

Sector Thematic

Indian IT

Indian IT: expanding centre of gravity

“Cash flow is a fact, profit is an opinion.” We evaluate the sector’s balance sheet strength to deconstruct value by testing scenarios of growth-time and capital allocation. Indian IT’s centre of gravity is expanding beyond the tier-1s as mid-tier exhibit greater symmetry and reversion to growth premium. Despite the sector’s recent re-rating to +2-SD, current valuations imply only ~5% 10-year CAGR for tier-1s. We extend our positive view based on the anatomy of value and positive demand drivers.



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Indian IT: expanding centre of gravity

We maintain our positive outlook on the sector despite the sector recently re-rating to +2-SD valuations. The centre of gravity is expanding beyond just the tier-1s, as mid-tiers are showing symmetry in balance sheet metrics (and reverting to growth premium). Core strengths across the sector include (1) low cyclicality supported by high-annuity/client longevity, diversified industry verticals, growth drivers across cycles and large TAM and (2) strong cash generation and capital allocation. In this note, we have assessed the sector's capital allocation and used multiple scenarios (growth-time, payout, and work-from-home or WFH) to deconstruct value.

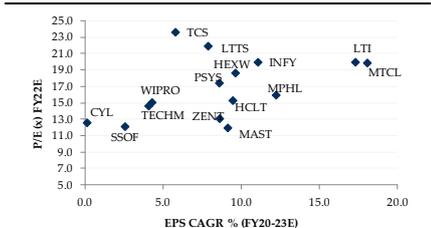
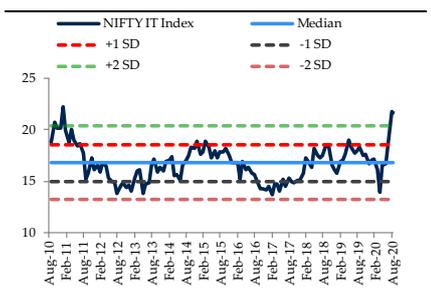
We believe that the sector is poised for higher multiples, led by (1) the longevity of high-growth period (current valuations imply ~5% 10-year CAGR) with 'multi-year' growth tailwind from the economic crisis, (2) the continuity of high (increasing) payouts, and (3) global 'best in class metrics' across growth, free cash generation, and balance sheet strength. We reckon that the sector (including mid-tier) can command multiples higher than historical averages, supported by the sector's **resilience** and growth longevity (in some cases **anti-fragility**).

- P/E multiple expansion drivers in place—growth longevity, higher payout, WFH:** Key inferences from the two-stage DDM for the sector and payout and WFH sensitivity on return ratios are: (1) multiples can expand from 19.5x to 23x if the high-growth period extends from five years to ten, (2) multiples can expand from 18x to 20.5x with payout increasing from 50% to 100% for a 5-year high growth of 10%, (3) TCS' performance will be RoE accretive at >2.2% growth with 90% payout, and INFY's performance will be RoE accretive at >4.5% growth with 85% payout, at ceteris paribus. Also, the sensitivity to lower Capex will be RoE accretive by 235bps over FY20-23E, assuming WFH at 50% and 5% revenue growth for TCS, and accretive by 360bps, assuming 75% WFH.
- The anatomy of value—strong pedigree vs. global peers:** Indian IT has a strong pedigree, which is reflected in its global 'best-in-class' metrics of capital allocation, balance sheet strength & efficiency and lower capital requirements. These are premised on (1) lower Capex and acquisition intensity (yet higher growth) than global peers, (2) strong payout/FCF and higher cash position, (3) higher asset turns and lower risk from intangibles and goodwill impairment.
- Demand drivers in place:** Key highlights from MD&A assessment include the following: (1) demand is expected to increase for services around digital channels, collaboration and workplace transformation, (2) pipeline is expanding in areas of cloud, workplace transformation, cost efficiency and automation, (3) companies have adopted remote management of upstream processes such as solutioning, requirements workshop and service transitions are done virtually without impact on productivity, leading to on track contractual commitments and go-live dates.
- The upside case:** Despite the recent re-rating in the sector (one-year fwd reached +2SD), reverse DCF based on current price implies: (1) TCS/INFY growth at 6.9%/6.7% over FY23-30 and HCLT/WPRO/TECHM growth at a modest 5.1%/4.4%/5.8% and (2) Mphasis appears most attractive with implied growth of -0.6% over FY23-30. PSYS and TELX are candidates for a higher payout, based on the disconnect between current efficiencies and high cash. **Upgrades include TCS (ADD), Persistent Systems (ADD) and Cyient (ADD).**

Top Picks: INFY, HCLT, LTI, MPHL and SSOF

| Company | CMP* (Rs) | RECO | TP (Rs) |
|---------------|-----------|--------|---------|
| TCS | 2,249 | ADD | 2,325 |
| Infosys | 949 | BUY | 1,075 |
| HCL Tech | 706 | BUY | 770 |
| Wipro | 273 | ADD | 295 |
| Tech Mahindra | 733 | BUY | 820 |
| LTI | 2,368 | ADD | 2,750 |
| Mphasis | 1,199 | BUY | 1,450 |
| Mindtree | 1,163 | ADD | 1,240 |
| LTTS | 1,605 | REDUCE | 1,395 |
| Hexaware | 419 | REDUCE | 385 |
| Persistent | 1,040 | ADD | 1,105 |
| Cyient | 389 | ADD | 410 |
| Zensar | 180 | ADD | 200 |
| Sonata | 313 | BUY | 370 |
| Majesco | 750 | BUY | 1,050 |
| Mastek | 728 | BUY | 815 |

*CMP as on 21st Aug 2020



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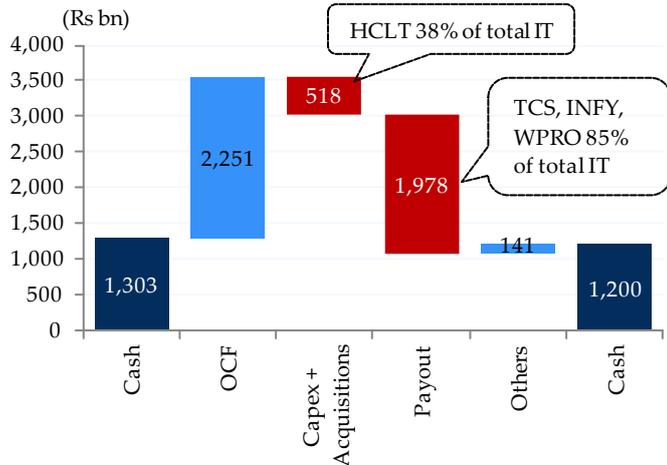
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Focus Charts

Cash flow bridge over FY18-20 for IT sector



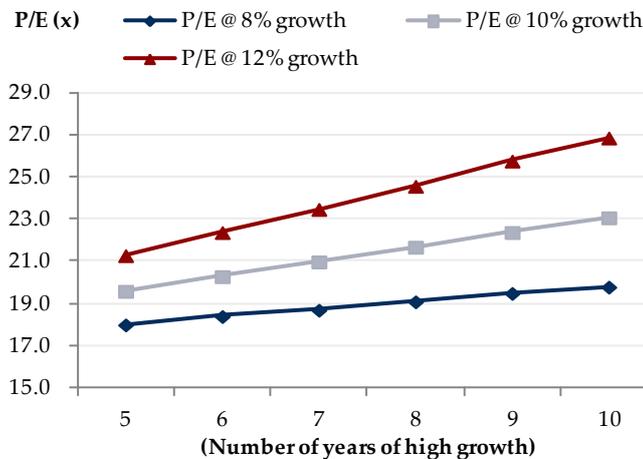
Source: Company, HSIE Research

Implied growth FY20-30 using reverse DCF

| Company | USD Revenue Growth Rate % FY20-23E | Implied Growth FY20-30E via Reverse DCF | Implied USD Revenue Growth for FY23-30E |
|----------|------------------------------------|---|---|
| TCS | 3.1% | 5.8% | 6.9% |
| Infosys | 6.8% | 6.7% | 6.7% |
| Wipro | 0.7% | 3.3% | 4.4% |
| HCL Tech | 5.5% | 5.2% | 5.1% |
| TechM | 2.2% | 4.7% | 5.8% |
| LTI | 11.6% | 6.2% | 4.0% |
| Mphasis | 7.1% | 1.6% | -0.6% |
| Mindtree | 4.7% | 7.3% | 8.5% |

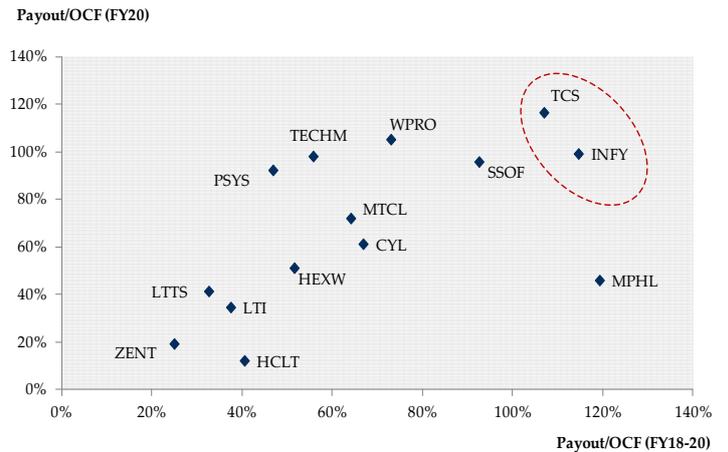
Source: HSIE Research; Terminal growth 4% beyond FY30E

P/E multiple Scenario based on Longevity & Quantum of High growth



Source: HSIE Research; Based on 2-stage DDM factoring stable growth of 4% and Required rate of return at 10.5%

IT sector payout dispersion: TCS, INFY ahead



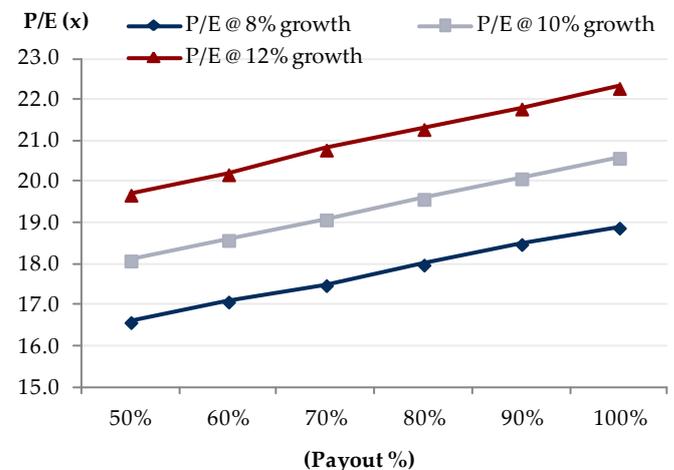
Source: Company, HSIE Research

WFH and growth sensitivity on TCS' RoE (RoE increase in bps over FY20-23)

| | | WFH% | | |
|----------|-------|------|-----|-----|
| | | 25% | 50% | 75% |
| Growth % | 5.0% | 115 | 235 | 359 |
| | 7.5% | 170 | 350 | 540 |
| | 10.0% | 224 | 464 | 722 |

Source: HSIE Research; WFH implies work from home

P/E multiple Scenario based on Payout and Quantum of High Growth



Source: HSIE Research; Based on 2-stage DDM factoring stable growth of 4% and Required rate of return at 10.5%

Indian and Global Tech Financial metrics comparison

| Parameters | Indian IT services | | | | | Global IT services | | | BigTech (FAMGA) | | | | |
|--|--------------------|-------|-------|-------|-------|--------------------|-------|-------|-----------------|-------|-------|-------|-------|
| | TCS | INFY | WPRO | HCLT | TechM | ACN | CTSH | CAP | AAPL | MSFT | GOOGL | AMZN | FB |
| Revenue CAGR % 3Y | 7.8% | 7.7% | 1.5% | 12.5% | 6.0% | 7.5% | 7.6% | 5.8% | 6.5% | 14.0% | 21.5% | 27.3% | 36.8% |
| Revenue USD bn | 20.9 | 12.1 | 8.1 | 9.4 | 4.9 | 43.2 | 16.8 | 16.4 | 260.2 | 143.0 | 161.9 | 280.5 | 70.7 |
| EBIT Margin % | 24.6% | 21.3% | 16.6% | 19.6% | 11.6% | 14.6% | 14.6% | 10.1% | 24.6% | 37.0% | 22.2% | 5.2% | 33.9% |
| PAT USD bn | 4.3 | 2.2 | 1.3 | 1.5 | 0.6 | 4.8 | 1.8 | 1.0 | 55.3 | 44.3 | 34.3 | 11.6 | 18.5 |
| PAT CAGR % 3Y | 7.1% | 4.6% | 6.4% | 10.7% | 14.8% | 7.5% | 7.6% | 5.8% | 6.5% | 14.0% | 21.5% | 27.3% | 36.8% |
| Market Cap USD bn | 112.5 | 53.7 | 20.8 | 25.5 | 9.4 | 154.4 | 36.6 | 22.8 | 2,160 | 1,610 | 1,070 | 1,650 | 761 |
| P/S (x) | 5.4 | 4.4 | 2.6 | 2.7 | 1.9 | 3.6 | 2.2 | 1.4 | 8.3 | 11.3 | 6.6 | 5.9 | 10.8 |
| TTM P/E (x) | 27 | 24 | 16 | 16 | 15 | 31 | 21 | 24 | 37 | 36 | 34 | 61 | 32 |
| Asset Turns (x) | 8.3 | 5.5 | 6.5 | 8.7 | 6.7 | 31.1 | 12.8 | 9.4 | 7.0 | 3.2 | 2.2 | 3.9 | 2.0 |
| Incremental Asset Turns (x) FY17-20 | 4.2 | 2.3 | 2.7 | 1.1 | 3.2 | 2.8 | 2.2 | 1.5 | 1.7 | 1.8 | 1.7 | 2.6 | 1.7 |
| Goodwill & Intangibles % of Total Assets | 1.7% | 7.9% | 16.2% | 35.4% | 9.3% | 20.8% | 31.0% | 45.8% | 9.7% | 16.7% | 14.8% | 6.6% | 14.7% |
| Du Point Analysis | | | | | | | | | | | | | |
| Profit Margin % | 20.6% | 18.1% | 15.9% | 15.7% | 11.5% | 11.1% | 11.0% | 6.1% | 21.2% | 31.0% | 21.2% | 4.1% | 26.1% |
| Asset Turnover (x) | 1.3 | 1.0 | 0.8 | 0.9 | 1.0 | 1.5 | 1.0 | 0.8 | 0.8 | 0.5 | 1.1 | 1.2 | 0.5 |
| Equity multiplier (x) | 1.4 | 1.4 | 1.4 | 1.8 | 1.7 | 2.4 | 1.4 | 2.3 | 3.4 | 2.7 | 0.8 | 4.3 | 1.4 |
| RoE % | 37.3% | 25.2% | 17.3% | 23.9% | 20.2% | 38.6% | 16.4% | 10.7% | 55.9% | 40.1% | 18.1% | 21.9% | 20.0% |
| OCF/EBIT % | 84% | 89% | 106% | 96% | 102% | 105% | 102% | 125% | 109% | 115% | 152% | 265% | 151% |
| FCF/PAT % | 90% | 85% | 86% | 49% | 70% | 101% | 81% | 116% | 105% | 96% | 83% | 166% | 112% |
| Capex + Acq as a % of Revenue | 2.1% | 3.6% | 4.1% | 11.3% | 3.7% | 4.1% | 6.0% | 5.7% | 4.3% | 12.6% | 16.1% | 6.9% | 22.1% |
| Total Payout USD bn | 5.0 | 2.3 | 1.5 | 0.2 | 0.6 | 4.6 | 2.7 | 0.5 | 81.0 | 38.1 | 18.4 | 0.0 | 4.2 |
| Total Payout/OCF (%) | 116% | 99% | 105% | 12% | 98% | 69% | 108% | 23% | 117% | 63% | 34% | 0% | 12% |
| Total Payout/FCF (%) | 129% | 123% | 136% | 30% | 143% | 94% | 181% | 42% | 139% | 89% | 65% | 0% | 20% |
| Total Payout/Net Profit (%) | 117% | 104% | 117% | 15% | 101% | 95% | 147% | 49% | 147% | 86% | 54% | 0% | 23% |
| Rev/Employee (USD 000) | 46.7 | 49.9 | 44.5 | 62.6 | 39.3 | 87.8 | 57.4 | 74.7 | 1,899 | 877 | 1,361 | 352 | 1,573 |
| EBIT/Employee (USD 000) | 11.5 | 10.7 | 7.4 | 12.3 | 4.6 | 12.8 | 8.4 | 7.6 | 467 | 325 | 302 | 18 | 534 |
| Fixed Asset/Employee (USD 000) | 5.6 | 9.1 | 6.8 | 7.2 | 5.8 | 2.8 | 4.5 | 7.9 | 273 | 271 | 619 | 91 | 786 |
| Debtor Days (billed) | 71 | 74 | 66 | 73 | 75 | 68 | 71 | 87 | 64 | 82 | 57 | 27 | 49 |
| Net Cash & Cash Eq (USD bn) | 5.9 | 3.6 | 3.2 | 1.0 | 0.9 | 6.3 | 2.7 | -1.0 | 103.8 | 73.2 | 115.1 | 31.6 | 54.9 |
| Net Cash as % of Net Worth | 52% | 42% | 42% | 14% | 30% | 44% | 25% | -10% | 115% | 62% | 57% | 51% | 54% |
| Net Cash as % of Total Assets | 37% | 30% | 29% | 9% | 18% | 21% | 17% | -5% | 31% | 24% | 75% | 14% | 41% |
| Net Cash as % of Market Cap | 5% | 7% | 15% | 4% | 9% | 4% | 7% | -4% | 5% | 5% | 11% | 2% | 7% |

Source: Company, Bloomberg, HSIE Research, USD-INR @75

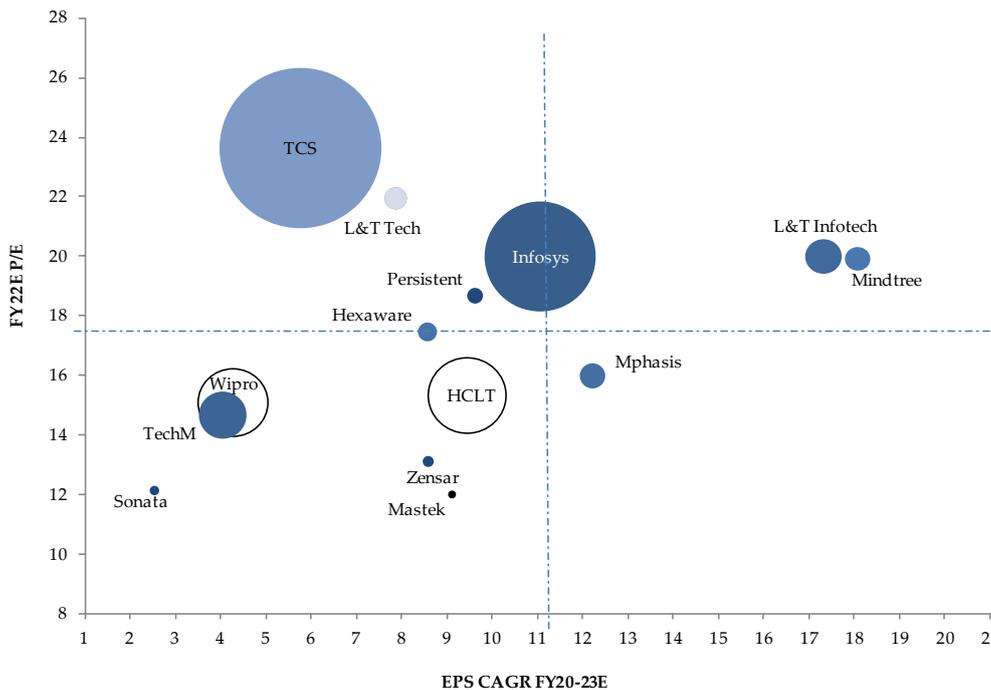
Data for financial year-end March-20 for Indian IT, Aug-19 for ACN, Sep-19 for AAPL, June-20 for Microsoft, March-20 for DXC and rest all Dec-19.

