

Information Technology

1QFY24 Result Preview

July 01, 2023

Will 'Slower for Longer' fears be validated?

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Key Points

- We expect most companies under our coverage to deliver a weak 1QFY24 QoQ in what should have been a seasonally strong quarter. There is a fair probability that the upper end of revenue guidance provided by Infosys and HCLT may be scaled back. 2Q/2HFY24 growth pick up indicated by many companies may need to be tempered. That has likely led to Nifty IT underperforming Nifty by 750bps in 1QFY24. Consensus expectation of revenue uptick in FY25 may be at risk if US recession gets pushed back to 2024. That could be a dampener on sector performance due to a 'slower for longer' fundamental performance.
- S&P 500 earnings has been better than expected in March 2023 quarter, but customer caution over the last 3 months has led to Technology and IT services companies downgrading their outlooks ([Too early to be positive](#)). Large BFS clients in the US have become cautious spenders despite record profits. Need to see if the recent stress tests by the US Fed, which the banks cleared will lead to easing up on the caution. Market will try to determine if customers have frozen spending plans for 2023 at weak levels and will revisit them only in early 2024.
- We believe Nifty IT will continue to underperform Nifty over the next 6 months.

We expect weak margins QoQ. While pyramid, cross currency, higher utilization, easing of attrition and backfilling costs, lower sub-con costs, lower quantum of salary hikes, etc will be tailwinds, lack of operating leverage, rebadging, higher travel and facilities costs, transition costs from cost optimization projects and likely pricing pressure will act as headwinds.

2H recovery unlikely: The implied macro view for a 2H recovery has been that worst on the macro front in the US is behind us. EPAM, Thoughtworks, Coforge are exceptions indicating that there may be no recovery in 2HFY24. Coforge talked about significant competitive intensity and pricing pressure (though it remains confident on delivering its own guidance of 13-16% CC revenue growth!). 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, cancellations or ramp-downs of projects, focus on cost optimisation and vendor consolidation will remain common themes across company commentaries for 1QFY24.

TCV to revenue conversion will be watched closely: Although 4QFY23 was a very strong quarter in terms of deal flows for almost all companies in our coverage, it was 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 that was seen in 2HFY23. With the current macro, pushing back of discretionary spending, and project delays/cancellations we believe almost all our coverage companies will see a QoQ and YoY decline in deal TCV in 1QFY24. Another issue lies with conversion of TCV to revenue and the quantum of leakages from the signed up TCV of the prior quarters. Leakage have been higher than normal levels is what we gather from our discussions with companies though numbers have been difficult to get.

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Expect market share fight to intensify: With Ravi Kumar, the new CEO, starting to put large deal infrastructure in place, Cognizant has started to hold on to its existing market share and very likely going to claw back some which was lost ([Early signs](#)). Similarly, we see Accenture winning significant TCV in the managed deals ([Confirms weak 1HFY24](#)). All of this means that Tier-1 players will see heightened competitive intensity in the days to come.

Key things to watch out for: (1) if there is any downward revision in the growth outlook for FY24. We expect companies to point towards a flat to modestly deteriorating margin picture for FY24 vis-à-vis FY23 (2) TCV in 1QFY24 and outlook on the same for FY24 especially if customers have frozen spending at current weak levels. (3) conversion of existing TCV to revenue (4) Net hiring – we expect an aggregate negative figure for our coverage universe as companies focus on utilization improvement. (5) The extent of deterioration in demand in sub/verticals beyond BFS, Retail, Hi-Tech and Telecom. (6) Update on generative AI and any projects related to it. With a most of the discussions around productivity, one of the things we would focus on is the extent of deflation if any on any service line. (7) Strength in Europe and if it can continue to hold up as was the case throughout FY23. After having weathered the winter energy scare in 2022, the economic situation in Europe does not look like improving anytime soon with lingering high inflation (8) Commentary on vendor consolidation and cost optimization projects and their implications for pricing (9) whether delays in conversion of deal pipeline to TCV and from TCV to revenue easing up or deteriorating? (10) Commentary around salary increases going into FY24, especially for onsite employees (11) if pricing pressures would be seen in 2HFY24.

