

Information Technology

2QFY24 Result Preview

October 02, 2023

Yet another quarter of consensus downgrade likely

Key Points

- Nifty IT has outperformed Nifty by 520bps in 2QFY24. We believe that the market is taking a view that the worst is over for the IT industry and that revenue/earnings will accelerate through FY25. We have a non-consensus view that FY25 growth will be only a tad higher than FY24 with risks that it could be as bad or weaker. See our recent sector update ([Cut FY25 estimates; Sell into the FOMO rally](#))
- The outperformance in 2QFY24 is also because the market believes that after two successive quarters of weak results (in aggregate), demand has likely stabilised and we could see modest growth in 2QFY24 and 3QFY24. We are building in (-) 1-2% growth on QoQ basis for Tier-1 and 2-3% growth for Tier-2 companies for 2Q, which is seasonally a strong quarter. However, the recent Accenture results ([Points to a 'slower for longer' demand](#)) with revenue declining by 3% QoQ in USD terms and flat revenue QoQ at the upper end of the guidance give the impression that our numbers may be a tad optimistic. Margin improvement QoQ may be constrained due to lack of operating leverage. Some negative surprises are likely in store and another consensus earnings downgrade is on the cards after two successive quarters. We believe the market has not priced that in or is looking beyond the near-term pain.

Points to focus on – Industry: (1) TCV-to-revenue conversion pace (2) Extent of compression in the existing book of business (3) State of discretionary spending (4) Whether there is going to be a budget flush at all in 3QFY24 or whether it would be impacted by greater-than-normal furloughs (5) Any hints on how demand would look at the beginning of 2024 (6) State of demand for key verticals – BFSI, Hi Tech, Manufacturing & Telecom (7) After a heavy quarter of mega/large deal announcements, state of the deal pipeline (8) Whether Gen AI is now being used in delivery in a material way and the extent of productivity gains (9) Any announcements of employee compensation increases which have been delayed by Infosys and Wipro (10) Changes in guidance, if any – we think it is unlikely in Tier-1 but will not rule out subtle changes in case of Tier-2 (like moving to the lower end of the band for instance).

Key points to watch - Tier-1: (1) Whether Infosys will come in at the higher or the lower end of guidance on growth and margins (2) Whether HCLT's back-ended growth built into the 6-8% CC guidance in revenue YoY terms will come true (3) Whether we see any change in the higher-than-industry revenue conversion problem seen in Wipro (4) TCS – 5-day work from office rule – is it to manage its possible low utilisation – when it over hired in FY22? (5) Tech M - Will the new CEO designate and COO layout their thoughts on strategy post the organisational restructuring. CME vertical performance and outlook? (6) LTIM – after having watered down its double-digit growth guidance in FY24, will it offer a new number?

Key points to watch - Tier-2: (1) Mphasis – How is the non-mortgage BFS area doing on a sequential basis and outlook for the same? (2) Persistent Systems – How are the Hi-tech and BFSI verticals doing? After reducing guidance from 3-5% CQGR to 2-4% CQGR, will there be a further downgrade? (3) Coforge - any change in the guidance for FY24 – 13-16% CC revenue growth and ~18.3% margin. Will it move to either end of the band?

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Summary of financial performance by IT companies in our coverage universe for 2QFY24E

