

IT & TELECOM Q4FY23 RESULT PREVIEW – MACROECONOMIC CONDITIONS MORE CHALLENGING; SLOWING DOWN THE DEMAND

IT Services sector is expected to report moderated growth in Q4FY23 primarily on account of challenging times from world's largest economies. IT automations in North America and Europe may show delayed spend or may face some spend cuts going ahead. We believe many of large enterprises will shift their focus on cost optimizations resulting in higher cost take out deals, vendor consolidation & lower discretionary spend. BFSI, Manufacturing, Telecom, Retail and Hi tech verticals are expected to be the impacted by the slowdown, thus weakening FY24E growth momentum outlook.

We expect IT services to report revenue growth in the range of 0.8%-1.5% QoQ in US\$ terms. In rupee terms, we expect the sector to deliver QoQ revenue growth of 1% to 8%. However margins are likely to expand marginally by 50-100 bps aided by easing of supply-side constraints, lower attrition rate, lower onsite cost and moderated sub-con cost.

Key Monitorables: Management commentary on critical issues such as 1) Outlook on client spend, 2) Vertical outlook, 3) Rising subcontractor costs, and 4) Pricing pressure on realizations would be key monitorables, moving forward

Sector and companies' Q4FY23 expectations: We expect Large Cap IT companies to report a moderated growth with 0.8%-1.5% revenue growth on a QoQ basis. The Mid Cap IT companies are likely to surpass the growth of Large Caps' performance depending on the nature of the business.

TCS: We expect TCS to report revenue growth of 2.5% QoQ. Its Operating Margins are likely to expand by 97bps. Key attributes to watch out for are a) Deal TCV/pipeline, b) Pricing scenario, and c) Outlook on growth/margins/DSO days.

Infosys: We expect the management to revise the company's revenue growth guidance for FY22E upwards and expect it to deliver revenue growth of 2.4%. Moreover, its margins are likely to improve by 461bps QoQ, aided by a favourable currency mix and strong volume growth. Watch out for a) Deal TCVs and pipeline, b) Pricing scenario, c) Attrition, and d) Outlook on growth/margins/DSO day.

HCL Tech: We expect HCL Tech to report revenue growth of 1.4% QoQ in rupee terms while delivering operating margins contraction of 65bps. Key factors to watch out for are a) Deal TCV/deal pipeline, b) Pricing scenario, and c) Outlook on growth, operating margins and P&P business.

Wipro: We expect Wipro to report revenue growth of 2.6% QoQ in rupee terms and operating margins to expand by 100bps. Key monitorables would be a) Deal TCV/pipeline, b) Pricing scenario, and c) Outlook on new deals.

Tech Mahindra: We expect the company to report revenue growth of 4.8% on a QoQ basis while its margins are likely to remain stable during the quarter. Watch out for a) Deal TCVs and pipeline from communication vertical, b) Pricing scenario, c) Attrition, d) Outlook on growth/margins/DSO day, and e) commentary on 5G rollout.

L&T Infotech: We expect LTI to report strong revenue QoQ growth of 4.8% in rupee terms. Operating Margins, however, are expected to decline by 27bps. Key things to watch out for are management commentary on E&U and Manufacturing verticals.

LTTS: LTTS is likely to register satisfactory revenue growth of 3.8% QoQ, mainly led by the ramp-up of large deals. We further expect operating margins to improve on account of lower on-site expenses and cost control initiatives undertaken by the company. Key monitorables would be the management's commentary on verticals and allied business.

Coforge: We expect Coforge to deliver robust revenue growth of 5.4% QoQ, primarily driven by a ramp-up of large deals. However, its operating margins are likely to improve by 142bps because of strong volume growth. Key things to watch out for are verticals commentary on Transportation and Insurance.

Mindtree: Mindtree is likely to report robust revenue growth of 6.3% QoQ mainly because of the ramp-up in large deals. Operating margins, however, are likely to decline by 82bps due to higher onsite expenses and wage hikes. Key things to watch out for are verticals commentary on Hi-tech and Media.

Persistent Systems: Persistent Systems is expected to report robust revenue growth of 8% QoQ primarily due to the ramp-up of large deals. Furthermore, we foresee operating margins improving by 24bps due to cost control initiatives undertaken by the company. Key things to watch out for are a commentary on verticals and allied business.

Indiamart Intermesh: Indiamart is likely to register satisfactory revenue growth of 6.4% QoQ, mainly led by strong booking and collections. We further expect operating margins to decline to 35% on account of higher employee expenses and higher customer acquisition cost. However demand scenario to be remained robust.

Cyient: We expect revenues to stabilize post-resolution of some client-specific issues and expect the company to report revenue growth of 0.8% QoQ. On a positive note, the company's margins are expected to improve by 9bps. Key things to watch out for are a commentary on verticals such as Aerospace, Defense, and DLM business.

Affle: We estimate Affle to report robust revenue growth of 3.8% on a QoQ basis in rupee terms. Operating margins are also likely to remain stable. Key things to watch out for are a) Mobile Ad-spends from clients across geographies.