Exhibit 1: Summary of financial performance by IT companies in our coverage universe for 1QFY24E

(Rsmn) Companies	Revenue						EBIT			EBIT Margin (%)			PAT		
	USD (mn)	1QFY24E	YoY (%)	QoQ (%)	QoQ Growth CC (%)	QoQ Growth USD (%)	1QFY24E	YoY (%)	QoQ (%)	1QFY23	4QFY23	1QFY24E	1QFY24E	YoY (%)	QoQ (%)
TCS	7,300	599,666	13.7	1.4	1.0	1.45	141,701	16.3	-2.2	23.1	24.5	23.6	108,555	14.5	-4.7
Infosys	4,563	374,859	8.7	0.1	0.0	0.2	80,778	16.8	2.5	20.1	21.0	21.5	62,638	16.9	2.2
Wipro	2,767	230,548	7.1	-0.6	-2.0	-2.0	39,129	22.7	4.1	14.8	16.2	17.0	32,283	25.9	5.0
HCL Tech	3,251	267,051	13.8	0.4	0.0	0.5	46,907	17.5	-3.0	17.0	18.2	17.6	36,215	10.3	-9.1
Tech Mahindra	1,666	136,856	7.7	-0.2	0.0	-0.1	14,907	6.2	-2.6	11.0	11.2	10.9	11,628	2.8	4.0
Persistent	283	23,249	23.8	3.1	3.1	3.1	3,624	34.8	4.6	14.3	15.4	15.6	2,792	31.9	11.0
LTIMindtree	1,047	86,005	12.5	-1.0	-1.0	-1.0	13,730	3.4	-3.4	17.4	16.4	16.0	11,710	5.8	5.1
Mphasis	409	33,576	-1.0	-0.9	-1.0	-0.8	5,119	-1.6	-0.6	15.3	15.2	15.2	3,962	-1.4	-2.2
Coforge	274	22,518	23.1	3.8	2.8	3.7	2,976	29.8	-11.4	12.5	15.5	13.2	2,231	49.0	94.3

Source: Company, Nirmal Bang Institutional Equities. 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	<ul style="list-style-type: none"> Expect TCS to report revenue growth of 1.0% 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 ~45bps on QoQ basis. For 1QFY24, we think that EBIT margin will contract by 90bps QoQ, primarily due to salary increases effective 1 April that it has implemented. Higher Travel, facilities and S&M costs may pressure margins. Somewhat offset by higher utilization, pyramid benefits and lower subcon. TCV for the 4QFY23 at US\$10bn came in above the guided range of US\$7-9bn and we believe that 1QFY24 TCV will be flattish to higher largely due to the Rs150bn order win from BSNL. Commentary around BFSI, retail and technology 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. We will also wait to see if UK growth can continue to outperform North America and Europe as has been the case for the last many quarters. Things to watch out for (1) what kind of margins and working capital cycle will we see in the BSNL deal. How is it planning to piggyback on the BSNL deal to create traction in the Open RAN space abroad (2) why are BFS clients in the US cutting back on discretionary spending despite record profits (3) demand commentary for the rest of FY24 post the new CEO's meetings with clients
Infosys	<ul style="list-style-type: none"> We expect Infosys to report flattish revenue growth at 0% QoQ in CC terms and expect cross-currency tailwind of ~20bps. The company had indicated significant revenue pressure towards the fag end of 4QFY24 which we believe has continued into 1QFY24. The upper end of the 4-7% CC revenue growth guidance given for FY24 is dependent on Infosys winning some mega deals in FY24. While Infosys has won a fair number of deals in the quarter, we cannot classify them as mega deals. There is a fair probability that the upper end of the guidance may be lowered either post 1QFY24 or after 1H. We expect EBIT margin to expand by 50bps QoQ largely on the back of higher utilization, lower sub-con costs, pyramid gains, net headcount control and better pricing (as indicated by INFY, but we believe pricing would be under pressure). Headwinds to these will be normalization of travel and facilities costs. One of reasons why we have assumed a EBIT margin improvement is that the salary increases have been postponed to the future and have not been implemented in 1QFY24. We will wait to see if INFY indicates anything on the timing and quantum of salary increases, after 3 compensation hikes in the last 18 months. We would not be surprised if no hikes are announced considering that the macro and client health has been deteriorating and attrition issues are a thing of the past now. Large deal TCV stood at US\$2.1bn in 4QFY23 after record large deal TCV of US\$3.3bn in 3QFY23. We believe that 1QFY24 TCV number will be more in line with the 4QFY23 number as there were widespread project deferments and cancellations as reported by INFY in 4QFY23. We expect headcount to down QoQ in QFY24 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. There have been contradictory statements by the company which on the one hand is indicating that it will improve margins from FY23 levels but on the other is not hesitant to take on large integrated deals (margin dilutive because of third-party pass-through elements) to drive growth.
HCL Technologies	<ul style="list-style-type: none"> We are expecting flat 0% CC growth QoQ after a 1.2% CC decline in 4QFY23 due to the seasonal dip in the P&P business. It is likely to face cross currency tailwinds of ~50bps on QoQ basis. There is a fair probability that the 6-8% growth guidance given may be revised down either post 1QFY24 or post 1HFY24 largely driven by lower demand from BFS and also from likely pricing pressure. We expect EBIT margin to contract by 60bps QoQ. We expect negative operating leverage and the possible pricing pressure that HCLT has been alluding to in recent days to be headwinds. We expect TCV to be flattish QoQ in 1QFY24 ~US\$2bn. HCL was one of the few companies with healthy headcount addition and it would not be surprising to see controlled hiring for 1QFY24 or even a net employee decline QoQ. 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) outlook for the ERS and the IMS service lines for FY24 (3) timing and quantum of salary increases for FY24