IT sector valuation universe

| Company | MCap (Rs bn) | CMP (Rs) | TP (Rs) | RECO | EPS (Rs) | | | | P/E (x) | | | | RoE (%) | | | | \$ Rev CAGR% | EPS CAGR% |
|-------------------------|------------------|-------------|------------|--------|-----------|-------|-------|-------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------|--------------|
| | | | | | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | | |
| TCS | 8,438 | 2,249 | 2,325 | ADD | 86.2 | 82.2 | 95.1 | 102.0 | 26.1 | 27.4 | 23.6 | 22.1 | 37.3 | 36.5 | 41.1 | 42.1 | 3.1 | 5.8 |
| Infosys | 4,029 | 949 | 1,075 | BUY | 38.6 | 42.3 | 47.5 | 52.9 | 24.6 | 22.4 | 20.0 | 17.9 | 25.2 | 26.2 | 27.0 | 27.4 | 6.8 | 11.1 |
| HCL Tech | 1,916 | 706 | 770 | BUY | 40.8 | 41.3 | 46.1 | 53.4 | 17.3 | 17.1 | 15.3 | 13.2 | 23.8 | 20.6 | 20.8 | 21.7 | 5.5 | 9.4 |
| Wipro | 1,559 | 273 | 295 | ADD | 17.0 | 16.7 | 18.1 | 19.3 | 16.0 | 16.4 | 15.1 | 14.1 | 17.3 | 16.8 | 17.6 | 18.1 | 0.7 | 4.3 |
| TechM | 707 | 733 | 820 | BUY | 48.3 | 43.4 | 50.0 | 54.4 | 15.2 | 16.9 | 14.7 | 13.5 | 20.2 | 16.9 | 18.1 | 18.3 | 2.2 | 4.0 |
| Tier-1 IT Median | | | | | | | | | 17.3 | 17.1 | 15.3 | 14.1 | 23.8 | 20.6 | 20.8 | 21.7 | 3.1 | 5.8 |
| LTI | 412 | 2,368 | 2,750 | ADD | 87.3 | 98.0 | 118.4 | 141.0 | 27.1 | 24.2 | 20.0 | 16.8 | 29.5 | 28.7 | 28.8 | 28.4 | 11.6 | 17.3 |
| Mphasis | 223 | 1,199 | 1,450 | BUY | 61.3 | 61.5 | 75.0 | 86.7 | 19.6 | 19.5 | 16.0 | 13.8 | 20.6 | 18.9 | 20.9 | 21.6 | 7.1 | 12.2 |
| Mindtree | 192 | 1,163 | 1,240 | ADD | 40.5 | 50.5 | 58.4 | 66.6 | 28.7 | 23.0 | 19.9 | 17.5 | 19.5 | 24.4 | 24.3 | 23.8 | 4.7 | 18.1 |
| L&T Tech | 167 | 1,605 | 1,395 | REDUCE | 71.9 | 55.5 | 73.1 | 90.2 | 22.3 | 28.9 | 21.9 | 17.8 | 28.6 | 19.4 | 22.2 | 23.6 | 4.8 | 7.9 |
| Hexaware* | 125 | 419 | 385 | REDUCE | 21.5 | 22.0 | 24.0 | 27.5 | 19.5 | 19.1 | 17.4 | 15.2 | 24.9 | 22.2 | 21.4 | 21.6 | 9.2 | 8.6 |
| Persistent | 79 | 1,040 | 1,105 | ADD | 47.0 | 52.3 | 55.7 | 61.9 | 22.1 | 19.9 | 18.7 | 16.8 | 14.4 | 15.8 | 15.1 | 15.2 | 9.2 | 9.6 |
| Cyient | 43 | 389 | 410 | ADD | 33.9 | 26.2 | 30.9 | 34.0 | 11.5 | 14.9 | 12.6 | 11.5 | 14.5 | 11.0 | 12.3 | 12.9 | -1.3 | 0.1 |
| Zensar | 41 | 180 | 200 | ADD | 11.7 | 11.1 | 13.7 | 15.0 | 15.3 | 16.2 | 13.1 | 12.0 | 12.9 | 11.4 | 13.1 | 13.4 | 0.7 | 8.6 |
| Sonata | 32 | 313 | 370 | BUY | 26.7 | 21.8 | 25.7 | 28.7 | 11.7 | 14.3 | 12.1 | 10.9 | 38.5 | 31.9 | 33.5 | 33.3 | 1.0 | 2.5 |
| Majesco | 21 | 750 | 1,050 | BUY | 19.4 | 25.7 | 30.8 | 43.7 | 38.7 | 29.2 | 24.4 | 17.2 | 7.9 | 9.9 | 10.9 | 13.8 | 13.3 | 31.2 |
| Mastek | 18 | 728 | 815 | BUY | 51.5 | 55.9 | 60.8 | 66.9 | 14.1 | 13.0 | 12.0 | 10.9 | 17.4 | 18.7 | 17.7 | 17.1 | 16.1 | 9.1 |
| Tier-2 IT AVG | | | | | | | | | 21.0 | 20.2 | 17.1 | 14.6 | 20.8 | 19.3 | 20.0 | 20.4 | 6.9 | 11.4 |
| Tier-2 IT Median | | | | | | | | | 19.6 | 19.5 | 17.4 | 15.2 | 19.5 | 18.9 | 20.9 | 21.6 | 7.1 | 9.1 |
| | | | | | | | | | | | | | | | | | | |
| Company | MCap (USD bn) | CMP USD | TP | RECO | EPS (USD) | | | | P/E (x) | | | | RoE (%) | | | | \$ Rev CAGR% | EPS CAGR% |
| | | | | | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | | |
| Accenture | 158 | 237 | NA | NR | 7.4 | 7.6 | 8.1 | 9.0 | 32.3 | 31.1 | 29.2 | 26.5 | 38.6 | 32.8 | 30.1 | 29.1 | NA | 6.8 |
| Cognizant | 36 | 66 | NA | NR | 4.0 | 3.5 | 4.0 | 4.4 | 16.5 | 18.6 | 16.6 | 14.9 | 16.4 | 15.3 | 17.2 | 16.8 | NA | 3.3 |
| Capgemini^ | 19 | 114 | NA | NR | 6.8 | 6.4 | 7.6 | 8.7 | 16.9 | 17.8 | 15.1 | 13.2 | 10.8 | 11.7 | 13.3 | 13.9 | NA | 8.6 |
| Global IT AVG | | | | | | | | | 21.9 | 22.5 | 20.3 | 18.2 | 21.9 | 19.9 | 20.2 | 19.9 | NA | 6.2 |
| Global IT Median | | | | | | | | | 16.9 | 18.6 | 16.6 | 14.9 | 16.4 | 15.3 | 17.2 | 16.8 | | 6.8 |

Source: HSIE Research, Bloomberg, *Dec YE, ^CMP, MCap and EPS in EUR terms, CMP as on 21st Aug 2020

IT sector P/E and EPS growth grid



Source: HSIE Research, Note: Size of Bubble represents M-cap

Mid-tier IT revenue growth expected to outperform Tier-1 by ~300bps over FY20-23E (including ~350bps in FY21) as compared to ~340bps over the past four years (~180bps in FY20)

IT index is up 29% in 3M period, 13% in 1Y and has outperformed NIFTY in past 3/10 years

Stock performance (%)

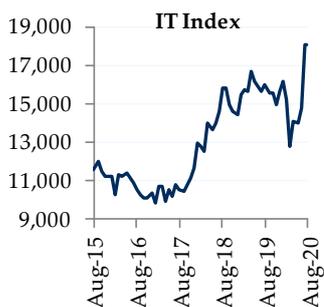
| Companies | 1M (%) | 3M (%) | 6M (%) | 12M (%) | 3Yr (%) | 5Yr (%) | 10Yr (%) |
|-----------------|------------|-------------|-------------|-------------|-------------|-------------|--------------|
| TCS | 2.6 | 11.3 | 4.3 | 1.5 | 76.5 | 61.0 | 396.1 |
| Infosys | 3.4 | 37.1 | 19.1 | 16.3 | 101.0 | 53.0 | 154.3 |
| HCL Tech | 8.6 | 33.1 | 16.1 | 30.9 | 57.1 | 41.2 | 592.1 |
| Wipro | 2.8 | 44.7 | 11.3 | 2.7 | 10.6 | 9.8 | 54.9 |
| TechM | 18.6 | 38.4 | -11.6 | 7.5 | 65.1 | 30.7 | 702.1 |
| LTI | 1.7 | 32.7 | 18.2 | 48.7 | 224.7 | NA | NA |
| Mphasis | 20.5 | 42.8 | 33.2 | 24.4 | 95.3 | 150.7 | 77.7 |
| Mindtree | 14.8 | 30.5 | 10.8 | 67.7 | 150.7 | 61.7 | 806.2 |
| LTTS | 13.3 | 43.0 | -7.9 | 2.6 | 120.8 | NA | NA |
| Hexaware | 17.9 | 78.0 | 15.7 | 11.4 | 56.8 | 60.6 | 1029.8 |
| Persistent | 45.5 | 98.2 | 45.0 | 82.0 | 60.2 | 41.7 | 314.0 |
| Cyient | 30.7 | 105.8 | -11.2 | -11.7 | -26.2 | -32.4 | 149.7 |
| Zensar | 28.2 | 107.3 | 20.9 | -16.5 | 15.1 | 0.6 | 445.9 |
| Sonata | 30.9 | 58.2 | -7.9 | -0.8 | 101.4 | 104.8 | 578.9 |
| Majesco | 76.1 | 167.1 | 90.8 | 81.9 | 148.5 | 166.4 | 184.8 |
| Mastek | 58.1 | 207.1 | 73.5 | 136.9 | 177.9 | 342.5 | 160.8 |
| NSE IT | 4.5 | 29.3 | 13.9 | 13.1 | 71.9 | 51.3 | 234.7 |
| Nifty 50 | 4.0 | 26.1 | -1.0 | 13.1 | 29.0 | 57.5 | 157.7 |

Source: Bloomberg, HSIE Research, CMP as on 21st Aug 2020

Note:

Green indicates out-performance to Nifty 50 during the respective period

Red indicates under-performance to Nifty 50 during the respective period



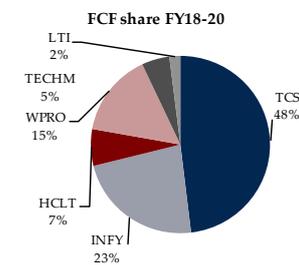
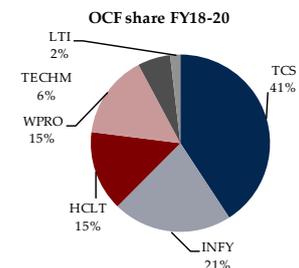
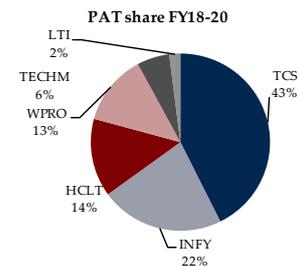
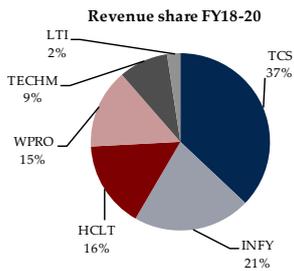
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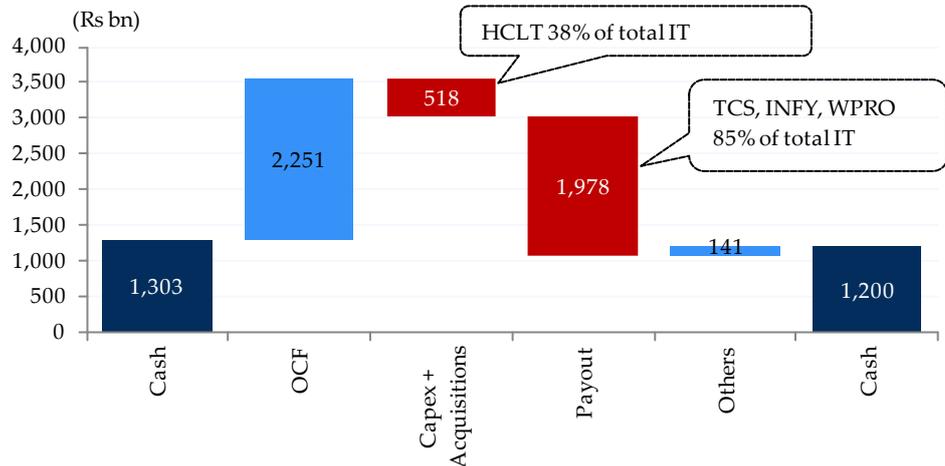
Capital allocation and cash generation: the bedrock of value

Capital allocation to earn a return on capital that is higher than the cost of capital determines value. IT sector is a 'cash-generating machine' with a strong combination of (1) low business cyclicality (+/-1 SD growth range of 6.5-10.9% over the past eight years), supported by high-annuity/client longevity, diversified verticals, growth drivers across cycles and large TAM; (2) low capital requirements and high return on capital with negligible leverage (gross debt/EBITDA <0.2x for tier-1)

We have assessed the IT sector's capital allocation and used various scenarios to deconstruct value. Key highlights include (1) strong cash generation (both OCF and FCF) in the sector with limited outliers – WPRO/TCS score high within tier-1s and PSYS/MPHL/MTCL within mid-tier, (2) significant improvement in payout (>2.5x in 3 years) with payout/OCF increasing from 44% in FY17 to 88% in FY20; tier-1 IT payout/FCF increased from 62% in FY17 to 121% in FY20 and mid-tier increased from 45% to 77% (tier-1 IT payout comparable to global peers with only Cognizant ahead and Apple from BigTech)

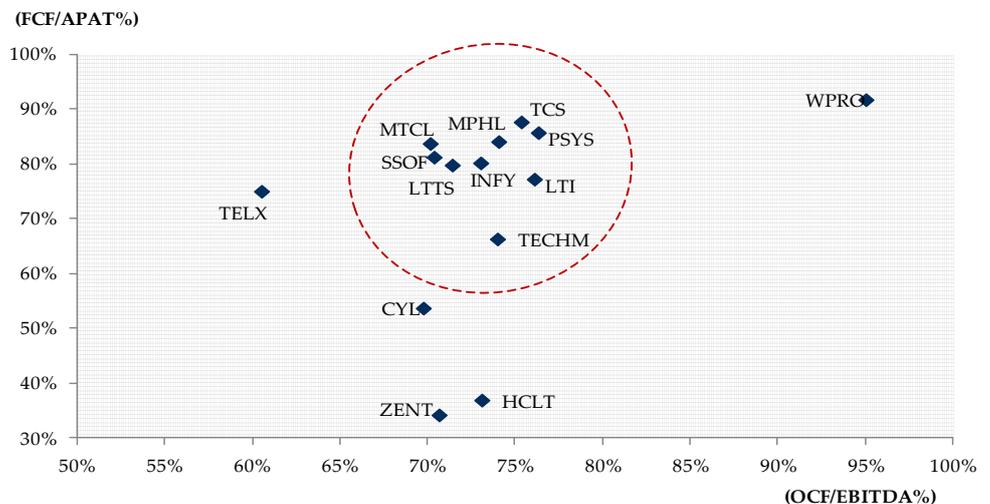


Cash flow bridge over FY18-20 for IT sector



Source: Company, HSIE Research

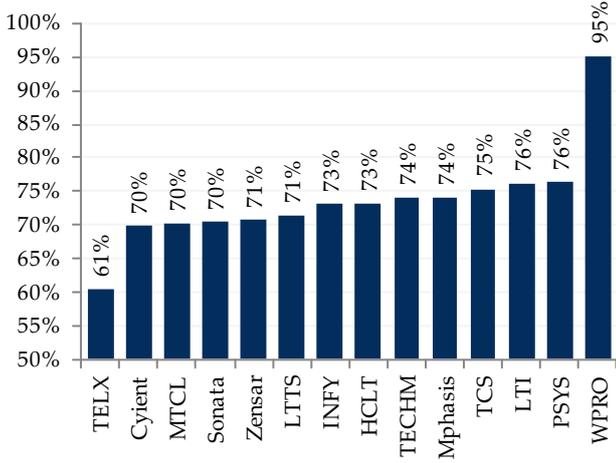
Strong cash generation with limited outliers (FY18-20)