(Rsmn) Companies	Revenue						EBIT			EBIT Margin (%)			PAT		
	USD (mn)	2QFY24E	YoY (%)	QoQ (%)	QoQ Growth CC (%)	QoQ Growth USD (%)	2QFY24E	YoY (%)	QoQ (%)	2QFY23	1QFY24	2QFY24E	2QFY24E	YoY (%)	QoQ (%)
TCS	7,346	608,591	10.0	2.5	1.0	1.7	147,269	10.9	7.1	24.0	23.2	24.2	114,818	10.1	3.7
Infosys	4,695	388,991	6.5	2.5	1.7	1.7	79,719	1.3	1.0	21.5	20.8	20.5	59,716	-0.8	0.4
HCL Tech	3,287	272,315	10.3	3.6	2.0	2.7	48,855	10.3	9.5	17.9	17.0	17.9	38,338	9.9	8.5
Wipro	2,733	229,148	1.7	0.4	-1.0	-1.6	37,058	14.0	7.4	15.1	16.0	16.2	30,989	16.5	9.0
Tech Mahindra	1,585	131,292	0.0	-0.2	-1.0	-1.9	12,1660	-18.5	36.5	11.4	6.8	9.3	9,767	-24.0	41.0
LTIMindtree	1,077	89,244	8.5	2.6	2.0	1.7	14,111	-2.0	-2.7	17.5	16.7	15.8	12,217	2.7	6.0
Mphasis	407	33,738	-4.4	3.1	2.0	2.3	5,373	-0.1	7.6	15.2	15.3	15.9	4,221	0.9	6.3
Persistent	289	23,907	16.7	3.0	2.0	2.1	3,391	13.5	-2.2	14.6	14.9	14.2	2,566	16.6	12.2
Coforge	280	23,517	18.2	4.3	2.8	3.7	3,216	13.4	25.7	14.5	11.5	13.9	2,296	14.2	38.9

Source: Company, Nirmal Bang Institutional Equities.

Note 1: Wipro's USD revenue is only for IT services whereas other numbers are for the entire company.

Note 2: We have changed the quarterly estimates of Wipro, Tech Mahindra from our 26 September 2023 sector update.

Note 3: We misrepresented the QoQ CC growth as USD growth in our 26 September 2023 sector update for Persistent Systems and Coforge..

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% 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 ~65bps on QoQ basis. For 2QFY24, we think that EBIT margin will expand by 100bps QoQ to 24.2% mainly because salary increases were taken in 1QFY24, which had impacted margin by ~130bps QoQ. With sub-con cost already at multi-quarter lows and in line with pre-pandemic times (7-7.5%), it will have to bank on pyramid restructuring, higher offshoring, higher utilization and use of automation. TCV for 1QFY24 at US\$10.2bn after strong TCV of US\$10bn in 4QFY23 remained above the guided range of US\$7-9bn and we believe that 2QFY24 TCV should be in the guided range including the BSNL deal (TCV of US\$1.8bn). Outside of BSNL, it won two mega/large deals of JLR and NEST. Commentary around BFSI, Retail, Telecom and Technology will be keenly watched - as TCS likely has the highest exposure in the Tier-1 set with deep relationships developed over the past several decades in both US as well as Europe. 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) Demand commentary for 2HFY24 (3) Conversion of TCV to revenue (4) Commentary around BFSI demand (5) Usage of Gen AI to improve productivity
Infosys	<ul style="list-style-type: none"> Infosys had reduced its CC growth guidance for FY24 from 4-7% to 1-3.5%. We do not expect a change in the guidance either regarding revenue or margins. We expect Infosys to report revenue growth at 1.7% QoQ in CC terms and with no cross-currency impact. We expect EBIT margin to contract by 30bps QoQ to 20.5% due to the start of execution of some mega deals won, which will be in the transition phase and employee rebadging. We believe no salary hikes have been announced and hence have not incorporated that in our numbers. Large deal TCV stood at US\$2.3bn in 1QFY24 and we believe that 2QFY24 TCV number will be much higher at US\$5bn+ as Infosys has announced multiple mega deals. 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 have been margin dilutive for the company. Contradictory statements have been made by the company, which on the one hand indicate that it will improve margins from FY23 levels, but on the other hand, they imply that the company is not hesitant to take on large integrated deals (margin dilutive because of third-party pass-through elements) to drive growth. Things to watch out for: (1) When will salary hikes kick in, if any? (2) Will execution of large contracts mean that margins in FY24 will come in at the lower end of the EBIT margin band of 20-22%? (3) Demand commentary for 2HFY24 (4) Commentary around BFSI, Retail and Telecom demand (5) Usage of Gen AI to improve productivity (6) Have the large deals been 'priced to win' and will the subsequent margin expansion be dependent on usage of Gen AI? (7) What are the chances that execution of these mega deals won will not be pushed back if macro turns worse?