Wipro	<ul style="list-style-type: none"> We estimate (-) 2.0% CC QoQ revenue growth in 1QFY24 as against (-) 1.0-(-) 3.0% CC growth guidance. There will be no cross-currency impact. We expect the company to give a (2) %-0% growth guidance for 2QFY24 on a QoQ basis. We expect TCV to be lower than the US\$4.1bn clocked in 4QFY23 as this was the 2nd highest-ever TCV in the history of the company after US\$4.3bn in 3QFY23. Wipro was one of the companies who indicated no ramp-downs by clients, but we believe TCV for 1QFY24 should come in below US\$4bn. We expect IT Services EBIT margin to expand by ~80bps QoQ to 17.0% in 1QFY24 as Wipro had guided for 16.0-16.5% for EBIT margin for FY24 and had earlier indicated that 16.3% would be the base with margins to see slow & steady growth 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 1QFY24 as well. We expect small headcount deduction in 1QFY24 as was seen in 4QFY23 as well. Wipro hired ~22000 in FY23 which is the highest ever for them in a year. 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 fell short in FY23 (4) comments on timing and quantum of salary hikes which are due in September.
Tech Mahindra	<ul style="list-style-type: none"> We expect Tech Mahindra (TML) to deliver flattish revenue with 0% CC QoQ growth in 1QFY24 (0.3% CC QoQ growth in 4QFY23), which will be impacted by the general demand slowdown called out by TML for 1H FY24. Cross-currency headwind will be ~10bps. In 1QFY24, we expect the TCV number to be lower than the guided range of US\$700mn-1,000mn range, which it had seen for 9 consecutive quarters after a surprise fall in 4QFY23 (US\$592mn). We would be interested to know what has happened in the Telecom vertical which has been called out by multiple peers of TML to be weak. TML has a ~40% exposure to it. We expect EBIT margin to contract by ~30bps to 10.9% largely due to high SG&A expenses which TML guided to be close to ~13.5% of revenue. We are not sure when the salary increases will happen and their quantum. There was headcount reduction of 6,844 employees in 3QFY23 followed by a net reduction of 4668 employees in 4QFY23 on account of the seasonal decline from retail clients in 2H FY23. We expect headcount to remain flattish in 1QFY24 as TML had already shed a good chunk of employees over the last 6 months. We will wait to hear from Mohit Joshi, CEO designate, about his strategy though we think that may not be laid out on the 1QFY24 call. Mohit will be taking over from CP Gurnani from 20th December 2023.
Persistent Systems (PSL)	<ul style="list-style-type: none"> We are expecting 3.1% CC QoQ growth at the lower end of the 3-5% CC growth QoQ guidance given for FY24 largely driven by the weaker growth in the Hi-Tech and BFS space. We expect EBIT margin to expand by only 20bps QoQ, driven by pyramid rationalization, better utilization and lower SG&A. We expect TCV to continue to remain above US\$400mn in 1QFY24 which was the case in 4QFY23 and 3QFY23 as well. We will keep an eye out for the ACV number, which has been consistently coming in above US\$300mn for the past two 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. Also, IBM ramp-downs bottomed out in 3QFY23 post which sharp growth was seen in 4QFY23. We think IBM could be one of the big drivers of growth for PSL in the near term. Similarly, we expect Wells Fargo its second largest client will also continue to grow QoQ. Utilization for 1QFY24 is expected to improve after hitting a multi-year low of 77.3% in 4QFY23. Key points to watch for would be (1) when the Hi-Tech vertical will start turning around. (2) If it continues to stick with its QoQ growth guidance of 3-5% for all quarters of FY24 (3) update on compensation hikes (4) will the company refocus in a material way on the IP part of the business albeit opportunistically.
LTIMindtree	<ul style="list-style-type: none"> We are expecting -1.0% CC QoQ growth in the second full quarter for LTIM after the merger was completed on 14th November, 2022. LTIM itself had indicated a softer start to FY24 and expected a pickup after 1 or 2 quarters. However, its double-digit revenue growth guidance implies a very strong pick up starting 2QFY24 which we believe is highly unlikely. We think it would revise its revenue growth guidance lower. We expect EBIT margin to contract by ~40bps vs 4QFY23 largely driven by lack of operating leverage and possibly higher costs on travel and facilities. With the macro environment in a difficult phase operational synergies from the merger may take longer to be seen.