Source: Company, HSIE Research

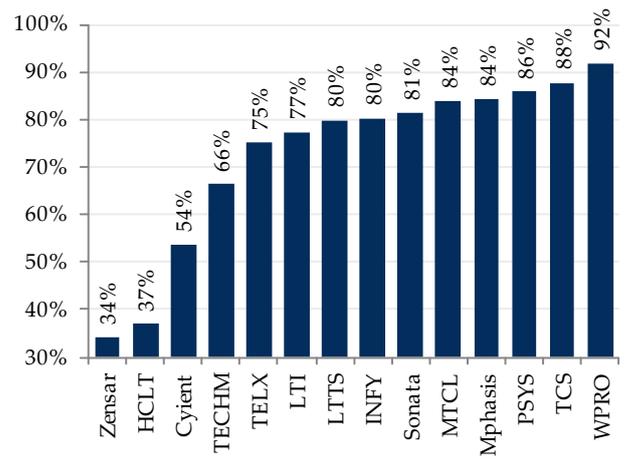
IT : Sector Thematic

Strong and stable band of cash generation over FY18-20: OCF/EBITDA%



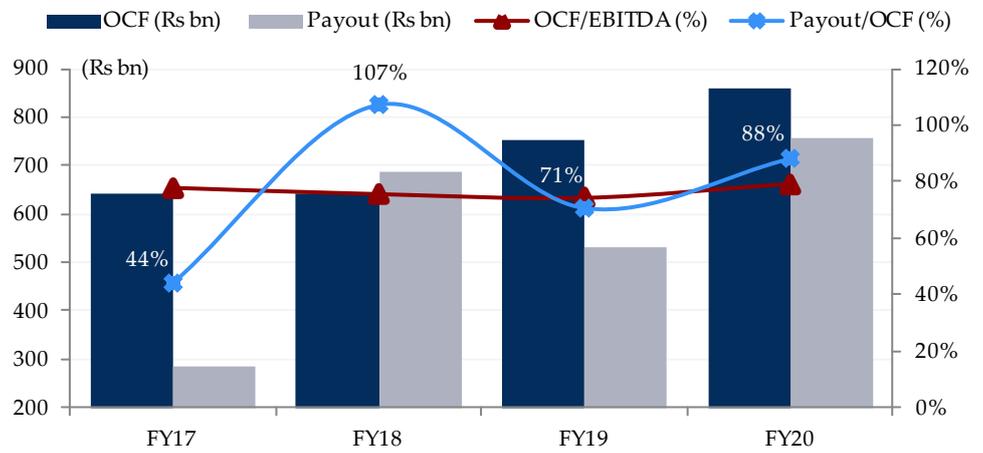
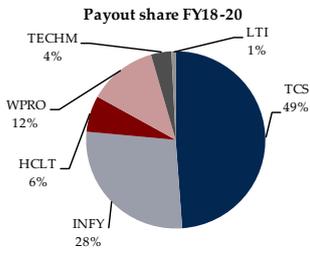
Source: Company, HSIE Research

Acquisition and Capex intensity leading to dispersion (FY18-20): FCF/APAT



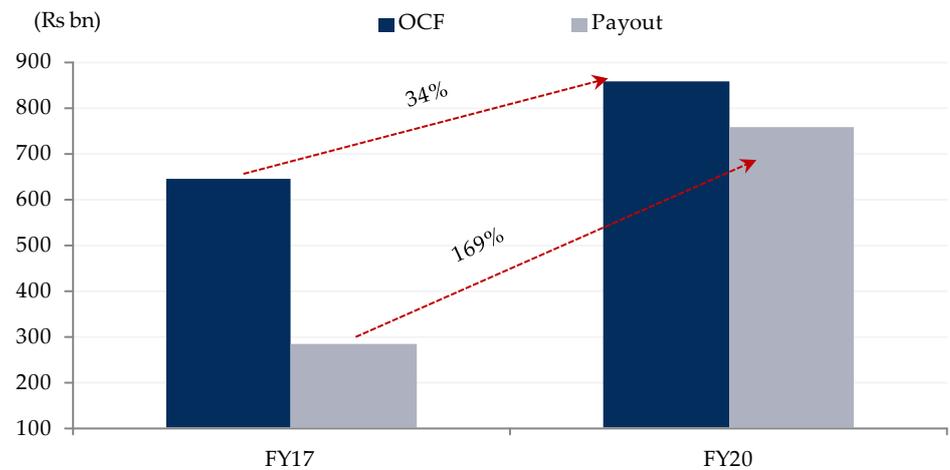
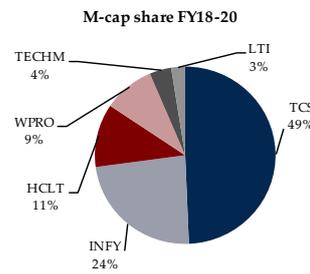
Source: Company, HSIE Research

Steady OCF generation and increasing payout trend



Source: Company, HSIE Research

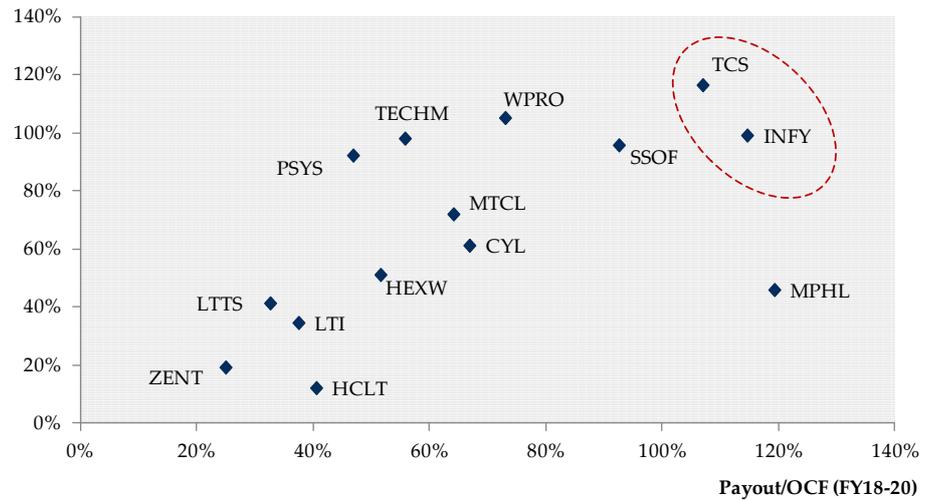
Over 2.5x increase in payouts over FY17-20 (Dividend + Buybacks)



Source: Company, HSIE Research

IT sector payout dispersion: TCS, INFY ahead

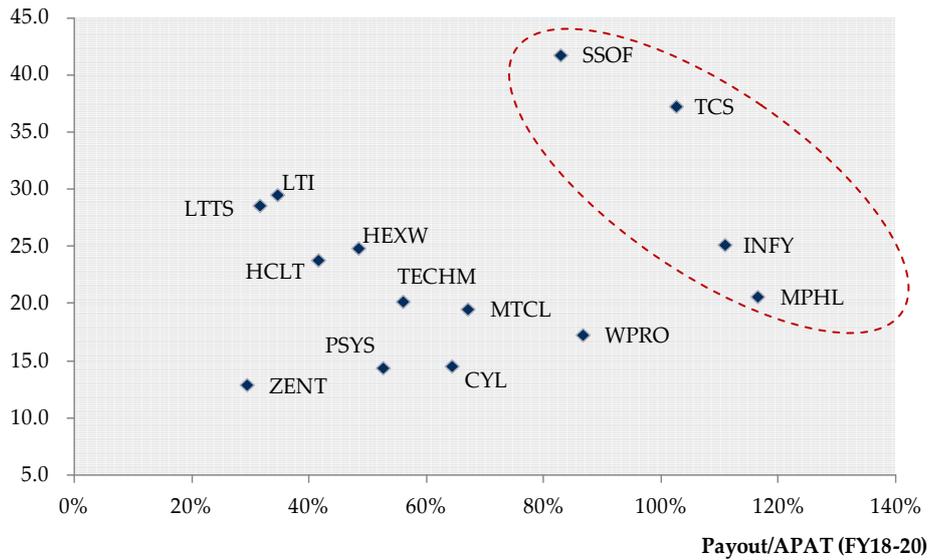
Payout/OCF (FY20)



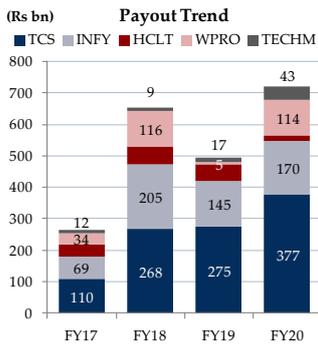
Source: Company, HSIE Research

IT sector RoE and payout grid

RoE % (FY20)

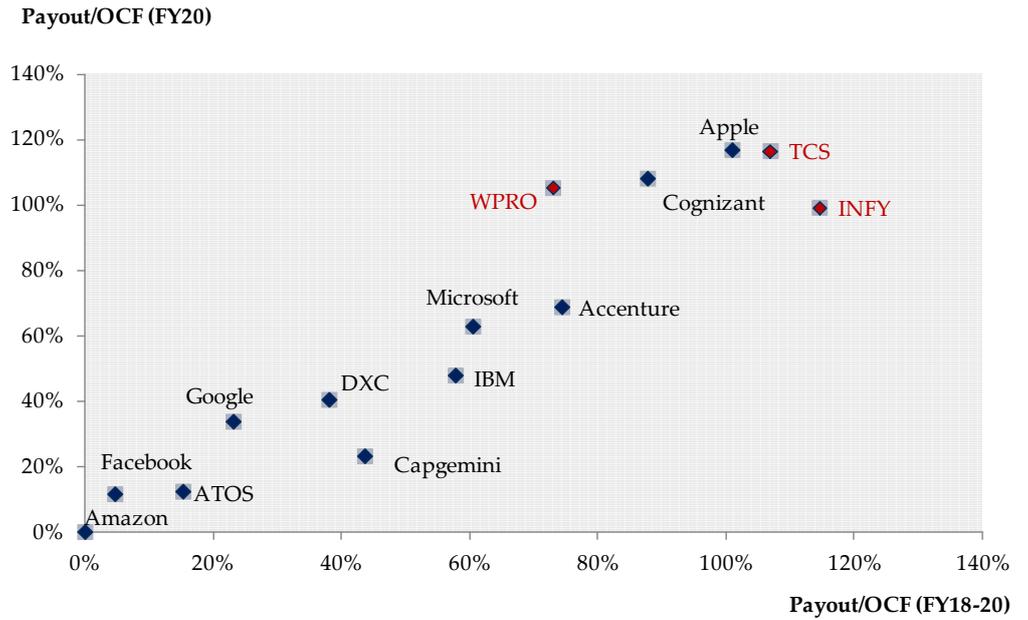


Source: Company, HSIE Research



Global IT services and BigTech sector payout dispersion

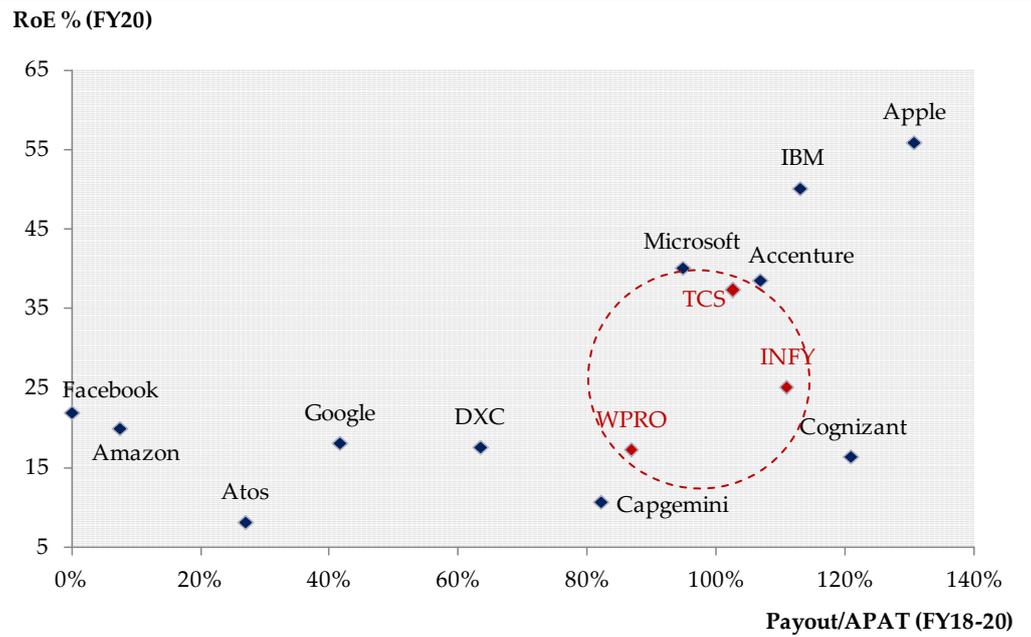
Apple payout has increased significantly over the past three years corresponding with increase in multiples, TCS and INFY ahead in payout/OCF



Source: Company, HSIE Research

BigTech has lower payout than Global IT Services on higher re-investment/growth dispersion

Global IT services and BigTech sector RoE and payout grid



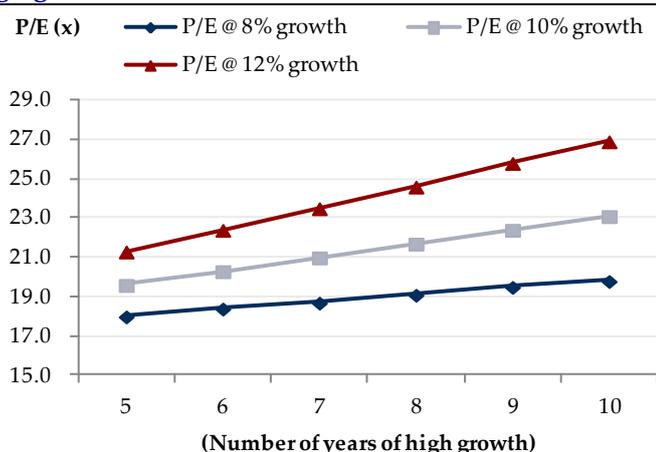
Source: Company, HSIE Research

P/E expansion drivers in place: longevity of high growth and payout

PE multiples limit the valuation exercise to how similar assets are priced. While PE multiples are an efficient shorthand tool (yet myopic) to determine value, factoring only empirical trends in multiples may lead to missing the woods for the trees. We have used a two-stage dividend discount model to deconstruct valuation scenarios, factoring in terminal growth at 4% and cost of capital at 10.5%. The sensitivity of the implied P/E multiples is not just based on growth, but also the longevity of the high-growth period and the quantum of payout.

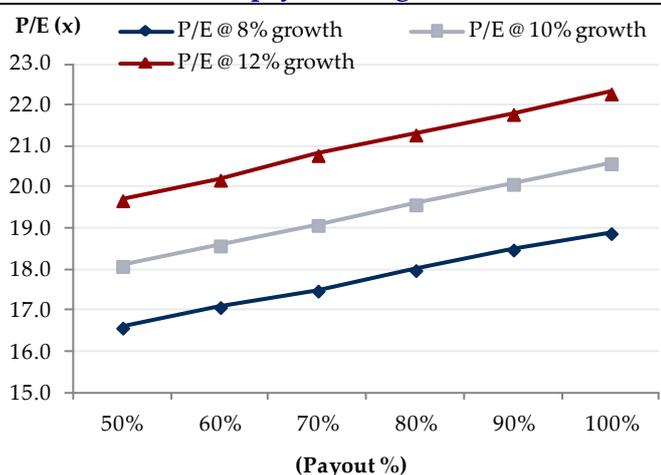
We believe that the sector is poised for higher multiples, led by the longevity of high-growth (higher than terminal growth) period and continuity of high payouts. These are premised on other more static variables that are expected to remain at long-term averages such as operating margin, OCF generation, Capex intensity. Key inferences that can be drawn are: (1) multiples can expand from 19.5x to 23x if the high-growth (10%) period increases from five years to ten years, (2) multiples can expand from 18x to 20.5x with payout increasing from 50% to 100% for a 5-year high growth of 10%, (3) TCS' performance will be RoE accretive at >2.2% growth with 90% payout, and INFY's performance will be RoE accretive at >4.5% growth with 85% payout, at ceteris paribus.

P/E Ratio Scenario based on longevity and quantum of high growth



Source: HSIE Research; Assumptions: Required rate of return 10.5% and stable growth rate of 4%

P/E Scenario based on payout and growth



Source: HSIE Research; Required rate of return 10.5%, stable growth 4%

P/E Ratio Scenario based on longevity and quantum of high growth

| Longevity of High growth (Years) | P/E @ 8% growth | P/E @ 10% growth | P/E @ 12% growth |
|----------------------------------|-----------------|------------------|------------------|
| 5 | 18.0 | 19.6 | 21.3 |
| 6 | 18.4 | 20.3 | 22.4 |
| 7 | 18.7 | 21.0 | 23.5 |
| 8 | 19.1 | 21.7 | 24.6 |
| 9 | 19.5 | 22.4 | 25.8 |
| 10 | 19.8 | 23.1 | 26.9 |

Source: HSIE Research; Based on 2-stage DDM factoring stable growth of 4% and Required rate of return of 10.5%

P/E Scenario based on payout and growth

| Payout % | P/E @ 8% growth | P/E @ 10% growth | P/E @ 12% growth |
|----------|-----------------|------------------|------------------|
| 50% | 16.6 | 18.1 | 19.7 |
| 60% | 17.1 | 18.6 | 20.2 |
| 70% | 17.5 | 19.1 | 20.8 |
| 80% | 18.0 | 19.6 | 21.3 |
| 90% | 18.5 | 20.1 | 21.8 |
| 100% | 18.9 | 20.6 | 22.3 |

Source: HSIE Research; Based on 2-stage DDM factoring stable growth of 4% and Required rate of return of 10.5%

RoE sensitivity to payout: TCS and INFY

FY23 RoE sensitivity to payout and revenue/EPS growth for TCS (FY20 RoE 37.3%)

| | | Payout (%) | | | |
|------------|-------|------------|-------|-------|-------|
| | | 85% | 90% | 95% | 100% |
| Growth (%) | 2.5% | 36.0% | 37.6% | 39.4% | 41.4% |
| | 5.0% | 38.4% | 40.3% | 42.3% | 44.5% |
| | 7.5% | 41.0% | 41.8% | 45.3% | 51.3% |
| | 10.0% | 43.7% | 45.9% | 48.4% | 56.3% |

Source: HSIE Research; coloured portion represent ROE sensitivity

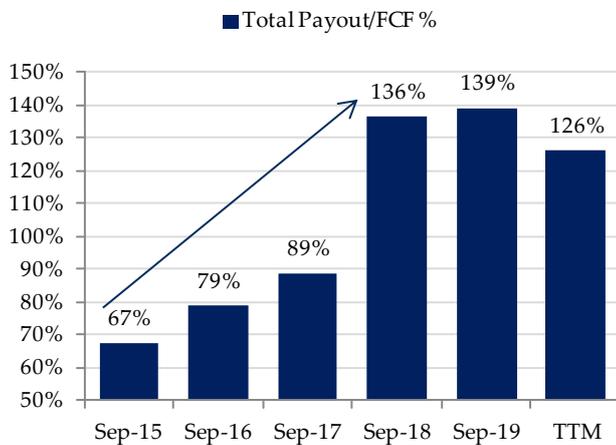
FY23 RoE sensitivity to payout and revenue/EPS growth for INFY (FY20 RoE 25.2%)

| | | Payout (%) | | | |
|------------|-------|------------|-------|-------|-------|
| | | 70% | 75% | 80% | 85% |
| Growth (%) | 2.5% | 22.6% | 23.2% | 23.9% | 24.6% |
| | 5.0% | 24.1% | 24.8% | 25.5% | 26.3% |
| | 7.5% | 25.6% | 26.4% | 27.2% | 28.1% |
| | 10.0% | 27.3% | 28.1% | 29.0% | 30.0% |

