3	34.3
FY26E	64.6	56.1	33.9	44.3	37.6	49.1	67.4	44.2	37.6

Source: Company, Nirmal Bang Institutional Equities Research

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