	<ul style="list-style-type: none"> Net addition of employees was negative in 3QFY23 and 4QFY23 and we expect that 1QFY24 would most likely be flattish to a small reduction as the combined entity tries to drive up utilization and efficiencies. TCV number for 4QFY23 was US\$1.35bn after US\$1.25bn in 3QFY23. We will want to keep a close eye on this number for 1QFY24. LTIM did indicate it is getting some advantage from vendor consolidation and the order book has many of these deals. Client mining is another area that we will closely watch.
Mphasis	<ul style="list-style-type: none"> We expect 1.0% CC QoQ decline in 1QFY24 for Mphasis Ltd after 4.5% revenue QoQ decline on a CC basis in 4QFY23 due to continued pressure from the mortgage business seen over the past few quarters due to high interest rates. Non-mortgage BFS business had also declined due to issue with regional US banks. This comes on top of a 2.8% CC QoQ decline in 3QFY23. We expect cross currency tailwinds of ~20bps. We expect EBIT margin to be flat at 15.2% MPHL has been reporting TCV of US\$300mn+ for the last 6 consecutive quarters with 4QFY23 TCV at US\$309mn. We believe TCV in 1QFY24 should be flattish and would not be surprised if it is lower than US\$300mn as macro-economic slowdowns and vendor consolidation theme may impact MPHL especially considering that it has an outsized exposure to the BFS space. There was a net reduction of ~1,000 employees in 4QFY23 and we expect this trend to continue in 1QFY24 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	<ul style="list-style-type: none"> We expect 2.8% CC QoQ growth in 1QFY24 after 4.7% CC QoQ growth in 4QFY23. It is likely to face cross-currency tailwind of ~90bps. Coforge has given a guidance of ~3.0% CC CQGR for FY24. We expect it to hold on to its revenue growth guidance of 13-16% in CC revenue growth for FY24 We expect EBIT margin to contract by 230bps QoQ largely due to the compensation hike likely taken. It has guided for flat EBITDA margins in FY24 vs FY23 on the back of higher S&M investments to offset higher gross margins in order to continue its journey to reach the US\$2bn revenue mark by FY28. In terms of TCV, Coforge has been reporting TCV of US\$300mn+ for 5 consecutive quarters now and we expect it to continue this trend in 1QFY24 as it has indicated that deal momentum is expected to remain robust. Attrition at 14.1% in 4QFY23 is already the lowest among our coverage companies and we believe that it will only slightly moderate in 1QFY24 with salary hikes indicated for 1QFY24. The quantum of these hikes will be lower than it was in FY23 and the margin impact will remain similar. We expect a net addition of employees for 1QFY24 as Coforge continues its journey for the US\$2bn revenue target over the next 5 years. This will require superior execution and strong deal wins as well as competition with the Tier-1 peer set. It will be interesting to note if Coforge can achieve or beat its revenue guidance and continue its superior execution in 1QFY24 as it has been doing for the past many years in this uncertain macro environment and stress seen in some BFSI pockets. Coforge did indicate pricing pressure for the industry for FY24 and no recovery in 2HFY24.