Source: HSIE Research; coloured portion represent ROE sensitivity

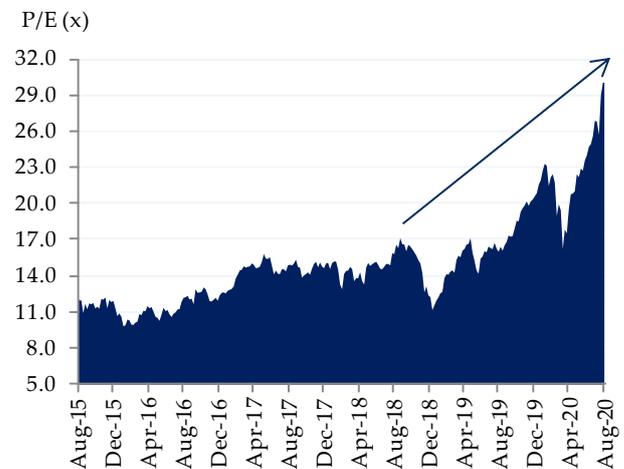
Apple case study: increase in payout and P/E expansion over the past three years

Apple Total Payout/FCF has increased by 1.7x



Source: Company, HSIE Research

P/E expansion over the last two years

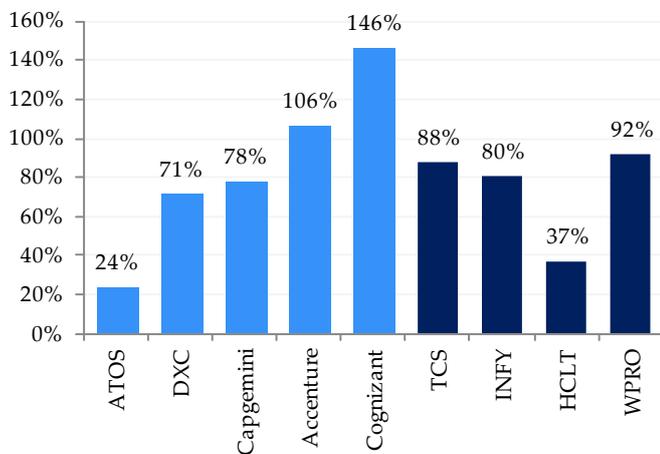


Source: Bloomberg, HSIE Research

Indian IT in line with global benchmarks

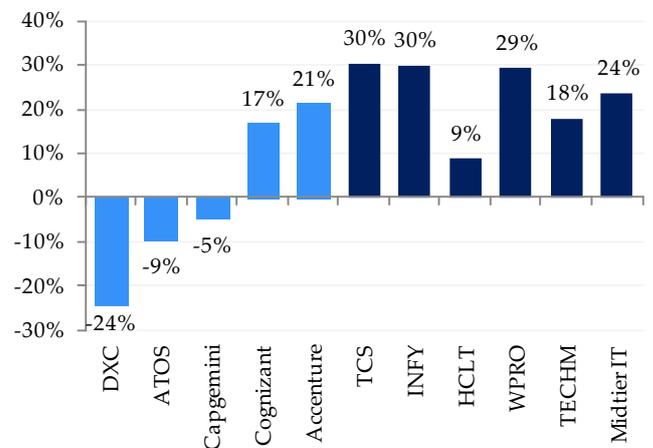
Indian IT has strong pedigree reflected in its global best-in-class metrics of capital allocation, balance sheet strength & efficiency, lower capital requirements. These attributes of relatively stronger metrics support the sector’s resilience and longevity (in some cases, **anti-fragility**). Some metrics that reflect the sector’s relative strength include: (1) net cash as a percentage of total assets average 25% for tier-1 IT (Accenture/Cognizant at 21/17% and others with net debt), (2) lower Capex intensity at 3.1% of revenue (4.6% including HCLT) than global peers’ average of 4.9%, (3) stronger average payout at 110% of FCF (past three years) as compared to 85% for global peers (average of Accenture, Cognizant, Capgemini, DXC, Atos), and (4) intangibles and goodwill as a percentage of total asset average at ~14% (9% ex-HCLT) as compared to 34% for global peers.

Payout/FCF (FY18-20) in line with global peers



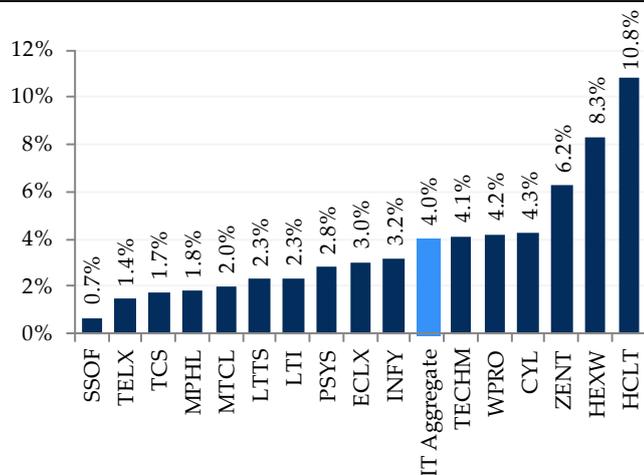
Source: Company, HSIE Research, Financial year ending data for global peers, Aug-19 for ACN, March-20 for DXC, and rest all Dec-19.

Stronger balance sheet vs. global peers (net cash % of total assets)



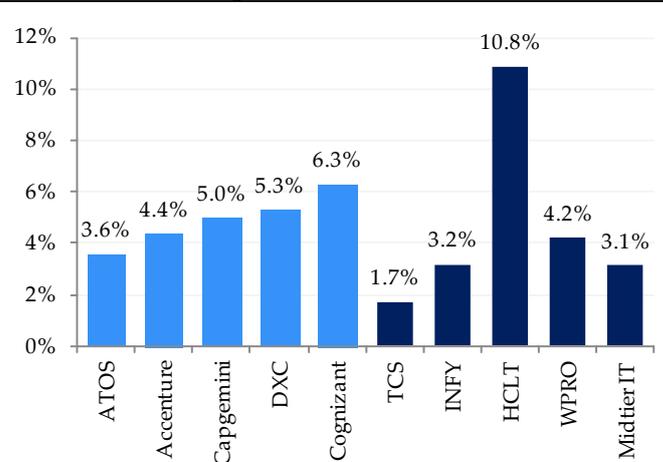
Source: Company, HSIE Research, Data as of financial year-end for global peers, Aug-19 for ACN, March-20 for DXC and rest all Dec-19.

Capex (including acquisitions) as % of revenue (FY18-20)



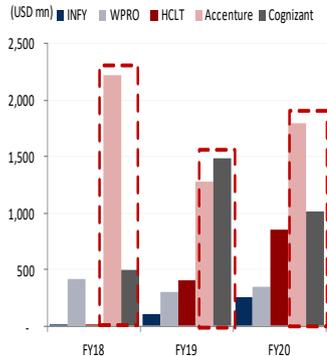
Source: Company, HSIE Research

Capex + acquisition intensity lower for Indian IT (ex-HCLT) vs. Global peers



Source: Company, HSIE Research; Capex % of revenue FY18-20, Data as of financial year-end - Aug-19 for ACN, March-20 for DXC and rest all Dec-19.

Higher acquisition intensity in global peers



Indian IT buyback track record

| Companies | Date | Buyback size (Rs bn) | % of shares bought back |
|-----------|--------|----------------------|-------------------------|
| TCS | Feb-17 | 160.00 | 3.0% |
| | Jun-18 | 160.00 | 2.0% |
| INFY | Aug-17 | 130.00 | 4.9% |
| | Jan-19 | 82.60 | 2.4% |
| HCLT | May-17 | 35.00 | 2.5% |
| | Jul-18 | 40.00 | 2.6% |
| WPRO | Nov-17 | 110.00 | 7.1% |
| | Apr-19 | 105.00 | 5.4% |
| TECHM | Feb-19 | 19.56 | 2.1% |
| PSYS | Jan-19 | 2.25 | 3.8% |
| MPHL | Mar-17 | 11.03 | 8.3% |
| | Aug-18 | 9.88 | 3.8% |
| MTCL | Jun-17 | 2.70 | 2.6% |
| CYL | Feb-19 | 2.00 | 2.5% |
| ECLX | Apr-19 | 2.62 | 4.5% |
| | Jan-18 | 2.58 | 3.2% |
| | Oct-16 | 2.34 | 2.9% |
| NITEC | Dec-19 | 3.37 | 3.0% |

Source: Company, HSIE Research

Recent acquisitions by Indian IT

| Company | Target Company | Domain | Purchase Consideration (USD mn) |
|--------------|--|-----------------------------|---------------------------------|
| Infosys | ABN AMRO Stater | BPO | 143 |
| Infosys | Simplus (Outbox Systems Inc) | Salesforce services | 250 |
| HCL Tech | Sankaip Semiconductor | Tech Design | 26 |
| HCL Tech | Cisco's Self-Optimizing Network (SON) technology | Telecom Network Engineering | 49 |
| Wipro | International TechneGroup Incorporated | Engineering services | 45 |
| Wipro | IVIA Servigos De Informática Ltda | IT services | 22 |
| Wipro | 4C NV and its subsidiaries ("4C") | Salesforce services | 75 |
| TechM | Infotek & Vitaran | Logistics & Asset tracking | 2 |
| TechM | Objectwise Consulting Group | Pega services | 2 |
| TechM | Mad*Pow | Design services | 25 |
| TechM | BORN Group | Design services | 95 |
| TechM | Cerium Systems | Engineering services | 48 |
| TechM | Zen3 Infosolutions | AI, Cloud & DevOps services | 64 |
| L&T Infotech | Powercloud Technologies Pvt Ltd | Cloud & Managed services | 15 |
| L&T Infotech | Lymbyc | AI led platform | 5 |
| L&T Tech | Orchestra Technology | Telecom Network Engineering | 25 |
| Hexaware | Mobiquity | Digital consulting | 182 |
| Sonata | GAPbusters Limited (GBW) | ERP, CRM | 5 |
| Sonata | Treeni Sustainability Solutions Inc | IT services | 1 |
| Majesco | InsPro Technologies | SaaS Solutions | 12 |
| Mastek | Evosys Group | Oracle services & ERP | 65 |

Source: Company, HSIE Research, acquisitions since Apr-19

Higher capital allocation towards acquisitions by global peers

| ACCENTURE | | | | | |
|---|----------------------------------|--------------------------------|---|----------------------|-----------------------------|
| Acquisition | Domain | Acquisition | Domain | Acquisition | Domain |
| CreativeDrive | Digital Agency | Yesler | B2B Marketing services | Apis Group | Consultancy services |
| Organize Cloud Labs | ServiceNow implementation | ESR Labs | Automotive embedded software development | Sutter Mills | Digital Agency |
| PLM Systems | ER&D | Context Information | Cybersecurity services | Bow & Arrow | Digital Agency |
| Sentelis | Data consulting & engineering | Sierra-Cedar (select business) | Workday, Salesforce and U.S. MuleSoft practices | Nytec | ER&D |
| Gekko | AWS services | Mudano | BFSI data consultancy | Happen | Consultancy services |
| Byte Prophecy | Big data analytics | AlphaBeta Advisors | Consultancy services | INSITUM | Digital Agency |
| Kates Kesler | Design Agency | VanBerlo | Digital Agency | Pragsis Bidoop | Big data analytics |
| Callisto | Manufacturing systems consulting | Icon Integration | SAP practice | Analytics8 | Big data analytics |
| Symantec Cyber Security services (Broadcom) | Cybersecurity services | Maihiro | SAP practice | Fairway Technologies | ER&D |
| NIKE Group | BFSI RegTech services | Clarity Insights | Data consulting | Parker Fitzgerald | BFSI risk advisory services |
| Revolutionary Security | Cybersecurity services | Silveo | SAP & Dassault consulting services | Northstream | Telecom consultancy |
| COGNIZANT | | | CAPGEMINI | | |
| Acquisition | Domain | Acquisition | Domain | Acquisition | Domain |
| New Signature | Microsoft cloud solutions | WhiteSky Labs | Mulesoft services | | |
| Collaborative Solutions | Workday services | Altran | ER&D | | |
| Lev plus | Digital marketing | Advectas | Big data analytics | | |
| El-Technologies | Salesforce services | Purpose | Digital Agency | | |
| Code Zero | Salesforce services | KONEXUS Consulting | Energy consultancy services | | |
| Contino | Digital services | | | | |

Source: Company, HSIE Research. acquisitions in TTM

Performance of key subsidiaries

Key subsidiaries that outperformed in FY20 include Diligenta for TCS (2.3% of revenue), Brilliant Basics for Infosys and Syncordis for LTI (1.7% of revenue). Subsidiaries that underperformed in FY20 included Appirio/TopCoder (1.7% of revenue), Designit (0.4% of revenue) and HPS (1.7% of revenue) for Wipro; CJS (3.4% of revenue), Comviva (2.2% of revenue) and Pininfarina (2% of revenue) for Tech Mahindra.

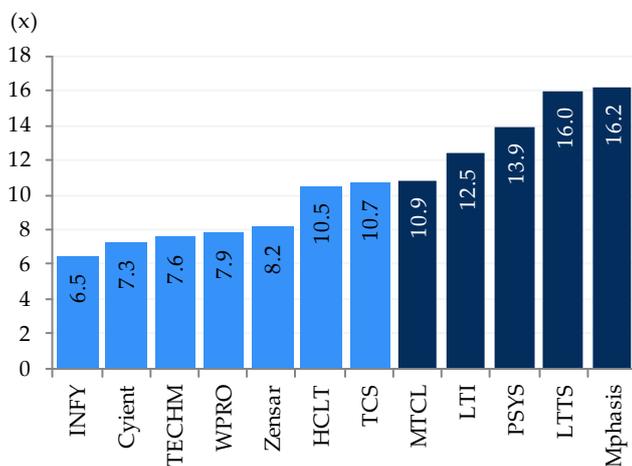
| Company | Key Subsidiaries | Revenue (Rs mn) | | | Growth (%) | | % of Consol Revenue | |
|---------|---|-----------------|--------|--------|------------|--------|---------------------|------|
| | | FY18 | FY19 | FY20 | FY19 | FY20 | FY19 | FY20 |
| TCS | Diligenta Limited | 17,560 | 30,120 | 36,660 | 71.5% | 21.7% | 2.1% | 2.3% |
| | TCS Japan | 40,480 | 46,620 | 53,400 | 15.2% | 14.5% | 3.2% | 3.4% |
| | TCS Canada Inc | 42,870 | 50,060 | 56,860 | 16.8% | 13.6% | 3.4% | 3.6% |
| | TCS China | 5,580 | 7,380 | 6,990 | 32.3% | -5.3% | 0.5% | 0.4% |
| INFY | Infosys BPM | 30,610 | 39,320 | 45,950 | 28.5% | 16.9% | 5.6% | 5.6% |
| | Edge Verve Systems Ltd | 24,390 | 25,380 | 24,970 | 4.1% | -1.6% | 3.6% | 3.0% |
| | Stater (May-19 acquisition) | NA | NA | 8,170 | NA | NA | NA | 1.0% |
| | HIPUS (Apr-19 Hitachi, Panasonic, Pasona) | NA | NA | 2,320 | NA | NA | NA | 0.3% |
| | Brilliant Basics (Sep-17 acquisition) | 540 | 900 | 1,040 | 66.7% | 15.6% | 0.1% | 0.1% |
| | Fluido Oy (Oct-18 acquisition) | NA | 530 | 1,840 | NA | 247.2% | NA | 0.2% |
| | Infosys China | 11,970 | 11,150 | 11,360 | -6.9% | 1.9% | 1.6% | 1.4% |
| WPRO | Wipro HR Services (Alight) (Jul-18 acquisition) | NA | 10,645 | 10,359 | NA | -2.7% | 1.8% | 1.7% |
| | Appirio/TopCoder (Jan-17 acquisition) | 12,371 | 14,070 | 10,183 | 13.7% | -27.6% | 2.4% | 1.7% |
| | Healthplan Services Inc (Jun-16 acquisition) | 11,006 | 10,147 | 10,102 | -7.8% | -0.4% | 1.7% | 1.7% |
| | Infocrossing LLC | 6,009 | 6,709 | 7,307 | 11.6% | 8.9% | 1.1% | 1.2% |
| | Designit (Jul-15 acquisition) | 2,251 | 2,918 | 2,305 | 29.6% | -21.0% | 0.5% | 0.4% |
| TECHM | LCC | 16,094 | 16,061 | 16,527 | -0.2% | 2.9% | 4.6% | 4.5% |
| | CJS Solutions Group | 8,644 | 16,047 | 12,627 | 85.6% | -21.3% | 4.6% | 3.4% |
| | Comviva | 8,580 | 8,956 | 8,119 | 4.4% | -9.3% | 2.6% | 2.2% |
| | Pininfarina | 6,400 | 8,613 | 7,329 | 34.6% | -14.9% | 2.5% | 2.0% |
| | TECHM Business Services | 7,032 | 7,426 | 7,634 | 5.6% | 2.8% | 2.1% | 2.1% |
| | Target | 5,999 | 6,920 | 6,674 | 15.3% | -3.6% | 2.0% | 1.8% |
| LTI | Syncordis (Dec-17 acquisition) | 484 | 1,524 | 1,823 | 214.9% | 19.6% | 1.6% | 1.7% |
| | N+P (Mar-19 acquisition) | NA | 205 | 1,351 | NA | 559.0% | 0.2% | 1.2% |
| | Ruletronics (Mar-19 acquisition) | NA | 70 | 375 | NA | 435.7% | 0.1% | 0.3% |
| | Powerupcloud (Oct-19 acquisition) | NA | NA | 161 | NA | NA | NA | 0.1% |

Source: Company, HSIE Research

Asset efficiency and working capital profile

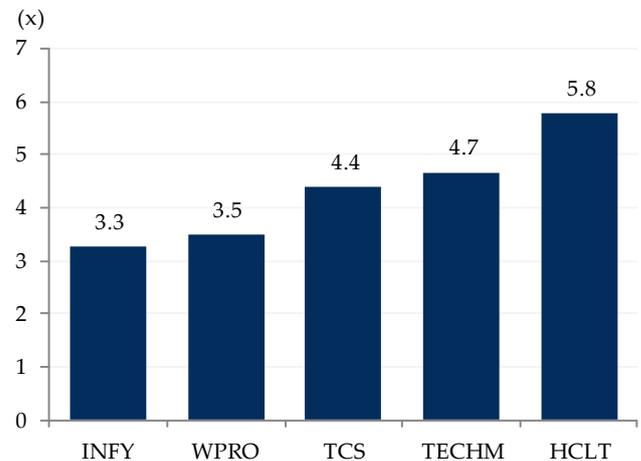
Asset efficiency and working capital management are important determinants of value, and we have done basic LS/TS to profile the companies. The variance in fixed asset turns not just reflects the efficiency but also its profile (more owned assets can subdue the asset turns); Mphasis and LTTS score high in asset turns. Some key inferences are: (1) dispersion in asset turns has narrowed in tier-1s over the past three years; (2) steady working capital management with DSO (including unbilled) within 88-95 days range over the past four years (increased by 6 days in FY20) – Mphasis, Wipro, Persistent and Mindtree score better; (3) more flexible payment terms/more extended collections vs. global peers, especially Accenture/Cognizant while DXC, Capgemini, Atos near Indian IT average; (4) Persistent and Tata Elxsi have excess cash on balance sheets and are candidates for higher payouts ahead; (5) Indian IT have lower embedded risks from write-off/impairment of intangibles and goodwill than global peers.