HCL Technologies	<ul style="list-style-type: none"> We are expecting 2.0% CC growth QoQ after revenue was down by 1.3% QoQ in CC terms in 1QFY24. It is likely to face cross currency tailwinds of ~70bps on QoQ basis. Despite a weak 1Q, HCLT held onto its CC growth guidance of 6-8% for FY24 and is expecting a strong 2HFY24 recovery in growth. There is a fair probability that the 6-8% growth guidance given may be revised down a tad post 2QFY24 largely due to lower demand from BFS and cut in discretionary spending. We expect the EBIT margin to expand by 90bps QoQ to 17.9% as HCLT skipped salary increases for many mid-level and senior-level employees and deferred it for the rest of the company by one quarter. After a disappointing TCV number of US\$1.6bn in 1QFY24 (previous seven consecutive quarters of US\$2bn+ TCV), we expect a strong rebound in TCV for 2QFY24 after HCLT signed a multi-year deal with Verizon for US\$2.1bn. The number could possibly be US\$3.5-US\$4bn. Key things to watch out for: (1) More details about the multi-year Verizon deal, especially how the TCV was calculated as it is dependent on spending of Verizon's clients which Verizon has little control over (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 (-)1% CC QoQ revenue growth in 2QFY24 as against (-)2% to 1% CC growth guidance. There will be a cross-currency headwind of 65bps. We expect the company to give (-)2% to 1% QoQ growth guidance for 3QFY24. We expect IT Services EBIT margin to be flat at 16.2% QoQ. Tailwinds to margins include improved utilization, management of fixed costs and greater use of automation. The salary hike for a large part of the employee base has been delayed by one month and has been pushed to 3QFY24, In terms of TCV, Wipro has been delivering US\$3bn+ for the last three consecutive quarters and we expect TCV to not fall below US\$3bn, although there have not been any large deal announcements this quarter. The larger issue for Wipro is conversion of TCV to revenue, which seems to be more acute than its peers. Things to watch out for: (1) When will conversion of TCV to revenue pick up? (2) When can it start delivering industry-matching organic growth? We believe it fell short in FY23 and it will again miss in FY24 (3) Comments on timing and quantum of salary hikes (4) Impact of high-profile senior management exits on the business (5) When will the Consulting piece start contributing to growth? (6) What are the margin levers left?
Tech Mahindra	<ul style="list-style-type: none"> We expect Tech Mahindra (TML) to deliver (-)1% CC QoQ growth, which will be impacted by weakness in the CME vertical (~40% of sales, which declined by ~9% both QoQ and YoY in 1QFY24). Cross-currency headwind will be ~90bps. In 2QFY24, we expect TCV to be lower than the guided range of US\$700mn-1,000mn range after two consecutive quarters of misses (1QFY24 TCV of US\$359mn and 4QFY23 TCV of US\$592mn). We expect EBIT margin to expand to 9.3% in 2QFY24; TML recorded its lowest ever EBIT margin of 6.8% in 1QFY24 due to compensation increases and one-time provision due to a customer bankruptcy. Tailwinds would include sub-con, which is still higher than peers at ~14% of revenue, divestment of the non-strategic portfolio and investing in juniors to manage resources more efficiently. We will wait to hear from Mohit Joshi, CEO designate, about his strategy as he has already spent ~4-5 months in the organisation now and is towards the end of the transition phase. Mohit will take over from CP Gurnani from 20th December 2023. Things to watch out for: (1) When should one expect demand recovery in the CME vertical? (2) What is going to be the strategy of TML under Mohit Joshi? (3) What does the company seek to achieve with the new management restructuring? (4) What will be the strategy on margins and what timelines have been set to achieve Tier-1 matching EBIT margins.
LTIMindtree	<ul style="list-style-type: none"> We are expecting 2.0% CC QoQ growth. We expect cross-currency headwinds of ~30bps. We expect EBIT margin to contract by ~90bps to 15.8% vs 1QFY24 as wage hikes are expected to be implemented in 2QFY24. Another headwind will be the higher marketing spends although the same will be offset by operational efficiencies from the integration. The TCV number for 1QFY24 was US\$1.41bn after US\$1.35bn in 4QFY23. We expect a similar number for 2QFY24. 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. Things to watch out for: (1) When should one expect pick-up in growth? (2) What is the progress on the client mining strategy that it had articulated at its 2023 analyst meet? (3) Is it getting invited bid for larger contracts now that the size is ~US\$5bn. Why is it not winning deals with TCV of US\$200mn-US\$300mn, which many of its smaller peers are winning occasionally (4) What is happening in the BFSI and CME verticals from a demand standpoint?