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](#)), 10th October, 2022 ([Growth expectations too high](#)), 20th March, 2023 ([Sell into delayed landing outperformance](#)), and 14 June 2023 ([Too early to be positive](#)).

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 13th June, 2023 while Nifty was up by ~52% 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 underestimating 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/CY24 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 core 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 months' 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 ~32% to Tier-1 (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-FY23 and improving return ratios sustaining 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 (%)	4QCY19	1QCY20	2QCY20	3QCY20	4QCY20	1QCY21	2QCY21	3QCY21	4QCY21	1QCY22	2QCY22	3QCY22	4QCY22	1QCY23	QTD	YTD
TCS	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)	3.0	1.4
Infosys	(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)	(6.5)	(11.5)
Wipro	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)	6.5	(0.9)
HCL Tech	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	9.5	14.3
Tech Mahindra	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	2.6	11.3
Persistent	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	8.7	29.5
Mindtree	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	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)	23.6	21.4
DXC	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)	2.6	(1.0)
Endava	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)	(25.1)	(34.3)
Cognizant	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	5.9	12.9
Accenture	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	7.9	15.5
Globant SA	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)	7.6	4.9
Epam Systems INC	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)	(24.9)	(31.4)
Cap Gemini	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	1.1	8.8
Cyient	(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	50.8	85.0
Mphasis	(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)	5.5	(3.9)
LTIM	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	9.2	19.1
LTTS	(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)	16.5	6.9
Tata Elxsi	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)	27.3	20.7
Intellect Design	(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)	53.1	40.9
OFSS	(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	18.2	27.6
Ramco Systems	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)	33.6	0.6
Just Dial	(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)	24.1	22.9
Infoedge	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)	20.4	14.0
Makemytrip	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	(2.1)
Birlasoft	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)	37.4	20.1
Mastek	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)	26.1	13.7
Zensar	(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	41.0	81.7
Newgen Software	(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	50.6	88.4
Happiest Minds	-	-	-	-	(1.3)	56.9	85.9	37.4	(6.0)	(18.5)	(21.5)	19.9	(11.3)	(12.9)	27.4	11.0
Hinduja Global Solutions	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)	5.2	(18.6)
Perficient Inc	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	16.4	20.3
Index Performance (%)																
Nasdaq	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	13.3	36.6
S&P 500	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	7.0	14.5
Stox 600	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	(0.3)	7.5
DAX	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	2.0	14.5
Nikkei	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	18.4	27.4
MSCI EM	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	(0.3)	3.2
Bovespa	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	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	(7.8)	(4.2)
NIFTY IT	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	3.0	3.3
NIFTY BANK	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)	10.2	4.1
NIFTY FMCG	(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	13.7	18.2
NIFTY AUTO	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)	23.7	20.1
NIFTY ENERGY	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)	8.2	(4.5)
NIFTY PHARMA	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)	14.6	9.3
NIFTY METAL	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)	12.9	(7.6)
NIFTY INFRA	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)	12.7	9.3
NIFTYMIDCAP	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)	19.0	13.5
NIFTY SMALLCAP	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)	20.5	11.4
NIFTY	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)	10.5	6.0
USD/INR	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	82.2	82.2