IT sector fixed asset turns (FY20)



Source: Company, HSIE Research

Dispersion narrows for incremental fixed asset turns (FY17-20)



Source: Company, HSIE Research

We have done RoE sensitivity due to various WFH and growth scenarios, assuming lower investments in PPE ex-Computer. The sensitivity to lower Capex will be RoE accretive by 235bps over FY20-23E, assuming WFH at 50% and 5% growth for TCS, and accretive by 359bps, assuming 75% WFH and 5% growth.

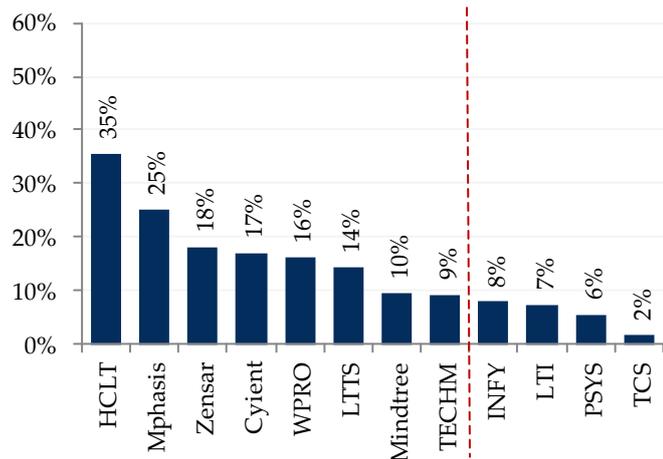
WFH and growth sensitivity on RoE (RoE increase bps over FY20-23)

| | | WFH% | | |
|----------|-------|------|-----|-----|
| | | 25% | 50% | 75% |
| Growth % | 5.0% | 115 | 235 | 359 |
| | 7.5% | 170 | 350 | 540 |
| | 10.0% | 224 | 464 | 722 |

Source: Company, HSIE Research

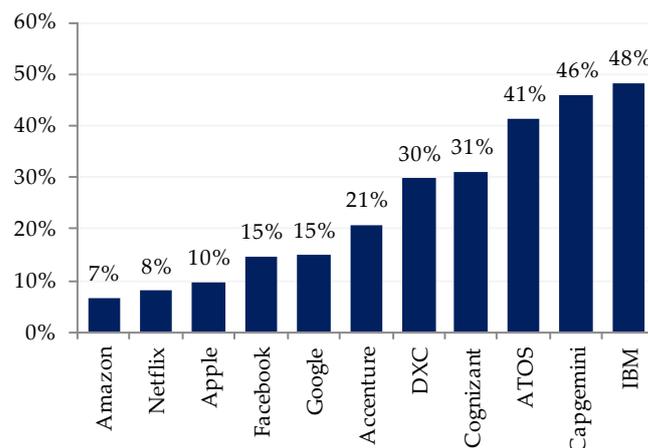
IT : Sector Thematic

IT sector goodwill and intangibles % of total assets (FY20)



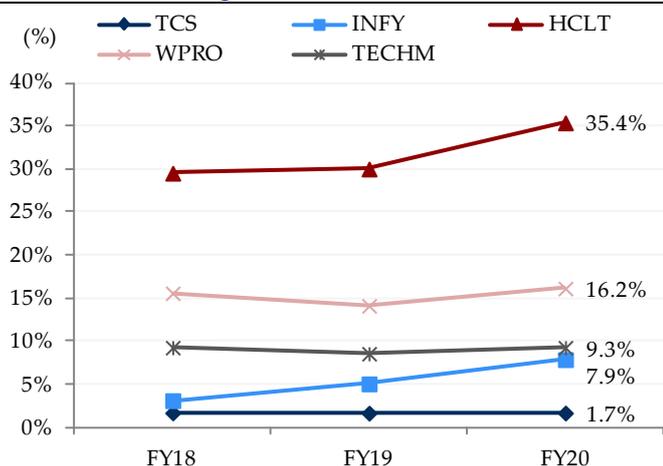
Source: Company, HSIE Research

Global peers (ex-FAANG) goodwill and intangibles as % of total assets significantly higher



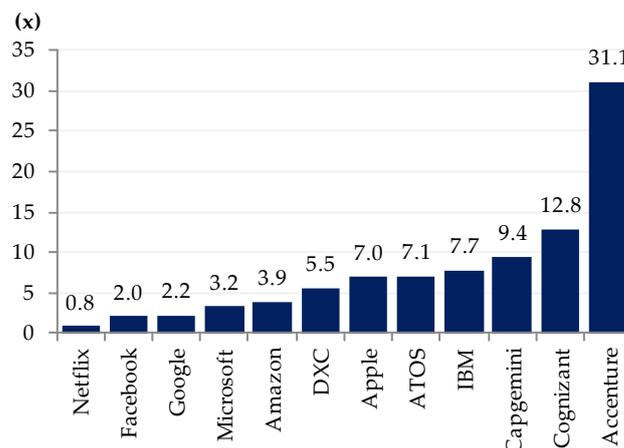
Source: Company, HSIE Research, Data as of financial year-end - Aug-19 for ACN, Sep-19 for AAPL, June-20 for Microsoft, March-20 for DXC and rest all Dec-19.

Goodwill and intangibles % of total assets trend



Source: Company, HSIE Research

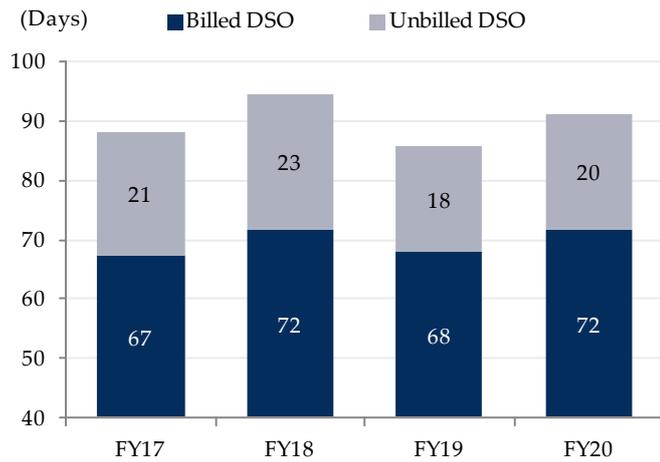
Global IT and the global tech fixed asset turns



Source: Company, HSIE Research, Data as of financial year-end - Aug-19 for ACN, Sep-19 for AAPL, June-20 for Microsoft, March-20 for DXC and rest all Dec-19.

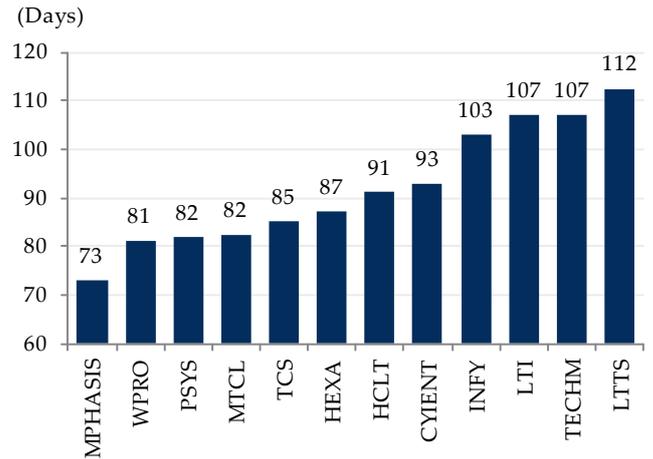
IT : Sector Thematic

Steady billed and unbilled DSO trend (Tier-1 IT)



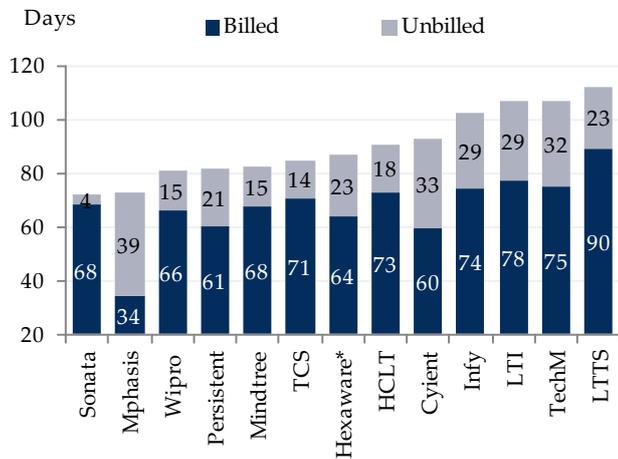
Source: Company, HSIE Research

DSO (including unbilled) range in FY20



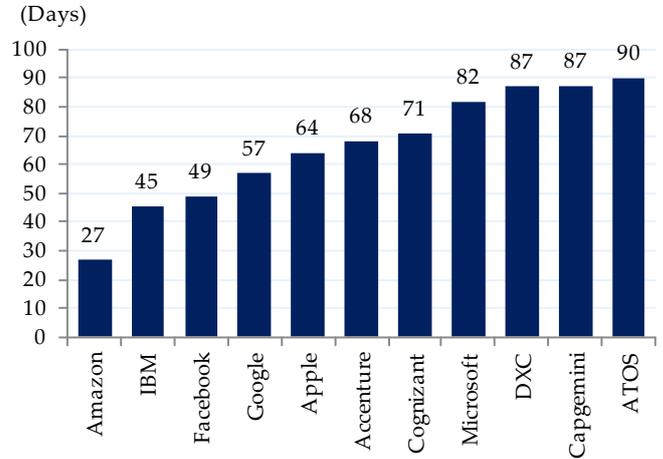
Source: Company, HSIE Research

DSO (billed and unbilled) for Indian IT (FY20)



Source: Company, HSIE Research

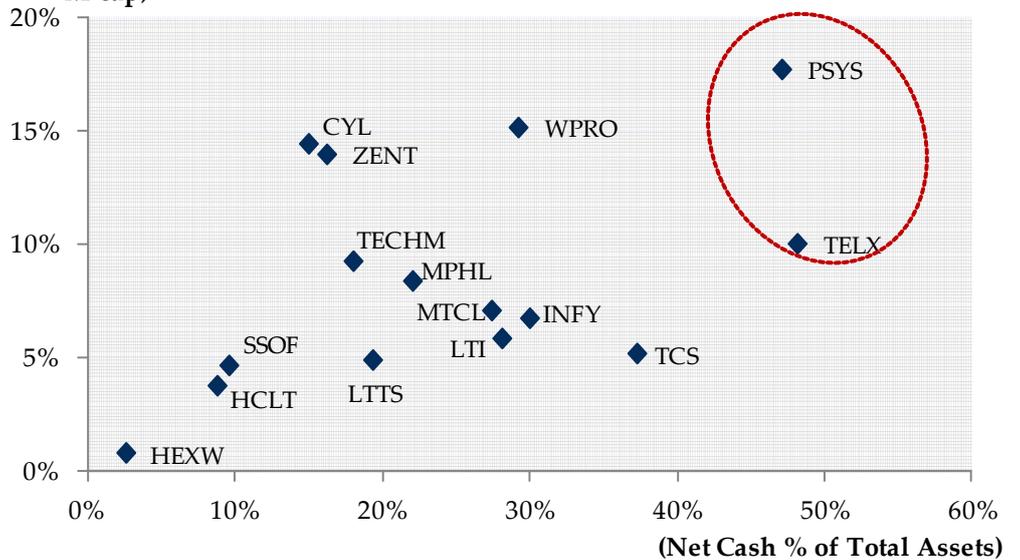
Global peers have lower DSO



Source: Company, HSIE Research

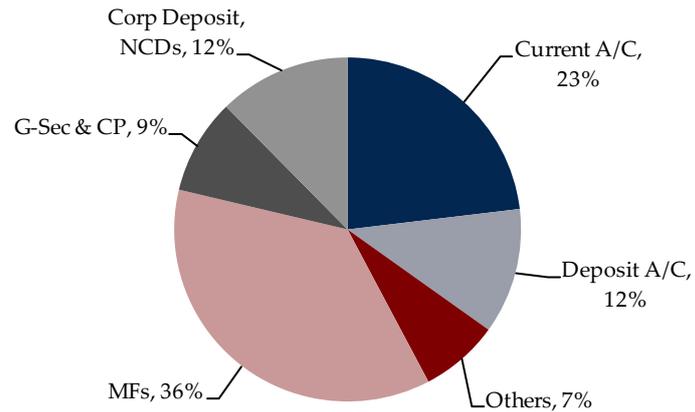
Cash on balance sheet and as a percentage of M-cap

(Net Cash % of M-cap)



Source: Company, HSIE Research; Circle denotes excess cash on balance sheet; PSYS and TELX candidates for higher payouts

Cash and investments break-up: IT sector average (FY20)



Source: Company, HSIE Research

Cash and investments break-up by companies (FY20)

| | Current A/C | Deposit A/C | Others | MFs | G-Sec & CP | Corp Deposit, NCDs | Total |
|-------|-------------|-------------|--------|-----|------------|--------------------|-------|
| TCS | 23% | 1% | 3% | 5% | 68% | 0% | 100% |
| INFY | 53% | 27% | 0% | 9% | 5% | 6% | 100% |
| WPRO | 10% | 33% | 0% | 4% | 6% | 46% | 100% |
| TECHM | 17% | 18% | 2% | 38% | 2% | 24% | 100% |
| LTI | 12% | 2% | 5% | 77% | 0% | 4% | 100% |
| MPHL | 23% | 24% | 7% | 39% | 0% | 7% | 100% |
| MTCL | 30% | 0% | 17% | 41% | 0% | 12% | 100% |
| LTTS | 25% | 0% | 3% | 61% | 0% | 11% | 100% |
| PSYS | 16% | 1% | 30% | 53% | 0% | 0% | 100% |

Source: Company, HSIE Research

Reverse DCF based on current price implies (1) TCS/INFY growth at 6.9/6.7% over FY23-30 and HCLT/WPRO/TECHM growth at 5.1%, 4.4% and 5.8%, (2) Mphasis appears most attractive with implied growth of -0.6% over FY23-30 (DXC-HP expected to be 11% of revenue in FY23E).

Implied growth FY20-30 using Reverse DCF

| Company | USD Revenue Growth Rate % FY20-23E | Implied Growth FY20-30E via Reverse DCF | Implied USD Revenue Growth for FY23-30E |
|----------|------------------------------------|---|---|
| TCS | 3.1% | 5.8% | 6.9% |
| Infosys | 6.8% | 6.7% | 6.7% |
| Wipro | 0.7% | 3.3% | 4.4% |
| HCL Tech | 5.5% | 5.2% | 5.1% |
| TechM | 2.2% | 4.7% | 5.8% |
| LTI | 11.6% | 6.2% | 4.0% |
| Mphasis | 7.1% | 1.6% | -0.6% |
| Mindtree | 4.7% | 7.3% | 8.5% |

Source: HSIE Research

MD&A assessment: setting the con'text'

Annual Report excerpts

TCS: the gold standard

- **Vision 25x25:** By 2025, only 25% of the associates will need to work out of TCS' facilities at any point of time, supported by pivot to new operating model Secure Borderless Workspaces™ (SBWS™). TCS' cloud-based project monitoring system has been tracking the progress of over 23,000 ongoing projects on a real-time basis, ensuring quality of delivery and certainty of outcomes; some areas have seen improvement in velocity, throughput, and productivity. Travelling to onsite locations, particularly for initial transitions and knowledge transfer will reduce further as virtualisation blurs the traditional divide between onsite and offshore.
- **Demand drivers:** Enterprises are discovering that investing in AI and automation is the best business continuity plan. Many customers are expected to accelerate their core transformation initiatives, and adoption of digital self-service channels, over the next few months. Demand is expected to increase for services around digital channels, collaboration and workplace transformation, online learning and workforce analytics.
- TCS' spend on R&D and innovation centre expenditure (1.2% of revenue) increased by 12.5% in FY20 as compared to revenue growth of 7.2%. Technology is seen as a source of competitive differentiation in every industry and technology intensity or spends on technology as a percentage of revenue will rise in the medium to long term.
- **Operations:** Margin management avenues include cost management at the granular business unit level and project level by selling higher-value services, managed services contract, machine-first delivery model, and replacing sub-contractors with employees. For FY21, no annual wage increase, reduced spending on travel and facilities, and cancellation of marketing events related sponsorship costs are levers.
- TCS has hired 20,000 employees (gross) in the US over the past five years and sub-contractors used for very short-term assignments. The onboarding program has been fast-tracked with better digital assessment supported by TCS iON platform, and it has also increased the width of colleges/student participation.
- **Vertical drivers:** BFSI drivers included (1) legacy estate modernisation and cloud enablement, (2) adoption of open banking, payments, insights-driven customer experience, automation, and robo-advisory systems, (3) new standards like IFRS 17, FRTB, Definition of Default and LIBOR drove spends in compliance. Retail and Consumer drivers included operating model transformation with stress in NorthAm Retail; CPG drivers included technology investments, driven by direct-to-consumer initiatives including mass personalisation. CMT vertical drivers included subscription-centric business models, simplification and automation of core operations, OTT platforms and services, rollouts of fibre networks for high bandwidth connectivity. More investments were directed towards re-architecting existing products on cloud-native platforms.