Persistent Systems (PSL)	<ul style="list-style-type: none"> We are expecting 2.0% CC QoQ growth - the lower end of the 2-4% CC QoQ growth guidance given for FY24 largely due to weaker growth in Hi-Tech and BFS. We expect cross-currency tailwinds of ~10bps. We expect EBIT margin to contract by 70bps QoQ to 14.2% as salary increases were implemented from 1st July 2023 and PSL has indicated higher SGA expenses as it wants to increase the pace of revenue growth. Some benefits from cost rationalization measures may be seen in 2QFY24. We expect TCV to come in near the US\$400mn mark in 2QFY24 after going below it in 1QFY24 as it was indicated that there was some spillover of deal closures from 1QFY24 to 2QFY24 and 2H FY24. We will keep an eye out for the ACV number, which moderated in 1QFY24 after two strong quarters in 3QFY23 and 4QFY23. 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 company's revenue mix. IBM ramp-downs bottomed out in 3QFY23 post which sharp growth was seen in 4QFY23 and 1QFY24 and we expect this trend to continue. We think IBM could be one of the big drivers of growth for PSL in the near term. PSL has been one of the only players to not see a net reduction in employees so far and we believe this trend will continue with moderate net addition expected in 2QFY24. 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 2-4% for all quarters of FY24 or does it make changes? (3) What are its capabilities in the cost takeout type of business, which predominates demand currently.
Mphasis	<ul style="list-style-type: none"> We expect 2.0% CC QoQ growth in 2QFY24 after three consecutive quarters of CC QoQ decline due to continued pressure from the mortgage business seen over the past few quarters amid high interest rates in the US. We expect cross-currency tailwinds of ~30bps. We expect EBIT margin to expand by ~60bps QoQ to 15.9% and come within the guided range of 15.25-16.25% given by the company after record TCV win in 1QFY24. MPHL has been reporting TCV of US\$300mn+ for the last seven consecutive quarters, with 1QFY24 TCV at US\$707mn, which was the highest ever in the company's history. We believe that TCV in 2QFY24 should moderate from this number although it is likely to remain healthy and above the US\$300mn+ mark as the non-BFS segment is seeing some traction for MPHL. Things to watch out for: (1) How is growth looking in the non-mortgage BFS part of the business? (2) Progress in growth beyond the BFSI vertical and top 10 clients.
Coforge	<ul style="list-style-type: none"> We expect 2.8% CC QoQ growth in 2QFY24. It is likely to face cross-currency tailwind of ~90bps. While we expect it to hold on to its revenue growth guidance of 13-16% in CC revenue growth for FY24 but we think it might guide towards the midpoint or the lower end. We expect EBIT margin to expand by 240bps QoQ to 13.9% as salary hikes and ESOP costs have been accounted for in 1QFY24 and there are no major headwinds in 2QFY24. Usually, 1Q of each year sees the lowest margins as Coforge incurs annual visa costs and investments in people during this quarter. In terms of TCV, Coforge has been reporting TCV of US\$300mn+ for six consecutive quarters now and we expect it to continue this trend in 2QFY24 as it has indicated that the deal momentum is expected to remain robust. Things to watch out for: (1) With the European Financial Services space under severe revenue and earnings pressure as seen from the Stoxx 600 financials consensus estimates where is growth coming from (2) With the PE investor Barings having completely selling its stake, is there any change in strategy that the CEO would signal to the market? (3) Is Coforge able to get hold of its reasonable share of cost optimization demand?