Zensar Technologies: We expect Zensar to report revenue growth of 4.2% QoQ in rupee terms, aided by the ramp-up in the Hi-tech and BFSI verticals. We also expect the company's operating margins to improve by 19bps QoQ. Watch out for a) Deal TCVs and pipeline, b) Pricing scenario, c) Attrition, and d) Outlook on growth/margins/DSO day.

Bharti Airtel: We expect Bharti Airtel to post a healthy recovery in terms of curtailing losses and reporting a profit. Revenues are likely to grow by 6.5% QoQ, led by higher wireless revenues in India as well as in Africa. Operating margins are likely to witness marginal expansion due to lower commission costs and S&M expenses.

Security Intelligence Systems (SIS): We expect SIS to report revenue growth of 1.8% QoQ mainly because of a slight pick-up in the Security Guard vertical. We also expect operating margins to improve, thanks to the lower onsite expenses and cost control initiatives undertaken by the company. Key things to watch out for are security businesses in India and abroad.

The key picks are as follows:

Our top Result Buys are: Tech Mahindra, Persistent Systems, Mindtree, Bharti Airtel, Coforge

Our top Result Sells are: Cvient. SIS

Information Technology

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
TCS						
Revenues	59,456	58,228	2.1%	50,591	17.5%	→ We expect moderated growth backed by delayed spending slower rampup
EBITDA	15,094	14,284	5.7%	12,628	19.5%	→ Margins likely to expand, aided by slowing supplyside constraints and favourable currency mix
EBITDA margin (%)	25.4	24.5	86	29.3	(391)	→ We expect strong deal wins in the quarter
PAT	11,488	10,846	5.9%	9,926	15.7%	→ Management commentary on new deal ramp up and visibility going ahead is key thing to watch
EPS (Rs)	31.5	29.6	6.4%	27.0	16.7%	
Infosys						
Revenues	38,823	38,318	1.3%	32,276	20.3%	→ We expect revenue to grow at 1.3% QoQ on the backdrop of delayed decision making
EBITDA	8,698	8,242	5.5%	6,956	25.0%	→ Margins likely to expand, aided by slowing supplyside constraints and favourable currency mix
EBITDA margin (%)	22.4	21.5	90	27.6	(520)	→ Key monitorables are BFSI impact after banking crisis, vertical commentry going ahead
PAT	6,920	6,586	5.1%	5,686	21.7%	
EPS (Rs)	16.4	15.7	4.6%	13.5	21.3%	
HCL Tech						
Revenues	26,553	26,700	-0.6%	22,597	17.5%	→ We expect revenue to de-grow by 0.6% QoQ growth
EBITDA	4,928	5,228	-5.7%	4,069	21.1%	→ Operating margins may contract due to lower volume
EBITDA margin (%)	18.6	19.6	(102)	25.9	(734)	→ We expect strong deal wins in the quarter
PAT	3,830	4,096	-6.5%	3,594	6.6%	→ Management commentary on new deal ramp up and visibility going ahead are key thing to watch
EPS (Rs)	13.5	12.9	4.7%	12.7	6.3%	

Information Technology (Cont'd)

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
Wipro						
Revenues	23,452	23,229	1.0%	20,860	12.4%	➔ We expect revenue to grow by 2.6% QoQ aided by strong deal wins ➔ Margins likely to improve slightly due to strong volume growth and strong executions ➔ The management commentary on new deal ramp up and visibility going ahead is key thing to watch
EBITDA	3,870	3,624	6.8%	3,403	13.7%	
EBITDA margin (%)	16.5	15.6	90	25.2	(870)	
PAT	3,556	3,053	16.5%	3,087	15.2%	
EPS (Rs)	6.0	5.6	7.3%	5.7	6.2%	
Tech Mahindra						
Revenues	13,922	13,735	1.4%	12,116	14.9%	➔ We expect revenue to grow by 1.4% QoQ aided by rampup on the new deal wins ➔ Margins likely to improve due to strong volume growth and strong executions ➔ Key monitorables are employee addition and visibility on 5G going ahead
EBITDA	1,795	1,646	9.1%	1,604	11.9%	
EBITDA margin (%)	12.9	12.0	91	20.0	(711)	
PAT	1,356	1,297	4.5%	1,506	-10.0%	
EPS (Rs)	15.5	14.6	6.2%	17.1	-9.4%	
LTIMindtree						
Revenues	8,902	8,620	3.3%	7,199	23.7%	➔ We expect 3.3% growth in revenue driven by large deal ramp up ➔ Operating margins are likely to improve aided by improvement in utilizations ➔ Vertical commentary in the BFSI, manufacturing, and Retail should be key things to watch out for.
EBITDA	1,431	1,197	19.5%	1,292	10.8%	
EBITDA margin (%)	16.1	13.9	219	21.9	(582)	
PAT	1,240	1,000	24.0%	1,134	9.3%	
EPS (Rs)	41.7	33.7	23.7%	38.3	8.9%	