Wipro: aspiring to grow

- Top areas of IT spends will be cloud, user experience and cybersecurity. ~70% of CIOs will make additional investments in cloud and cybersecurity. The COVID-19 pandemic has brought some fundamental changes: it has (1) accelerated the shift to online/digital business models, (2) encouraged WFH/remote working which could become mainstream, (3) led to the adoption of the 'no-shore' model, and (4) accelerated adoption of automation, autonomous and contactless ways of working.
- Wipro's focus will be on developing horizontal and industry-specific products, platforms and solutions. Some of them are Virtuadesk™ (virtual desktop) for WFH, Cloud studios for cloud migration, Topcoder platform for talent sourcing, Wipro HOLMES for remote working and drug discovery, Netoxygen for BFSI and Medicare Advantage for Healthcare.
- Technology is now extensively used to onboard, induct and train employees. Wipro has achieved 90% WFH, and given the shift, the workforce will never come back to a 100% work from office mode. Wipro onboarded ~5K employees virtually, the Topcoder's "Talent as a Service" (TaaS) offering is helping clients to access talent from the gig economy.
- Margins improvement was led by the adoption of automation/AI and optimizing of costs in subsidiaries. Automation and offshoring will be the two key margin levers. Capital allocation policy will be to return 45-50% of the profits through a combination of dividends and buybacks.

Tech Mahindra: well-placed for the 5G wave

- The three trends are connected devices (~ 20bn IoT connected devices by 2023), 5G and Data explosion (75% of data will be consumed by video). During the pandemic, data usage has increased significantly (~3GB/user in the US). The increasing need for rapid access to data and automation will enhance the focus on upgrading network equipment/technology and speeding up 5G network deployments. Telcos around the world are upgrading their network infrastructure, which will spur spending and Tech Mahindra being an undisputed leader in Telecom will be the prime beneficiary. Tech Mahindra's foray into network services will now contribute to growth, and it is well-positioned to tap the USD 40bn network services market.
- Maker's Lab is the R&D division with nine centres across the world. Tech Mahindra is focusing on disruptive technologies and building IPs such as Entellio (AI/ML chatbot), X-Retail (Next-gen Platform) are Storicool (NLP), which are focused on customer needs. Investment in Acumos (AI platform) continues, and the launch of the Enterprise version of Acumos called GAIA will accelerate the industrialisation and democratisation of AI. The Automation framework AQT has engagements with 200+ customers. The company has 5,000 associates trained in Automation and AI technologies. ~60,000 associates are undergoing upskilling in technology, domain and leadership skills.
- Investment in various design agencies like BIO Agency, Dynacommerce, Mad*Pow, BORN, Zen3 and Pininfarina is helping in better client engagement.

digital transformation to shorten time scales, thus enabling end-to-end digital transaction and integration to emerge stronger than before and survive these testing times. Mphasis' revenue from new-gen services grew 35% in FY20 and contributed 53.1% to Direct Core revenues in FY20.

- Mphasis strategy includes Front2Back™ Transformation approach, which uses the exponential power of cloud and cognitive to provide hyper-personalised digital experience to clients and their end customers. Mphasis' customised and platform-based Service Transformation approach is focused to 'shrink the core' through the application of digital technologies across legacy environments within an enterprise.
- Even the most tightly regulated industries, including banking, insurance and healthcare, will accelerate transforming business operations with urgency seamlessly and at scale. Organisations need to rapidly rethink business models with a digital-first approach by embracing all forms of modernisation and digital transformation to shorten time scales, thus enabling end-to-end digital transaction and integration to emerge stronger than before and survive these testing times. Mphasis' revenue from new-gen services grew 35% in FY20 and contributed 53.1% to Direct Core revenues in FY20.
- Mphasis has identified eight services to focus on, which include DevOps, Cloud Native App Dev, Legacy Modernisation, Enterprise Automation, Next Gen Data, Application Management Services, Infrastructure Management Services and Cyber Security. Mphasis reorganised its competency groups to become more agile, and created virtual Tribes around these services as cross-functional teams, focused on developing, evolving and building next-gen offerings. The company also reorganised the go-to-market teams as Squads on a need basis – with each portfolio Tribe having these Squads come together to build, bid and deliver specific offerings (or a cross-section of offerings) in an agile manner.

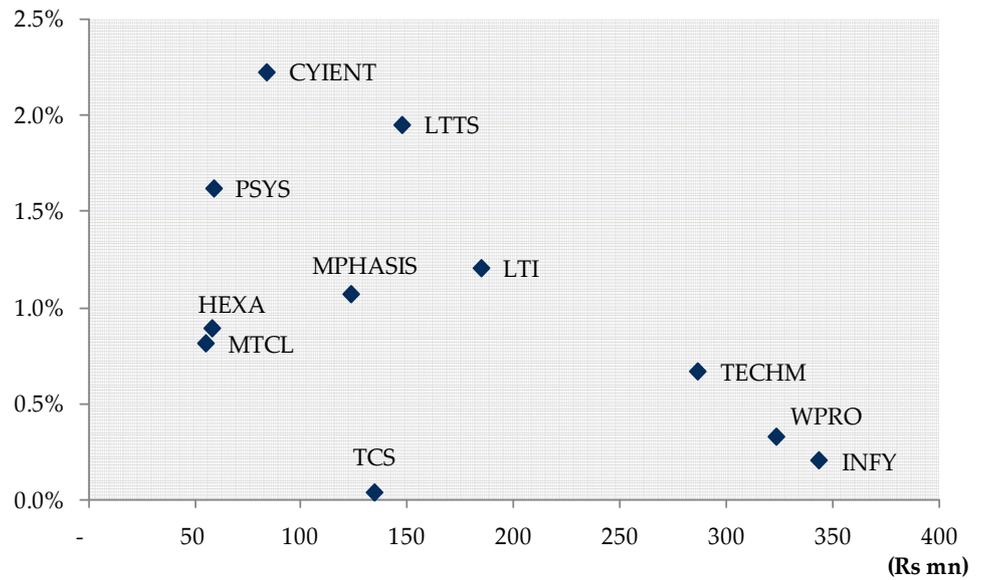
Mindtree: the agile one

- Mindtree has built engineering centres of excellence around the Internet of Things (IoT), Customer Experience, Augmented Reality (AR) /Virtual Reality (VR), and other mission-critical software platforms. The solutions, accelerators, frameworks, building blocks reduce product risks and ensure faster time-to-market supported by flexible business models. Some of Mindtree's platforms available for deployment include CAPE, RAPID, CodeMill, Decision Moments, MWatch, Atlas, DTEP and MindFlow.
- Mindtree's solutions support streamlining and automating end-to-end IT via integrated services to ensure efficient, agile operations (run the business) and leveraging digital technologies to drive competitive advantage and growth (grow the business). In the longer term, organisations may require greater resilience in their operations, which would accelerate demand for cloud, data and customer experience technologies. Most customers need to increase workspace collaboration and fortify their cybersecurity and cloud adoption strategies.
- Mindtree opened a new delivery centre in Atlanta, a new European headquarter in London, and technology experience centre in Bengaluru. The company has 14 F-100 customers within its active customer base of 307.
- **WFH preparedness:** Training hours per Mindtree employee were 77.1 in FY20 supported by the company's platform Yorbit and partnerships with Coursera supporting reskilling. Mindtree exhibited WFH readiness, supported by 85% of employees having laptops with configuration as per customer requirement, allowance of six days of WFH earlier, connectivity to customer network in place,

the agile working methodology building in daily tracking, and information security protocols enabled on endpoints.

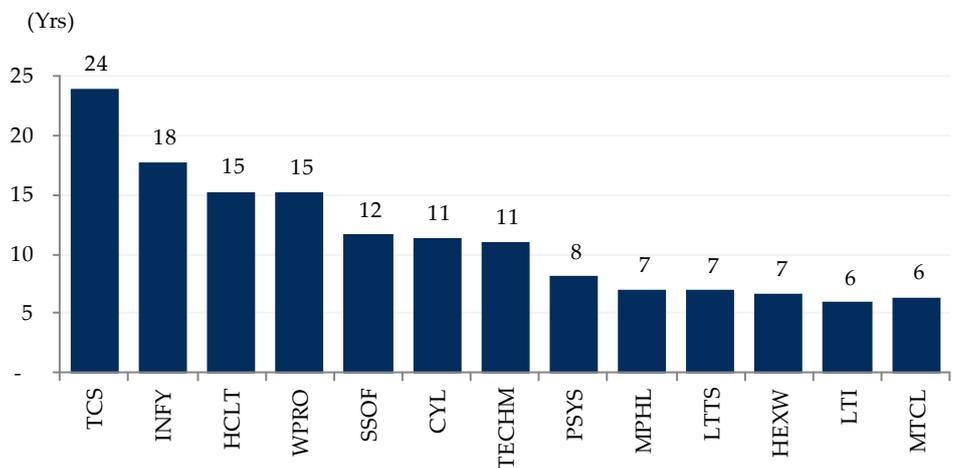
- FY21 outlook:** In FY21, demand from customers for digital and transformational services is expected as they invest in data, cloud-enabled solutions, customer-centric and end-user experience businesses. The focus is on signing multi-year annuity deals, rationalising tail accounts and going deeper into the limited set of strategic customers. Top-line recovery is expected to fructify during the second half of FY21, with FY21 margin expected to improve over FY20.

CEO compensation and as % of APAT grid (FY20)



Source: Company, HSIE Research

The average tenure of senior management in the current organisation



Source: Company, HSIE Research

Recent senior management induction

| Company | Senior Executive | Designation | Joining | Earlier organisation |
|---------|---------------------------|---|---------|---------------------------------|
| WPRO | Thierry Delaporte | CEO | Jul-20 | Capgemini |
| | Harish Dwarkanhalli | President, cloud enterprise platforms (CEP) | Dec-19 | Cognizant |
| TECHM | Pawan Sharma | President & Global Head Strategic initiatives | Jul-19 | KPIT |
| LTI | Arun Sankaranarayanan | Head of Nordics | Oct-19 | Cognizant |
| MPHL | Manish Dugar | CFO | May-20 | Wipro |
| | Ravi Vasantraj | SVP & Global Head BPS & Digital Risk | May-19 | Tech Mahindra |
| PSYS | Sandeep Kalra | President: Technology Services | May-19 | Harman/HCLT |
| | Jiani Zhang | President Alliance | May-19 | IBM |
| | Bipin Sahni | Chief Strategy Officer | Apr-19 | Wells Fargo |
| | Keith Landis | Chief Marketing Officer | Sep-19 | Conduent |
| LTTS | Rajeev Gupta | CFO | Apr-20 | Birlasoft |
| | Abhishek Sinha | COO | Oct-19 | Connecting The Dots/KPIT |
| MTCL | Debashis Chatterjee | CEO & MD | Aug-19 | Cognizant |
| | Dayapatra Nevatia | COO | Mar-20 | Accenture/Wipro |
| | Venu Lambu | President Global Markets | Aug-20 | Cognizant |
| | Manikandesh Venkatachalam | Head Strategic Deals | Oct-19 | Genpact |
| | Vinit Teredesai | CFO | Jun-20 | KPIT |
| | Paneesh Rao | Chief People Officer | Sep-19 | L&T Technology |
| | Vijay Ram | Head of Communications, Media & Technology | Oct-19 | Infosys |
| HEXW | Ram Singampalli | COO | Jan-20 | Atos Syntel |
| | Kamal Maggon | Head of Mfg & Consumer | Dec-19 | Harman |
| | Vishwanath Joshi | Chief People Officer | Jan-20 | NA |
| CYL | Karthikeyan Natarajan | COO | Mar-20 | Tech Mahindra |
| | Meenu Bagla | CMO | Jun-20 | Tech Mahindra |
| SSOF | Jagannathan Chakravarthi | CFO | Oct-19 | Carborundum Universal/ Mindtree |
| Mastek | Raman Sapra | Head of America | Jun-19 | Sasken |
| | Vikram Kole | Head of India | Sep-19 | Datamatics |
| | Dennis Badman | Chief Business Officer | May-19 | GlobeRanger |

Source: Company, HSIE Research; Since Apr-19

Change in estimates and ratings

| | M-cap (Rs bn) | CMP (Rs) | Old TP | New TP | Old Rating | New Rating | Old Multiple (x) | New Multiple (x) | DCF-implied (x) | 5Y Avg (x) | 10Y Avg (x) |
|---------------|---------------|----------|--------|--------|------------|------------|------------------|------------------|-----------------|------------|-------------|
| TCS | 8,438 | 2,249 | 1,980 | 2,325 | REDUCE | ADD | 21 | 24 | 24 | 20 | 20 |
| Infosys | 4,029 | 949 | 980 | 1,075 | BUY | BUY | 20 | 22 | 21 | 17 | 17 |
| HCL Tech | 1,916 | 706 | 685 | 770 | BUY | BUY | 14 | 16 | 16 | 14 | 14 |
| Wipro | 1,559 | 273 | 255 | 295 | ADD | ADD | 14 | 16 | 18 | 15 | 15 |
| Tech Mahindra | 707 | 733 | 720 | 820 | BUY | BUY | 14 | 16 | 16 | 14 | 13 |
| LTI | 412 | 2,368 | 2,375 | 2,750 | ADD | ADD | 19 | 22 | 22 | 16 | NA |
| Mphasis | 223 | 1,199 | 1,280 | 1,450 | BUY | BUY | 16 | 18 | 18 | 15 | 13 |
| Mindtree | 192 | 1,163 | 1,090 | 1,240 | ADD | ADD | 18 | 20 | 19 | 18 | 15 |
| LTTS | 167 | 1,605 | 1,240 | 1,395 | REDUCE | REDUCE | 16 | 18 | 18 | 19 | NA |
| Hexaware* | 125 | 419 | 360 | 385 | REDUCE | REDUCE | 14 | 15 | 15 | 16 | 14 |
| Persistent | 79 | 1,040 | 775 | 1,105 | REDUCE | ADD | 14 | 19 | 20 | 14 | 13 |
| Cyient | 43 | 389 | 285 | 410 | REDUCE | ADD | 9 | 13 | 16 | 13 | 12 |
| Zensar | 41 | 180 | 170 | 200 | ADD | ADD | 12 | 14 | 16 | 13 | 9 |
| Sonata | 32 | 313 | 320 | 370 | BUY | BUY | 12 | 14 | 15 | 11 | 8 |
| Majesco | 21 | 750 | 450 | 1,050 | BUY | BUY | 1x EV/Rev | 3x EV/Rev | NA | 1x EV/Rev | NA |
| Mastek | 18 | 728 | 630 | 815 | BUY | BUY | 9 | 12 | NA | 11 | 7 |

Source: HSIE Research, *Dec YE

| Company | Revenue USD mn (New) | | Change (%) | | EBIT % (New) | | Change (bps) | | EPS (Rs) New | | Change (%) | |
|---------------|----------------------|--------|------------|-------|--------------|-------|--------------|-------|--------------|-------|------------|-------|
| | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E | FY21E | FY22E |
| TCS | 20,809 | 22,652 | 0.0% | 0.0% | 24.6 | 25.8 | - | - | 82.2 | 95.1 | 0.0% | 0.0% |
| Infosys | 12,907 | 14,233 | 0.0% | 0.0% | 22.5 | 22.1 | - | - | 42.3 | 47.5 | 0.1% | -0.5% |
| HCL Tech | 9,694 | 10,635 | 0.0% | 0.0% | 19.8 | 20.0 | - | - | 41.3 | 46.1 | -0.1% | -2.1% |
| Wipro | 7,648 | 8,016 | 0.0% | 0.0% | 16.9 | 17.1 | - | - | 16.7 | 18.1 | 0.4% | 1.3% |
| Tech Mahindra | 4,874 | 5,175 | 0.0% | 0.0% | 10.5 | 12.0 | - | - | 43.4 | 50.0 | 0.0% | 0.0% |
| LTI | 1,610 | 1,846 | 0.0% | 0.0% | 17.0 | 17.5 | - | - | 98.0 | 118.4 | 0.0% | 0.0% |
| Mphasis | 1,273 | 1,401 | 0.0% | 0.0% | 16.0 | 17.0 | - | - | 61.5 | 75.0 | 0.3% | 0.8% |
| Mindtree | 1,037 | 1,142 | 0.0% | 0.0% | 13.8 | 14.0 | - | - | 50.5 | 58.4 | 2.0% | 1.8% |
| LTTS | 711 | 801 | 0.0% | 0.0% | 13.5 | 15.2 | - | - | 55.5 | 73.1 | 0.1% | 0.3% |
| Hexaware* | 846 | 922 | 0.0% | 0.0% | 12.6 | 12.6 | - | - | 22.0 | 24.0 | 0.0% | 0.1% |
| Persistent | 546 | 599 | 0.0% | 0.0% | 10.2 | 10.0 | 26 | 50 | 52.3 | 55.7 | 2.0% | 4.2% |
| Cyient | 525 | 557 | 0.0% | 0.0% | 7.9 | 9.3 | - | - | 26.2 | 30.9 | 0.0% | 0.0% |
| Zensar | 522 | 558 | 0.0% | 0.0% | 8.8 | 9.9 | - | - | 11.1 | 13.7 | 0.0% | 0.0% |
| Sonata | 153 | 171 | 0.0% | 0.0% | 7.5 | 7.9 | - | - | 21.8 | 25.7 | 0.0% | 0.0% |
| Majesco | 168 | 185 | 11.2% | 10.1% | 9.6 | 10.3 | 73 | 0 | 25.7 | 30.8 | 19.7% | 11.2% |
| Mastek | 204 | 217 | 0.0% | 0.0% | 14.0 | 14.3 | - | - | 55.9 | 60.8 | 0.0% | 0.0% |

Source: HSIE Research, *Dec YE

HSIE earnings estimate vs consensus

| Year | TCS | INFY | HCLT | WPRO | TECHM | LTI | MPHL | MTCL | LTTS | HEXW | PSYS | CYL | ZENT | SSOF | MJCO | MAST |
|-------|-----|------|------|------|-------|-----|------|------|------|------|------|------|------|------|------|------|
| FY21E | -1% | 3% | -2% | 2% | 0% | 2% | -3% | 4% | -12% | 2% | 7% | -9% | -12% | -1% | 8% | 10% |
| FY22E | 1% | 3% | -1% | 4% | -2% | 6% | 3% | 2% | -7% | 0% | -2% | -10% | -5% | -2% | 5% | 4% |

Source: Bloomberg, HSIE Research

Company Section

TCS

The gold standard

We upgrade TCS to ADD (REDUCE earlier), supported by (1) assigning higher multiples to superior balance sheet metrics/pedigree exhibiting shock resistance, (2) beginning of the revenue recovery cycle following 1Q dent, (3) BFSI vertical resilience supported by strong deal bookings and pipeline, and (4) continuity in market share gains in Europe geography and resumption in lateral hiring selectively. TCS is the industry 'gold standard' and is likely to be a big beneficiary of vendor consolidation, supported by its scale and end-to-end services capability. The seamless virtual environment of deal closure, transition and execution of large deals has also lowered the supply-related risks. Continuity in the payout levels, greater thrust towards WFH (SBWS operating framework) will be RoE accretive. Our target price for TCS is Rs 2,325, at 24x Jun-22E EPS (DCF-based implied multiple at 24x and 5-year +1SD at 23x).