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](#)), 14 June 2023 ([Too early to be positive](#)), and 26th September, 2023 ([Cut FY25 estimates; Slower for longer; Sell into the FOMO rally](#))

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 has advanced by ~108% from 31st Dec, 2019 till 19th Sept, 2023 while Nifty is up by ~62%. This massive outperformance of Nifty IT has been 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. The DT high tide over 2HFY20-1HFY23 lifted all boats (including weak ones). However, accelerated normalization of monetary policy in the US raises probabilities of a shallow recession 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 FY25 as it did in FY24. While DT services will continue to remain a key theme over the medium term, we believe IT spends will be curtailed by 'ability-to-spend' as enterprise customers battle earnings pressure from wage inflation, reduced end 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 CY24 will likely be weaker than currently estimated (although they have been better than expected in March'23 and June'23 quarters). 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 favor Tier-1 IT companies vs Tier-2.

We persist with our 18-month-old '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 FY25 continue to be too high and seem to implicitly assume a soft/no landing for the US economy. We are explicitly pricing in a shallow recession sometime in 2024. (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 USD revenue growth over a 5-year period (FY23-FY28) for Tier-1 set in aggregate will at best be at par with the FY15-FY20 period (~7%) whereas peers believe it will be 300-500bps higher. We also expect margins for most companies to remain in a narrow band at around FY24 levels and not see a material expansion (except for Tech Mahindra where it starts from a very low base). *Ceteris Paribus*, this has valuation/return implications.

In our base case of a shallow recession in the US in CY24, we are expecting mid-single-digit USD revenue growth for Tier-1 IT companies in FY25. In our estimates for FY25, 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, except Tech Mahindra. Despite having EPS estimates lower than the street in FY25, 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 20x on Sept. 25E EPS, which represents 0.5SD below the last 10-year mean. We have changed the valuation multiple from the previous Target PE multiple of 19.3x that we were using. 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 (as it has been doing for Mphasis in the last 12 months) 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 ~38% to Tier-1 (peak of ~60% in November 2021 and recent low of 10% in January 2023). It used to trade at a discount of 14% on 1st January 2020.

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. We do not agree with that view. We think that the earnings growth gap will compress due to slower revenue growth and next-to-no margin expansion from current levels for most Tier-2 companies. 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