Information Technology (Cont'd)

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
Persistent Systems Ltd						
Revenues	2,267	2,169	4.5%	1,638	38.4%	→ We expect 4.5% growth in revenue because of large deal ramp up
EBITDA	355	333	6.6%	230	54.3%	→ Operating margins are likely to improve aided by improvement in utilizations
EBITDA margin (%)	15.7	15.4	31	16.9	(124)	
PAT	279	238	17.2%	201	38.8%	→ Digital transformation deals and ramp up on new deal wins are key things to see
EPS (Rs)	36.4	31.1	17.0%	26.3	38.4%	
Coforge Ltd						
Revenues	2,180	2,056	6.0%	1,743	25.1%	→ We expect 6% growth in revenue owing to large deal ramp up
EBITDA	360	299	20.4%	271	32.8%	→ Margins are likely to improve to some extent due to strong volume growth and strong executions
EBITDA margin (%)	16.5	14.5	197	16.8	(29)	
PAT	280	228	22.8%	208	34.6%	→ Digital transformation deals and ramp up on new deal wins are key things to see
EPS (Rs)	45.0	36.9	22.0%	33.6	33.9%	
LTTS Ltd						
Revenues	1,752	1,688	3.8%	1,441	21.6%	→ We expect 3.4% growth in revenue due to ramp up in recent deal wins
EBITDA	375	367	2.2%	293	28.2%	
EBITDA margin (%)	21.4	21.7	(34)	20.3	110	→ Operating Margins may remain flattish
PAT	263	249	5.6%	195	34.9%	→ ER&D spends from Europe and vertical commetry
EPS (Rs)	24.6	23.6	4.2%	17.6	39.8%	

Information Technology (Cont'd)

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
Cyient Ltd						
Revenues	1,735	1,618	7.2%	1,181	46.9%	➔ We expect strong growth of 7.2% due to better recovery in top client account
EBITDA	235	208	13.0%	171	37.4%	
EBITDA margin (%)	13.5	12.9	69	14.5	(93)	➔ Operating Margins may improve due to strong volume growth
PAT	165	163	1.2%	154	7.1%	➔ Digital transformation deals and ramp up on new deal wins are key things to see
EPS (Rs)	15.0	14.8	1.4%	14.0	7.1%	
Zensar Technologies						
Revenues	1,225	1,198	2.3%	1,154	6.2%	➔ We expect 2.3% growth in revenue driven by Hi-tech vertical. We also expect recovery in digital business mainly from the BFSI Vertical
EBITDA	108	85	27.1%	116	-6.9%	
EBITDA margin (%)	8.8	7.1	172	10.1	(124)	➔ Operating margins are likely to improve aided by improvement in utilizations
PAT	94	77	22.6%	130	-27.7%	➔ Vertical commentary on Hi-tech and New deal wins should be key things to watch out for..
EPS (Rs)	4.1	3.4	20.6%	16.9	-75.7%	
SIS						
Revenues	2,648	2,601	1.8%	2,167	22.2%	➔ Strong demand for sanitation and security guards will help the company post better results
EBITDA	140	130	7.7%	117	19.7%	
EBITDA margin (%)	5.3	5.0	28.89	5.4	(11)	➔ Margins are likely to Improve due to higher contribution from international business
PAT	82	100	-18.0%	54	51.1%	➔ Ramp up of International business and domestic business to be monitored
EPS (Rs)	5.2	6.8	-23.5%	3.9	33.7%	

Information Technology (Cont'd)

Year-end March (Rs Cr)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
Affle Ltd						
Revenues	352	339	3.8%	140	352	
EBITDA	67	68	(0.01)	34	67	→ Higher mobile data use will help Affle to post strong growth of 3.8%
EBITDA margin (%)	19	20	(102.49)	24	19	→ Ramp up of International business and domestic business to be monitored
PAT	50	62	-19.4%	59	50	
EPS (Rs)	3.7	4.6	-19.9%	4.8	3.7	
Bharti Airtel						
Revenues	31,797	29,867	6.5%	25,747	23.5%	→ QoQ improvement may be seen with increase in India and Africa wireless revenue.
EBITDA	16,287	14,703	0.11	12,332	32.1%	
EBITDA margin (%)	51	49	199.29	48	333	→ Strong service mix and increase in ARPU may help in gaining the margins
PAT	1,689	830	103.5%	1,511	11.8%	
EPS (Rs)	5.3	1.5	253.3%	2.1	152.4%	→ Strong customer additions and conversion in 4G from 2G
IndiaMart Intermesh						
Revenues	200	188	6.4%	180	11.1%	→ QoQ improvement may be seen with increase in strong addition in customers
EBITDA	70	79	(0.11)	85	-17.6%	
EBITDA margin (%)	35	42	(702.13)	47	(1,222)	→ Higher employee cost may impact margins
PAT	75	70	7.1%	56	33.9%	→ Higher collections and bookings
EPS (Rs)	24.6	23.0	6.8%	18.8	30.9%	

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