Outlook: We expect USD revenue growth at 1.0%/2.4%/3.3% QoQ and EBIT of 24.1%/25.1%/25.6% over 2Q-4QFY21E respectively. FY20-23E EPS CAGR is estimated at 6%, factoring USD revenue growth of -5.6%, +8.9%, +6.6% and EBIT margin at 24.6%, 25.8%, 25.9% for FY21/22/23E respectively. Current valuations are at 23.6x and 22.1x FY22/23E, supported by industry leading RoE/RoIC.

ADD

| | |
|-----------------------|----------|
| CMP (as on 21 Aug 20) | Rs 2,249 |
| Target Price | Rs 2,325 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|---------|---------|---------|---------|---------|---------|
| Net Revenues (USD mn) | 19,089 | 20,913 | 22,032 | 20,809 | 22,652 | 24,144 |
| Growth (%) | 8.6 | 9.6 | 5.4 | -5.6 | 8.9 | 6.6 |
| Net Revenues | 1,231.0 | 1,464.6 | 1,569.4 | 1,564.4 | 1,721.5 | 1,871.1 |
| EBITDA | 325.16 | 395.06 | 421.09 | 422.51 | 483.69 | 520.46 |
| EBIT | 305.02 | 374.50 | 385.80 | 385.17 | 444.43 | 484.97 |
| EBIT (%) | 24.8 | 25.6 | 24.6 | 24.6 | 25.8 | 25.9 |
| PBT | 340.92 | 415.63 | 422.48 | 410.21 | 472.05 | 512.99 |
| APAT | 258.26 | 314.72 | 323.40 | 308.30 | 356.80 | 382.65 |
| EPS (Rs) | 70.1 | 68.8 | 83.9 | 86.2 | 82.2 | 95.1 |

Source: Company, HSIE Research

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Cash & Equivalents | 456.93 | 496.06 | 439.77 | 462.86 | 471.46 | 492.08 |
| Debtors | 250.37 | 274.41 | 306.06 | 305.08 | 335.64 | 364.75 |
| Other Current Assets | 105.88 | 151.79 | 157.28 | 157.10 | 162.83 | 168.30 |
| Total Current Assets | 813.18 | 922.26 | 903.11 | 925.04 | 969.93 | 1,025.13 |
| Net Block | 102.16 | 104.11 | 189.35 | 176.52 | 183.12 | 186.70 |
| Goodwill & Other Intangible Assets | 17.57 | 18.79 | 19.93 | 19.94 | 20.88 | 21.15 |
| Other Non-current Assets | 95.56 | 77.71 | 68.32 | 68.31 | 68.63 | 68.94 |
| Total Non Current Assets | 215.29 | 200.61 | 277.60 | 264.77 | 272.63 | 276.79 |
| Creditors | 50.94 | 62.92 | 67.40 | 67.18 | 73.93 | 80.36 |
| Other Current Liabilities & Provns | 125.53 | 157.92 | 203.20 | 203.00 | 209.21 | 215.11 |
| Total Current Liabilities | 176.47 | 220.84 | 270.60 | 270.19 | 283.14 | 295.47 |
| TOTAL APPLICATION OF FUNDS | 852.00 | 902.03 | 910.11 | 919.62 | 959.43 | 1,006.46 |
| Total Shareholders' Funds | 851.28 | 894.46 | 841.26 | 849.37 | 887.22 | 932.16 |
| Total Debt | 2.35 | 0.44 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Liabilities + Minority | -1.63 | 7.13 | 68.85 | 70.25 | 72.20 | 74.29 |
| TOTAL SOURCES OF FUNDS | 852.00 | 902.03 | 910.11 | 919.62 | 959.43 | 1,006.46 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|---------------|---------------|---------------|--------------|---------------|
| Operating Cash Flow (OCF) | 250.7 | 285.93 | 323.69 | 330.56 | 355.1 | 378.41 |
| Capex + Acq | -18.62 | -22.31 | -32.49 | -24.51 | -45.86 | -39.07 |
| Free Cash Flow (FCF) | 232.1 | 263.62 | 291.2 | 306.06 | 309.2 | 339.34 |
| Investing Cash Flow | 14.94 | 8.66 | 5.86 | -1.29 | -20.52 | -13.77 |
| Financing Cash Flow | -268.61 | -278.84 | -386.26 | -305.87 | -324.67 | -343.43 |
| Closing Cash & Equivalents | 456.9 | 496.06 | 439.77 | 462.86 | 471.5 | 492.08 |

Source: Company, HSIE Research

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 30.1 | 36.1 | 37.3 | 36.5 | 41.1 | 42.1 |
| RoIC (%) | 37.5 | 46.3 | 48.1 | 47.8 | 54.6 | 57.5 |
| Tax Rate (%) | 24.1 | 24.1 | 23.2 | 24.4 | 24.0 | 25.0 |
| Debtors (Billed days) | 74 | 68 | 71 | 71 | 71 | 71 |
| DPS (Rs/sh) | 26.0 | 30.0 | 73.0 | 75.0 | 85.0 | 90.0 |
| P/E (x) | 32.7 | 26.8 | 26.1 | 27.4 | 23.6 | 22.1 |
| EV/EBITDA (x) | 25.2 | 20.7 | 19.0 | 18.9 | 16.5 | 15.3 |
| Payout Yield (Dividend+Buyback) % | 3.2 | 3.3 | 4.5 | 3.6 | 3.8 | 4.0 |

Source: Company, HSIE Research

Infosys

Growth leadership coupled with scale and resilience

We maintain BUY (top pick) on Infosys, supported by (1) healthy deal activity supporting growth visibility (significant deal renewals at 16% YoY in 1Q and largest-ever deal win-Vanguard) and revenue outperformance in FY21E, (2) resilience in core geography (NorthAm BFSI) and large accounts supported by demand in cloud, workplace transformation, and automation, (3) operational rigour, aided by cost optimisation (including short-term discretionary cuts), supported by revamp of internal systems, coupled with strong cash flows, (4) benefits of accelerated onsite investments to accrue (expanded local/near-shore presence in Europe following accelerated local investments in the US). Our target price for Infosys is Rs 1,075, at 22x Jun-22E EPS (DCF-based implied multiple at 21x and 5-year +1SD at 20x), supported by 11% EPS CAGR over FY20-23E.

Outlook: We expect the USD revenue growth at 1.5%/3.0%/3.0% QoQ over 2Q-4QFY21E and margins at the current level. FY21/22E revenue growth is estimated at 1.0/10.3%, EBIT at 22.5/22.1% and FCF/APAT and payout/FCF at 80/85% over FY21-22E. At CMP, valuations are at 22.4/20x FY21/22E.

BUY

| | |
|-------------------------|----------|
| CMP (as on 21 Aug 2020) | Rs 949 |
| Target Price | Rs 1,075 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|--------|--------|--------|--------|----------|----------|
| Net Revenues (USD mn) | 10,939 | 11,799 | 12,774 | 12,907 | 14,233 | 15,582 |
| Growth (%) | 7.2 | 7.9 | 8.3 | 1.0 | 10.3 | 9.5 |
| Net Revenues | 705.22 | 826.76 | 907.91 | 970.61 | 1,081.70 | 1,207.62 |
| EBITDA | 190.10 | 208.89 | 222.68 | 248.07 | 272.12 | 305.71 |
| EBIT | 171.48 | 188.79 | 193.74 | 218.05 | 238.66 | 268.36 |
| EBIT (%) | 24.3 | 22.8 | 21.3 | 22.5 | 22.1 | 22.2 |
| PBT | 204.59 | 210.40 | 220.08 | 244.83 | 272.69 | 303.73 |
| APAT | 147.34 | 157.73 | 164.04 | 179.47 | 201.59 | 224.72 |
| EPS (Rs) | 34.7 | 37.1 | 38.6 | 42.3 | 47.5 | 52.9 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 317.65 | 306.90 | 272.76 | 313.48 | 354.44 | 397.15 |
| Debtors | 131.42 | 148.27 | 184.87 | 197.64 | 220.26 | 245.90 |
| Other Current Assets | 104.11 | 116.15 | 125.46 | 131.86 | 143.95 | 157.65 |
| Total Current Assets | 553.18 | 571.32 | 583.09 | 642.98 | 718.65 | 800.69 |
| Net Block | 101.16 | 114.79 | 166.03 | 178.19 | 188.56 | 205.66 |
| Goodwill & Other Intangible Assets | 24.58 | 42.31 | 71.86 | 73.17 | 75.50 | 78.13 |
| Other Non-current Assets | 107.16 | 105.24 | 89.26 | 89.43 | 89.72 | 90.05 |
| Total Non Current Assets | 232.90 | 262.34 | 327.15 | 340.79 | 353.78 | 373.85 |
| Creditors | 6.94 | 16.55 | 28.52 | 30.49 | 33.98 | 37.93 |
| Other Current Liabilities & Provns | 130.87 | 169.83 | 180.04 | 191.02 | 210.47 | 232.51 |
| Total Current Liabilities | 137.81 | 186.38 | 208.56 | 221.51 | 244.44 | 270.45 |
| TOTAL APPLICATION OF FUNDS | 648.27 | 647.28 | 701.68 | 762.26 | 827.98 | 904.09 |
| Total Shareholders' Funds | 649.23 | 649.48 | 654.50 | 715.08 | 780.80 | 856.91 |
| Total Debt | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Liabilities + Minority | -0.96 | -2.20 | 47.18 | 47.18 | 47.18 | 47.18 |
| TOTAL SOURCES OF FUNDS | 648.27 | 647.28 | 701.68 | 762.26 | 827.98 | 904.09 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Operating Cash Flow (OCF) | 134.06 | 148.39 | 171.74 | 185.53 | 199.98 | 224.42 |
| Capex + Acq | -19.98 | -24.45 | -33.07 | -42.18 | -43.83 | -54.44 |
| Free Cash Flow (FCF) | 114.08 | 123.94 | 138.67 | 143.35 | 156.15 | 169.98 |
| Investing Cash Flow | 2.31 | -14.42 | -23.53 | -20.96 | -17.05 | -26.66 |
| Financing Cash Flow | -205.05 | -145.12 | -171.89 | -120.81 | -137.79 | -150.53 |
| Closing Cash & Equivalents | 317.65 | 306.90 | 272.76 | 313.48 | 354.44 | 397.15 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 22.0 | 24.3 | 25.2 | 26.2 | 27.0 | 27.4 |
| RoIC (%) | 43.1 | 41.2 | 38.1 | 36.7 | 38.6 | 40.8 |
| Tax Rate (%) | 20.7 | 26.8 | 24.4 | 26.1 | 25.5 | 25.5 |
| Debtors (Billed days) | 68 | 65 | 74 | 74 | 74 | 74 |
| DPS (Rs/sh) | 16.8 | 21.5 | 17.5 | 28.0 | 32.0 | 35.0 |
| P/E (x) | 27.3 | 25.5 | 24.6 | 22.4 | 20.0 | 17.9 |
| EV/EBITDA (x) | 19.5 | 17.8 | 16.9 | 15.0 | 13.5 | 11.9 |
| Payout Yield (Dividend + Buyback) % | 5.1 | 3.6 | 4.2 | 3.0 | 3.4 | 3.7 |

Source: Company, HSIE Research

HCL Technologies

Multiple growth drivers

We maintain BUY on HCL Tech (HCLT), supported by (1) growth visibility backed by integrated applications & IMS large deal flow and consolidation opportunities (overall 11 transformational deal signings in 1Q), (2) HCLT's prowess in cloud infra business is a strong competitive advantage with enterprises accelerating cloud adoption and higher annuity streams supported by P&P upside, (3) recovery in ER&D (outperformance vs. peers), led by semiconductor, telecom & hi-tech, consumer electronics sub-segments, and waning supply-side impediments, (4) BFSI traction supported by Temenos partnership ahead. The trade-off of the acquisitive growth model (including IPPs) with organic growth and impacting FCF/return metrics remain the key risks ahead. Our target price for HCLT is Rs 770, at 16x Jun-22E EPS (DCF-based implied multiple at 16x and 5-year +1SD at 15x).

Outlook: We expect HCLT's revenue to decline by 2.4% in FY21 implying +1.9% CQGR over 2Q-4QFY21E, with IT and BS at +2.5% CQGR, P&P at +1.2% CQGR and flat CQGR for ER&D. We have factored in USD revenue growth of -2.4%, 9.7%, 9.7% for FY21/22/23E and EBIT margin at ~20%, resulting in 9.5% EPS CAGR over FY20-23E.

Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|--------|--------|--------|--------|--------|--------|
| Net Revenues (USD mn) | 7,838 | 8,632 | 9,936 | 9,694 | 10,635 | 11,667 |
| Growth (%) | 12.4 | 10.1 | 15.1 | -2.4 | 9.7 | 9.7 |
| Net Revenues | 505.69 | 604.27 | 706.78 | 728.76 | 808.25 | 904.23 |
| EBITDA | 114.39 | 139.69 | 166.93 | 179.83 | 193.76 | 215.23 |
| EBIT | 99.87 | 118.21 | 138.53 | 144.56 | 161.36 | 183.61 |
| EBIT (%) | 19.7 | 19.6 | 19.6 | 19.8 | 20.0 | 20.3 |
| PBT | 110.96 | 126.25 | 140.32 | 148.14 | 167.45 | 194.06 |
| APAT | 87.80 | 101.23 | 110.62 | 112.07 | 125.07 | 145.03 |
| EPS (Rs) | 32.4 | 37.3 | 40.8 | 41.3 | 46.1 | 53.4 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 66.35 | 100.92 | 119.57 | 125.22 | 187.59 | 256.74 |
| Debtors | 96.39 | 117.06 | 141.31 | 145.71 | 161.60 | 180.79 |
| Other Current Assets | 85.44 | 79.24 | 123.24 | 123.27 | 123.37 | 123.49 |
| Total Current Assets | 248.18 | 297.22 | 384.12 | 394.19 | 472.56 | 561.03 |
| Net Block | 45.60 | 52.93 | 81.42 | 80.51 | 81.94 | 83.58 |
| Goodwill & Other Intangible Assets | 141.93 | 175.95 | 293.48 | 283.14 | 264.60 | 247.83 |
| Other Non-current Assets | 44.52 | 59.65 | 70.04 | 70.04 | 70.04 | 70.04 |
| Total Non Current Assets | 232.05 | 288.53 | 444.94 | 433.69 | 416.58 | 401.45 |
| Creditors | 9.18 | 13.05 | 11.66 | 12.02 | 13.33 | 14.92 |
| Other Current Liabilities & Provns | 91.47 | 102.70 | 207.19 | 147.88 | 147.88 | 147.88 |
| Total Current Liabilities | 100.65 | 115.75 | 218.85 | 159.90 | 161.21 | 162.79 |
| TOTAL APPLICATION OF FUNDS | 379.58 | 470.00 | 610.21 | 667.98 | 727.92 | 799.68 |
| Total Shareholders' Funds | 363.86 | 414.69 | 514.21 | 571.98 | 631.92 | 703.68 |
| Total Debt | 3.80 | 37.01 | 46.93 | 46.93 | 46.93 | 46.93 |
| Other Liabilities + Minority | 11.92 | 18.30 | 49.07 | 49.07 | 49.07 | 49.07 |
| TOTAL SOURCES OF FUNDS | 379.58 | 470.00 | 610.21 | 667.98 | 727.92 | 799.68 |

Source: Company, HSIE Research

BUY

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 706 |
| Target Price | Rs 770 |
| NIFTY | 11,372 |

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Cash Flow (Consolidated)

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Operating Cash Flow (OCF) | 83.28 | 89.71 | 133.59 | 141.86 | 139.56 | 152.42 |
| Capex + Acq | -54.51 | -62.93 | -79.57 | -93.68 | -33.82 | -33.26 |
| Free Cash Flow (FCF) | 28.77 | 26.78 | 54.02 | 48.18 | 105.74 | 119.16 |
| Investing Cash Flow | -48.23 | -55.74 | -77.83 | -88.44 | -26.78 | -22.94 |
| Financing Cash Flow | -56.93 | -17.78 | -20.07 | -57.59 | -68.43 | -76.57 |
| Closing Cash & Equivalents | 66.35 | 100.92 | 119.57 | 125.22 | 187.59 | 256.74 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 25.3 | 26.0 | 23.8 | 20.6 | 20.8 | 21.7 |
| RoIC (%) | 28.4 | 27.8 | 25.5 | 21.3 | 22.3 | 25.4 |
| Tax Rate (%) | 20.9 | 19.7 | 20.9 | 24.0 | 25.0 | 25.0 |
| Debtors (Billed days) | 70 | 71 | 73 | 73 | 73 | 73 |
| DPS (Rs/sh) | 12.0 | 10.0 | 14.0 | 20.0 | 24.0 | 27.0 |
| P/E (x) | 21.8 | 18.9 | 17.3 | 17.1 | 15.3 | 13.2 |
| EV/EBITDA (x) | 16.2 | 13.3 | 11.0 | 10.2 | 9.2 | 7.9 |
| Payout Yield (Dividend + Buyback) % | 2.9 | 2.8 | 0.8 | 2.8 | 3.4 | 3.8 |

Source: Company, HSIE Research

Wipro

The winds of change

Wipro has the lowest three-year revenue CAGR within the Tier-1 IT (+2.3% vs. Tier-1 average of +7.7%) due to higher legacy drag, restructuring exercise, client issues and higher exposure to stressed verticals. However, positives include improving margin profile, excellent cash generation (OCF/EBITDA of 88%), payout yield (~7%) and the recent change in top management. The growth outlook for FY21E is muted as ~21% of the business comprising retail, travel, manufacturing and energy is facing stress, but growth is expected to catch up in FY22E. Outlook for BFSI, consumer (e-commerce and new age media), healthcare (hospitals), utilities and communication is relatively stable. We recently upgraded Wipro, based on (1) margin expansion supported by cost optimisation, (2) pick-up in deal activity, (3) strong cash generation and, (4) expected buyback. We increase our target multiple to 16x (vs. 14x earlier). Our target price stands at Rs 295, based on 16x Jun-22E EPS. The stock trades at a P/E of 16.4/15.1x FY21/22E, in line with the five-year average multiple.

Outlook: We have factored in -7.4/+4.8% USD revenue growth for FY21/22E respectively; FY21E implies 2/3/4Q revenue growth of -2.1/+1.3/+1.7%. The IT services margin will stand at 18.3/18.0% for FY21/22E.