	CY20	CY21	CY22	2QCY20	3QCY20	4QCY20	1QCY21	2QCY21	3QCY21	4QCY21	1QCY22	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23	QTD	YTD
TCS	32.4	30.6 (12.9)		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	6.9	8.3
Infosys	71.8	50.3 (20.1)		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)	7.5	(4.8)
HCL Tech	57.1	85.2 (45.1)		11.7	42.7	23.2	7.2	31.8	16.2	12.8	(17.3)	(29.7)	(5.2)	(0.4)	(7.0)	9.5	3.9	18.8
Wipro	66.5	39.4 (21.2)		27.6	45.7	16.6	3.9	0.1	30.1	3.1	(11.8)	(16.4)	(4.2)	11.5	4.4	6.5	4.3	3.4
LTIM	27.7	84.0 (43.2)		(3.9)	45.7	22.9	1.9	10.5	26.0	29.7	(16.3)	(33.3)	0.9	0.8	8.4	9.2	0.2	19.3
Tech Mahindra	125.0	223.3 (21.1)		15.3	111.2	13.1	26.7	52.9	26.5	32.0	(2.8)	(28.6)	(4.7)	19.4	19.1	2.6	8.1	20.3
Mphasis	70.2	117.7 (34.1)		22.8	64.8	16.5	8.2	42.0	26.1	12.4	(24.3)	(20.6)	(5.0)	15.5	(1.8)	5.5	25.4	20.5
Persistent	(31.5)	25.0 (17.7)		26.4	8.2	44.3	21.4	24.6	-13.7	(4.2)	1.4	(6.4)	(19.2)	8.3	(3.5)	8.7	15.7	49.8
Coforge	64.7	118.8 (54.4)		37.4	30.7	21.5	10.3	33.9	19.8	23.6	(20.8)	(29.9)	(8.7)	(5.1)	(12.2)	23.5	8.3	31.4
LTTS	32.1	8.3 (35.5)		22.3	22.2	18.0	(4.7)	(11.3)	7.1	19.6	1.1	(23.6)	(14.9)	(0.4)	6.5	16.5	16.3	24.2
KPIT Infotech	24.0	58.7 (35.6)		31.5	5.2	15.6	5.8	6.7	8.5	29.6	(18.7)	(17.0)	(7.3)	3.7	7.1	17.8	5.7	63.5
Tata Elxsi	105.2	44.3 (46.5)		70.5	19.6	21.4	(4.6)	5.6	28.2	11.8	(16.6)	(30.5)	7.5	(10.1)	(2.5)	27.3	(4.8)	15.0
Cyient	68.9	86.5 (51.0)		35.7	28.3	10.8	10.7	28.8	11.6	17.2	(55.6)	3.6	22.9	(9.5)	(8.8)	50.8	12.9	108.9
Birlasoft	16.4	70.0 (27.6)		32.4	7.7	15.5	14.4	11.6	11.2	19.6	(6.0)	(16.5)	1.3	(5.8)	9.5	37.4	34.7	61.8
Mastek	25.0	99.4 (20.7)		20.3	39.1	33.8	26.2	32.8	23.6	(3.7)	(9.3)	(18.4)	4.8	2.3	22.7	26.1	23.5	40.4
Zensar	67.0	120.6 (41.9)		32.3	57.4	11.3	15.4	20.1	45.5	9.4	(0.6)	(32.1)	(9.0)	(5.5)	(9.0)	41.0	33.7	142.9
Newgen Software	109.1	100.4 (40.5)		37.0	29.9	43.9	10.8	0.4	41.6	27.2	(16.0)	(35.4)	12.1	(2.1)	9.0	50.6	32.7	150.0
Happiest Minds	59.3	139.3 (34.2)		10.5	26.1	44.6	13.4	9.4	61.8	19.2	(8.8)	(40.6)	18.5	2.6	(8.3)	27.4	(10.6)	(0.7)
HGS	122.2	219.7 7.1		42.6	43.4	42.6	46.7	59.8	30.0	4.9	50.7	(7.6)	4.7	(26.5)	(5.2)	4.8	(7.0)	(24.5)
Intellect Design	127.7	135.6 (39.9)		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	12.4	58.3
OFSS	17.3	23.3 (23.7)		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	6.5	36.0
Ramco Systems	254.1	(21.2) (46.4)		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	29.5	30.3
DXC	10.8	29.1 (26.5)		36.9	(5.4)	66.5	36.3	11.4	2.9	(17.4)	(12.9)	(20.5)	0.7	5.6	(0.9)	4.5	(23.4)	(22.8)
Endava	88.1	17.2 (29.5)		35.7	31.6	30.9	(10.0)	14.8	30.8	(13.3)	(19.1)	(16.6)	2.7	1.9	(5.3)	(22.9)	11.8	(24.3)
Cognizant	29.0	(6.2) (0.5)		28.1	0.3	92.3	6.9	(4.8)	-9.5	1.9	(3.2)	(6.0)	19.5	(10.2)	(11.2)	7.1	3.9	18.6
Accenture	249.2	120.6 (45.2)		46.6	118.2	26.5	2.5	57.9	2.5	33.0	(16.5)	(22.4)	(20.0)	5.8	(12.6)	8.0	(2.5)	12.7
Globant SA	170.7	166.7 (43.4)		110.3	116.6	31.0	7.7	85.8	37.6	(3.2)	10.0	(35.4)	(18.8)	(1.8)	(9.8)	9.6	10.5	18.1