Source: Bloomberg, Nirmal Bang Institutional Equities Research, Prices as of 30 June, 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 30-June-23	3,302	1,336	389	1,188	1,131	5,011	5,197	1,895	4,713
Currency	INR	INR	INR	INR	INR	INR	INR	INR	INR
Market Value (Rs Bn)	12,073.2	5,537.6	2,134.2	3,221.1	1,101.3	385.2	1,536.5	357.0	287.7
(US\$mn)	1,47,235	67,532	26,027	39,281	13,431	4,697	18,738	4,354	3,509
Mar 2024 Target Price	2,636	1168	350	928	934	2985	3819	1420	3281
Upside/(downside)	-20.2%	-12.5%	-10.1%	-21.9%	-17.4%	-40.4%	-26.5%	-25.1%	-30.4%
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	115.2	57.6	20.7	54.9	54.7	120.5	149.0	87.1	113.8
FY24E	123.1	60.8	22.9	58.2	58.4	150.2	172.7	85.6	151.0
FY25E	136.6	67.2	25.9	64.1	69.1	171.9	197.9	99.6	170.3
FY26E	151.8	76.3	29.8	73.7	81.7	209.3	233.1	113.7	206.9
PE (x)									
FY20	38.3	34.3	23.4	29.1	25.0	112.9	59.7	29.8	65.9
FY21	37.0	29.3	20.3	24.9	22.7	85.3	46.7	29.3	63.1
FY22	31.9	25.5	17.5	23.8	18.0	55.6	39.0	24.8	43.2
FY23E	28.7	23.2	18.8	21.7	20.7	41.6	34.9	21.8	41.4
FY24E	26.8	22.0	17.0	20.4	19.4	33.4	30.1	22.1	31.2
FY25E	24.2	19.9	15.0	18.5	16.4	29.2	26.3	19.0	27.7
FY26E	21.8	17.5	13.1	16.1	13.8	23.9	22.3	16.7	22.8
EV/EBITDA (x)									
FY20	28.5	25.2	15.0	18.8	16.0	76.8	44.6	22.9	38.6
FY21	25.8	19.9	11.9	14.8	12.8	54.6	33.1	20.7	35.3
FY22	22.5	17.9	10.8	14.9	11.5	39.3	17.0	17.7	24.7
FY23E	20.3	16.2	10.3	13.4	11.7	24.8	24.8	15.2	20.0
FY24E	18.4	15.3	9.5	12.5	10.9	21.2	22.0	15.2	18.3
FY25E	16.1	13.6	8.3	11.4	9.5	18.5	19.1	12.7	16.3
FY26E	14.2	11.9	7.2	10.1	8.2	15.1	16.1	10.7	13.5
EV/Sales (x)									
FY20	7.6	6.2	3.1	4.4	2.5	10.6	8.3	4.3	6.6
FY21	7.3	5.5	3.0	4.1	2.3	8.9	7.3	3.8	6.0
FY22	6.2	4.6	2.4	3.6	2.1	6.6	3.4	3.1	4.4
FY23E	5.3	3.9	2.1	3.0	1.8	4.5	4.6	2.7	3.5
FY24E	5.0	3.6	1.9	2.8	1.7	3.9	4.2	2.6	3.0
FY25E	4.5	3.2	1.7	2.5	1.5	3.4	3.7	2.3	2.7
FY26E	4.0	2.8	1.4	2.2	1.4	2.8	3.2	2.0	2.3
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	79.5	35.6	35.3
FY23E	67.9	47.5	24.6	37.2	25.2	55.0	57.2	35.8	34.3
FY24E	71.7	47.0	24.6	38.9	26.2	51.1	56.5	32.1	33.9
FY25E	70.0	50.0	27.7	39.7	30.5	50.0	61.2	35.4	31.3
FY26E	65.9	53.1	30.9	43.0	35.5	55.1	64.2	38.6	33.1

Source: Company, Nirmal Bang Institutional Equities Research

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