Epam Systems INC	36.0	119.7 (59.2)		40.7	55.3	23.4	15.4	13.7	53.5	9.2	(29.6)	(25.8)	(22.2)	0.6	28.8	(24.8)	15.6	(20.7)
Cap Gemini	37.7	119.5 (38.9)		40.9	45.2	23.8	5.5	125.3	-8.5	1.0	(21.0)	(23.2)	(0.3)	1.0	25.1	1.6	(5.4)	5.3
Genpact		276.6 (32.0)			(1.3)		56.9	85.9	37.4	(6.0)	(18.5)	(21.5)	19.9	(11.3)	(12.9)	(18.7)	(3.0)	(21.4)
Perficient Inc	93.8	193.0 (19.5)		29.6	6.0	62.7	53.0	39.2	19.1	15.5	(38.1)	4.2	18.5	5.2	(22.6)	15.4	(30.5)	(17.0)
Thought Works Inc	3.4	171.3 (46.0)		32.1	19.5	11.5	23.2	37.0	43.9	11.7	(14.9)	(17.4)	(29.1)	7.4	3.4	2.6	(46.8)	(60.5)
Just Dial	-	-	-	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	(1.3)	21.4
Infoedge	-	-	-	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	(7.1)	5.9
Makemytrip	-	-	-	28.1	0.3	92.3	6.9	(4.8)	-9.5	1.9	(3.2)	(4.3)	19.5	(10.2)	(11.2)	10.3	NA	NA
Zomato	-	-	-	NA	NA	NA	NA	NA	NA	0.6	(40.1)	(34.6)	15.8	(4.9)	(14.0)	47.2	35.2	71.2
Nykaa	-	-	-	NA	NA	NA	NA	NA	NA	NA	(19.6)	(16.7)	(9.6)	(27.0)	(19.8)	19.6	3.1	(1.1)
Paytm	-	-	-	NA	NA	NA	NA	NA	NA	NA	(60.4)	27.9	(5.6)	(16.8)	19.9	36.3	(1.2)	61.5
PB Infotech	-	-	-	NA	NA	NA	NA	NA	NA	NA	(26.9)	(17.5)	(17.5)	(5.1)	42.5	9.1	9.8	70.7
Index Performance (%)																		
Nasdaq	47.6	26.6 (33.0)		30.0	12.4	12.9	1.6	11.2	0.9	11.1	(9.1)	(21.4)	(4.6)	(0.3)	20.5	15.2	(3.1)	34.4
S&P 500	16.3	26.9 (19.4)		20.0	8.5	11.7	5.8	8.2	0.2	10.6	(4.9)	(15.7)	(5.3)	7.1	7.0	8.3	(3.4)	12.0
Stox 600	(4.0)	22.2 (12.9)		12.6	0.2	10.5	7.7	5.4	0.4	7.3	(6.5)	(9.3)	(4.8)	9.6	7.8	0.9	(2.9)	5.6
DAX	3.5	15.8 (12.3)		23.9	3.7	7.5	9.4	3.5	-1.7	4.1	(9.3)	(9.8)	(5.2)	14.9	12.2	3.3	(5.1)	10.1
Nikkei	16.0	4.9 (9.4)		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	(4.0)	22.1
MSCI EM	15.8	(4.6) (22.4)		17.3	8.7	19.3	1.9	4.4	-8.8	(1.7)	(7.3)	(11.3)	(12.5)	9.2	3.5	(0.1)	(4.6)	(1.3)
Bovespa	2.9	(11.9) NA		30.2	(0.5)	25.8	(2.0)	8.7	-12.5	(5.5)	14.5	(17.0)	11.7	NA	NA	15.9	(2.0)	NA
HSCEI	(3.8)	(23.3) (18.6)		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)	(6.8)	(10.7)
NIFTY IT	54.9	59.6 (26.0)		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	7.5	11.1
NIFTY BANK	(2.8)	13.5 21.2		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	(0.4)	3.7
NIFTY FMCG	13.5	10.0 17.5		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	(1.1)	16.8
NIFTY AUTO	11.5	19.0 15.3		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	6.8	28.3
NIFTY ENERGY	6.4	33.7 14.3		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	10.6	5.6
NIFTY PHARMA	60.6	10.1 (11.4)		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	12.0	22.4
NIFTY METAL	16.2	69.7 21.8		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	10.1	1.7
NIFTY INFRA	12.2	35.6 6.1		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	8.8	18.9
NIFTYMIDCAP	21.9	46.1 3.5		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	13.4	28.7
NIFTY SMALLCAP	21.5	59.3 (13.8)		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	17.6	31.0
NIFTY	14.9	24.1 4.3		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	2.3	8.5
USD/INR	74.1	73.9 78.6		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	82.7	82.4

Source: Bloomberg, Nirmal Bang Institutional Equities Research, Prices as of 29 September, 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 29-Sep-23	3,529	1,435	406	1,235	1,223	5,797	5,210	2,377	5,104
Currency	INR	INR	INR	INR	INR	INR	INR	INR	INR
Market Value (Rs Bn)	12,749.1	5,882.8	2,093.7	3,308.7	1,177.9	440.3	1,522.3	442.6	309.5
(US\$mn)	155,477	71,741	25,532	40,350	14,364	5,370	18,565	5,397	3,775
September 2024 Target Price	2,860	1267	358	1042	1279	3276	4474	1746	3803
Upside/(downside)	-18.9%	-11.7%	-11.8%	-15.6%	4.6%	-43.5%	-14.1%	-26.5%	-25.5%
Recommendation	Sell	Sell	Sell	Sell	Acc	Sell	Sell	Sell	Sell
FDEPS (Rs)									
FY22	103.6	52.4	22.3	49.8	62.7	90.2	133.3	76.4	109.0
FY23	115.2	57.6	20.7	54.9	54.7	120.5	149.0	87.1	113.8
FY24E	124.9	58.9	21.2	57.8	48.5	133.8	171.6	89.1	157.3
FY25E	133.5	64.9	23.2	63.1	67.6	161.0	203.5	99.1	188.4
FY26E	152.5	75.8	28.0	75.8	92.3	203.0	243.9	119.0	234.2
PE (x)									
FY22	34.0	27.4	18.2	24.8	19.5	64.3	39.1	31.1	46.8
FY23	30.6	24.9	19.6	22.5	22.4	48.1	35.0	27.3	44.9
FY24E	28.2	24.4	19.1	21.3	25.2	43.3	30.4	26.7	32.5
FY25E	26.4	22.1	17.5	19.6	18.1	36.0	25.6	24.0	27.1
FY26E	23.1	18.9	14.5	16.3	13.3	28.6	21.4	20.0	21.8
EV/EBITDA (x)									
FY22	24.1	19.3	11.3	15.6	12.6	45.6	17.1	22.5	26.8
FY23	21.7	17.4	10.8	14.0	12.7	28.7	24.9	19.4	21.7
FY24E	20.2	16.4	11.0	13.3	13.6	25.1	22.4	19.0	18.1
FY25E	18.8	15.0	9.6	12.3	10.5	21.0	19.2	16.5	15.9
FY26E	16.6	12.8	8.1	10.5	7.9	17.0	16.0	13.4	12.9
EV/Sales (x)									
FY22	6.7	5.0	2.6	3.7	2.3	7.6	3.4	4.0	4.8
FY23	5.7	4.2	2.2	3.1	1.9	5.2	4.6	3.4	3.8
FY24E	5.3	3.9	2.2	2.9	1.9	4.5	4.2	3.5	3.2
FY25E	4.9	3.6	2.0	2.7	1.7	4.0	3.8	3.1	2.8
FY26E	4.3	3.0	1.7	2.3	1.5	3.2	3.2	2.6	2.3
Post Tax ROIC (%)									
FY22	44.4	34.5	26.1	26.3	25.1	43.3	59.8	26.7	29.3
FY23	50.4	34.4	19.0	28.3	19.2	40.8	43.9	27.0	27.8
FY24E	54.8	33.9	18.0	30.1	16.1	31.7	40.2	24.7	28.1
FY25E	56.7	36.0	20.1	32.1	22.2	29.9	41.6	26.2	28.3
FY26E	57.2	39.1	23.2	36.4	30.2	35.6	44.2	29.9	33.6

Source: Company, Nirmal Bang Institutional Equities Research

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, NBIE Research, research analyst, the author of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.
 Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010