ADD

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 273 |
| Target Price | Rs 295 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|--------|--------|--------|--------|--------|--------|
| Net Revenues (USD mn) | 7,895 | 8,120 | 8,256 | 7,648 | 8,016 | 8,427 |
| Growth (%) | 2.5 | 2.9 | 1.7 | -7.4 | 4.8 | 5.1 |
| Net Revenues | 544.87 | 585.85 | 610.23 | 593.45 | 629.08 | 660.96 |
| EBITDA | 103.93 | 112.09 | 122.28 | 125.57 | 134.07 | 142.31 |
| EBIT | 82.81 | 92.62 | 101.42 | 100.52 | 107.76 | 114.76 |
| EBIT (%) | 15.2 | 15.8 | 16.6 | 16.9 | 17.1 | 17.4 |
| PBT | 102.47 | 115.42 | 122.51 | 120.64 | 129.87 | 138.41 |
| APAT | 82.57 | 90.86 | 97.22 | 95.34 | 103.39 | 110.20 |
| EPS (Rs) | 14.5 | 15.9 | 17.0 | 16.7 | 18.1 | 19.3 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 294.02 | 379.25 | 334.13 | 342.97 | 364.21 | 385.52 |
| Debtors | 100.99 | 100.49 | 104.47 | 107.31 | 112.03 | 117.71 |
| Other Current Assets | 83.95 | 91.93 | 81.24 | 83.97 | 87.13 | 91.54 |
| Total Current Assets | 478.96 | 571.67 | 519.85 | 534.26 | 563.36 | 594.77 |
| Net Block | 67.39 | 61.59 | 93.88 | 92.57 | 91.41 | 90.30 |
| Goodwill & Other Intangible Assets | 132.75 | 139.75 | 151.36 | 151.36 | 151.36 | 151.36 |
| Other Non-current Assets | 74.64 | 54.56 | 45.96 | 48.26 | 50.68 | 53.21 |
| Total Non Current Assets | 274.78 | 255.90 | 291.21 | 292.19 | 293.45 | 294.87 |
| Creditors | 68.13 | 88.30 | 78.13 | 74.74 | 81.07 | 85.20 |
| Other Current Liabilities & Provsns | 46.18 | 54.95 | 58.50 | 58.58 | 61.02 | 64.72 |
| Total Current Liabilities | 114.30 | 143.25 | 136.63 | 133.32 | 142.09 | 149.92 |
| TOTAL APPLICATION OF FUNDS | 639.43 | 684.32 | 674.43 | 693.13 | 714.72 | 739.72 |
| Total Shareholders' Funds | 482.94 | 568.12 | 557.46 | 575.94 | 597.34 | 622.14 |
| Total Debt | 138.26 | 99.47 | 97.39 | 97.39 | 97.39 | 97.39 |
| Other Liabilities + Minority | 18.23 | 16.73 | 19.58 | 19.80 | 19.99 | 20.19 |
| TOTAL SOURCES OF FUNDS | 639.43 | 684.32 | 674.43 | 693.13 | 714.72 | 739.72 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating Cash Flow (OCF) | 89.91 | 123.65 | 108.00 | 92.27 | 109.27 | 112.60 |
| Capex + Acq | 27.35 | 20.84 | 24.77 | 23.74 | 25.16 | 26.44 |
| Free Cash Flow (FCF) | 62.56 | 102.81 | 83.23 | 68.53 | 84.11 | 86.16 |
| Investing Cash Flow | -8.10 | 10.95 | -2.11 | -0.42 | -0.15 | -0.16 |
| Financing Cash Flow | -132.53 | -49.37 | -151.00 | -83.00 | -87.89 | -91.13 |
| Closing Cash & Equivalents | 294.02 | 379.25 | 334.13 | 342.97 | 364.21 | 385.52 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 16.5 | 17.3 | 17.3 | 16.8 | 17.6 | 18.1 |
| RoIC (%) | 18.7 | 23.7 | 23.8 | 22.8 | 24.6 | 25.9 |
| Tax Rate (%) | 22.8 | 21.8 | 21.9 | 20.2 | 20.5 | 20.0 |
| Debtors (Billed days) | 68 | 63 | 62 | 66 | 65 | 65 |
| DPS (Rs/sh) | 1.0 | 1.0 | 1.2 | 13.5 | 14.4 | 15.0 |
| P/E (x) | 18.9 | 17.2 | 16.0 | 16.4 | 15.1 | 14.1 |
| EV/EBITDA (x) | 13.5 | 11.4 | 10.8 | 10.4 | 9.6 | 8.9 |
| Payout Yield (Dividend + Buyback) % | 7.4 | 0.3 | 7.3 | 4.9 | 5.3 | 5.5 |

Source: Company, HSIE Research

Tech Mahindra

Telecom leadership, margin recovery on the cards

Growth recovery in Telecom and Enterprise, huge deal wins, and margin stability achieved in the first three quarters of FY20 get derailed due to COVID-19. Telecom slowed down due to supply-side issues in BPM and Network services. Incumbents were focusing more on keeping the lights on vs. spending on transformation. The 5G related spend has shifted to early FY22. Vendor consolidation, recovery in deal activity and revival in BPM and Network services will lead to growth in Telecom vertical. Enterprise growth will be led by a recovery in BFSI (large deal ramp-up) and stability in Manufacturing (European auto headwinds are over). Margin recovery, which was planned in FY21E, has shifted to FY22E. Margin drivers include a reduction in sub-con, offshoring, rationalisation of portfolio companies and, large deals turning steady. We increase our target multiple to 16x (vs. 14x earlier). Our target price stands at Rs 820 based on 16x (five-year average of 14x) June-22E EPS. The stock trades at 16.9/14.7x FY21/22E EPS. Maintain BUY.

Outlook: We expect USD revenue growth of -5.9/+6.2% in FY21/22E. We have factored in 2/3/4QFY21 growth of -0.6/+1.6/+2.3% respectively. EBIT will be at 10.5/12.0% for FY21/22E. Telecom/Enterprise growth for FY21E will be at -10.5/-2.7% YoY.

BUY

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 733 |
| Target Price | Rs 820 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|--------|--------|--------|--------|--------|--------|
| Net Revenues (USD mn) | 4,770 | 4,971 | 5,182 | 4,874 | 5,175 | 5,536 |
| Growth (%) | 9.6 | 4.2 | 4.3 | -5.9 | 6.2 | 7.0 |
| Net Revenues | 307.73 | 347.42 | 368.68 | 366.05 | 393.27 | 420.73 |
| EBITDA | 47.10 | 63.37 | 57.26 | 53.37 | 62.57 | 67.44 |
| EBIT | 36.25 | 52.08 | 42.80 | 38.60 | 47.05 | 51.15 |
| EBIT (%) | 11.8 | 15.0 | 11.6 | 10.5 | 12.0 | 12.2 |
| PBT | 48.79 | 56.09 | 50.63 | 49.08 | 56.46 | 61.52 |
| APAT | 38.00 | 42.98 | 42.51 | 38.13 | 43.98 | 47.88 |
| EPS (Rs) | 43.2 | 48.9 | 48.3 | 43.4 | 50.0 | 54.4 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Cash & Equivalents | 77.35 | 97.01 | 89.97 | 105.30 | 121.99 | 136.20 |
| Debtors | 64.98 | 69.59 | 75.77 | 78.22 | 80.81 | 86.45 |
| Other Current Assets | 51.20 | 56.59 | 68.35 | 70.55 | 75.54 | 81.88 |
| Total Current Assets | 193.53 | 223.18 | 234.08 | 254.07 | 278.34 | 304.54 |
| Net Block | 48.50 | 42.45 | 54.84 | 51.06 | 47.34 | 43.67 |
| Goodwill & Other Intangible Assets | 27.73 | 28.16 | 33.88 | 33.88 | 33.88 | 33.88 |
| Other Non-current Assets | 28.85 | 34.59 | 42.29 | 46.39 | 50.78 | 55.58 |
| Total Non Current Assets | 105.08 | 105.20 | 131.01 | 131.33 | 131.99 | 133.13 |
| Creditors | 20.37 | 24.89 | 32.57 | 32.55 | 34.43 | 36.78 |
| Other Current Liabilities & Provs | 49.25 | 66.46 | 54.20 | 57.12 | 60.22 | 63.50 |
| Total Current Liabilities | 69.62 | 91.35 | 86.76 | 89.68 | 94.65 | 100.28 |
| TOTAL APPLICATION OF FUNDS | 228.99 | 237.03 | 278.33 | 295.73 | 315.68 | 337.39 |
| Total Shareholders' Funds | 188.43 | 202.84 | 218.13 | 233.95 | 252.21 | 272.08 |
| Total Debt | 17.26 | 14.05 | 24.28 | 24.28 | 24.28 | 24.28 |
| Other Liabilities + Minority | 23.30 | 20.14 | 35.92 | 37.49 | 39.19 | 41.03 |
| TOTAL SOURCES OF FUNDS | 228.99 | 237.03 | 278.33 | 295.73 | 315.68 | 337.39 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|
| Operating Cash Flow (OCF) | 35.53 | 44.97 | 43.64 | 38.15 | 44.80 | 44.47 |
| Capex + Acq | -19.22 | -9.14 | -13.77 | -10.98 | -11.80 | -12.62 |
| Free Cash Flow (FCF) | 16.31 | 35.83 | 29.86 | 27.16 | 33.00 | 31.85 |
| Investing Cash Flow | -16.59 | -12.59 | -8.57 | 1.54 | -0.26 | -0.04 |
| Financing Cash Flow | -3.33 | -22.49 | -42.31 | -24.35 | -27.85 | -30.22 |
| Closing Cash & Equivalents | 77.35 | 97.01 | 89.97 | 105.30 | 121.99 | 136.20 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 21.5 | 22.0 | 20.2 | 16.9 | 18.1 | 18.3 |
| RoIC (%) | 18.6 | 28.9 | 17.7 | 15.3 | 18.5 | 19.3 |
| Tax Rate (%) | 22.4 | 22.4 | 22.0 | 24.4 | 24.0 | 24.0 |
| Debtors (Billed days) | 77 | 73 | 75 | 78 | 75 | 75 |
| DPS (Rs/sh) | 14.0 | 14.5 | 24.2 | 21.7 | 25.0 | 27.2 |
| P/E (x) | 17.0 | 15.0 | 15.2 | 16.9 | 14.7 | 13.5 |
| EV/EBITDA (x) | 12.7 | 9.0 | 10.1 | 10.6 | 8.8 | 7.9 |
| Payout Yield (Dividend + Buyback) % | 1.5 | 2.6 | 6.6 | 3.5 | 4.0 | 4.3 |

Source: Company, HSIE Research

L&T Infotech

Breaking into the top league

We maintain ADD on L&T Infotech (LTI), supported by growth leadership within the sector (17% EPS CAGR over FY20-23E) and superior/stable operating profile (comparable and better than many tier-1s). We are positive on LTI, based on (1) large deal momentum (USD 20mn NN UK-BFS win in 1Q and to accelerate in 2Q), (2) 'Minecraft'/top accounts growth (T1 account stable and growing), (3) new growth initiatives (LTI canvas in partnership with Microsoft) and new logo additions (16 added in 1Q including 1 F-500 logo in manufacturing vertical), (4) vendor consolidation opportunities (LTI a challenger to tier-1s), (5) resilient operations with a remote transition of large deals, and (6) enhanced digital capabilities supported by recent acquisitions. Our target price for LTI is Rs 2,750, at 22x Jun-22E EPS (DCF-based implied multiple at 22x and 5-year +1SD at 20x).

Outlook: We have factored +5.6/14.7% growth in the revenue for FY21/22E, implying 2Q-4QFY21E at +1.1, 2.7, 3.6% QoQ and 3.8% CQGR in FY22E. Headwinds are limited to E&U and manufacturing verticals.

ADD

| | |
|-------------------------|----------|
| CMP (as on 21 Aug 2020) | Rs 2,368 |
| Target Price | Rs 2,750 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|--------|--------|--------|--------|
| Net Revenues (USD mn) | 1,132 | 1,349 | 1,525 | 1,610 | 1,846 | 2,120 |
| Growth (%) | 16.7 | 19.1 | 13.0 | 5.6 | 14.7 | 14.8 |
| Net Revenues | 73.06 | 94.46 | 108.79 | 121.07 | 140.32 | 164.31 |
| EBITDA | 11.87 | 18.83 | 20.29 | 23.67 | 28.01 | 33.51 |
| EBIT | 10.31 | 17.36 | 17.56 | 20.64 | 24.50 | 29.40 |
| EBIT (%) | 14.1 | 18.4 | 16.1 | 17.0 | 17.5 | 17.9 |
| PBT | 14.42 | 20.28 | 20.03 | 22.74 | 27.50 | 32.73 |
| APAT | 11.61 | 15.16 | 15.21 | 17.06 | 20.62 | 24.55 |
| EPS (Rs) | 66.7 | 87.0 | 87.3 | 98.0 | 118.4 | 141.0 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Cash & Equivalents | 16.28 | 21.55 | 27.44 | 35.95 | 45.54 | 57.16 |
| Debtors | 13.96 | 18.26 | 23.12 | 25.73 | 29.82 | 34.92 |
| Other Current Assets | 11.41 | 11.89 | 12.73 | 14.17 | 16.42 | 19.23 |
| Total Current Assets | 41.65 | 51.70 | 63.29 | 75.85 | 91.79 | 111.31 |
| Net Block | 4.10 | 4.44 | 13.04 | 13.60 | 14.35 | 15.05 |
| Goodwill & Other Intangible Assets | 2.76 | 4.95 | 6.37 | 6.37 | 6.37 | 6.37 |
| Other Non-current Assets | 3.07 | 4.06 | 3.33 | 3.33 | 3.33 | 3.33 |
| Total Non Current Assets | 9.93 | 13.45 | 22.74 | 23.30 | 24.04 | 24.75 |
| Creditors | 3.79 | 4.67 | 6.95 | 7.73 | 8.96 | 10.50 |
| Other Current Liabilities & Provsns | 9.64 | 11.79 | 16.04 | 17.41 | 19.56 | 22.24 |
| Total Current Liabilities | 13.43 | 16.46 | 22.99 | 25.15 | 28.53 | 32.74 |
| TOTAL APPLICATION OF FUNDS | 38.14 | 48.68 | 63.04 | 74.00 | 87.31 | 103.32 |
| Total Shareholders' Funds | 38.60 | 48.94 | 54.04 | 65.00 | 78.31 | 94.33 |
| Total Debt | 0.00 | 0.00 | 0.32 | 0.32 | 0.32 | 0.32 |
| Other Liabilities + Minority | -0.46 | -0.25 | 8.68 | 8.68 | 8.68 | 8.68 |
| TOTAL SOURCES OF FUNDS | 38.14 | 48.68 | 63.04 | 74.00 | 87.31 | 103.32 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Operating Cash Flow (OCF) | 8.44 | 13.95 | 16.44 | 16.82 | 19.13 | 22.67 |
| Capex + Acq | -2.17 | -1.63 | -2.57 | -3.59 | -4.25 | -4.81 |
| Free Cash Flow (FCF) | 6.27 | 12.32 | 13.87 | 13.24 | 14.87 | 17.86 |
| Investing Cash Flow | -1.81 | -1.54 | -1.85 | -1.39 | -1.39 | -1.69 |
| Financing Cash Flow | -4.08 | -5.94 | -8.90 | -6.93 | -8.15 | -9.36 |
| Closing Cash & Equivalents | 16.28 | 21.55 | 27.44 | 35.95 | 45.54 | 57.16 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 33.2 | 34.6 | 29.5 | 28.7 | 28.8 | 28.4 |
| RoIC (%) | 40.7 | 53.0 | 42.5 | 42.0 | 46.1 | 50.2 |
| Tax Rate (%) | 22.8 | 25.3 | 24.1 | 25.0 | 25.0 | 25.0 |
| Debtors (Billed days) | 70 | 71 | 78 | 78 | 78 | 78 |
| DPS (Rs/sh) | 21.5 | 28.0 | 28.0 | 35.0 | 42.0 | 49.0 |
| P/E (x) | 35.5 | 27.2 | 27.1 | 24.2 | 20.0 | 16.8 |
| EV/EBITDA (x) | 33.3 | 20.7 | 19.0 | 15.9 | 13.1 | 10.6 |
| Payout Yield (Dividend + Buyback) % | 0.9 | 1.3 | 1.4 | 1.5 | 1.8 | 2.1 |

Source: Company, HSIE Research

Mphasis

Large deal momentum

We maintain BUY (top pick) on Mphasis, supported by high revenue growth visibility and a stable operating profile (improving business-mix towards Direct Core). We expect Mphasis' outperformance, supported by (1) robust massive deal wins (including >USD 100mn TCW-2-year BFSI win in 1Q and USD 216mn TCW-3-year EN win) to propel Direct Core growth over 2Q-4Q, (2) Continued traction in the new logo and Blackstone-channel, (3) strong and diversified BFSI portfolio supported by growing/cross-sell in Digital Risk segment, (4) MRC to restrict the near-term impact on DXC business, (5) improving business-mix to support margins (guidance of 15.5 to 16.5% EBIT margin for FY21E). Our target price for Mphasis is Rs 1,450, at 18x Jun-22E EPS (DCF-based implied multiple at 18x and 5-year +1SD at 17x).

Outlook: We have factored 2.7/10.1/8.7% growth in USD revenue based on Direct Core growth at 11.1/16.2/13.9% and DXC at -30/-10/-13% for FY21/22/23E respectively; factored EBIT margin at 16.0/17.0/17.2% for FY21/22/23E resulting in 12% EPS CAGR over FY20-23E. A steeper decline in DXC remains the key downside risk.

BUY

| | |
|-------------------------|----------|
| CMP (as on 21 Aug 2020) | Rs 1,199 |
| Target Price | Rs 1,450 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|--------|--------|
| Net Revenues (USD mn) | 989 | 1,119 | 1,240 | 1,273 | 1,401 | 1,523 |
| Growth (%) | 10.7 | 13.1 | 10.8 | 2.7 | 10.1 | 8.7 |
| Net Revenues | 65.46 | 77.31 | 88.44 | 95.46 | 106.49 | 118.03 |
| EBITDA | 10.63 | 13.24 | 16.50 | 17.55 | 20.73 | 22.87 |
| EBIT | 9.92 | 12.48 | 14.19 | 15.25 | 18.14 | 20.26 |
| EBIT (%) | 15.1 | 16.1 | 16.0 | 16.0 | 17.0 | 17.2 |
| PBT | 11.41 | 14.07 | 15.15 | 16.27 | 19.47 | 22.05 |
| APAT | 8.46 | 10.73 | 11.42 | 11.46 | 13.98 | 16.15 |
| EPS (Rs) | 45.4 | 57.6 | 61.3 | 61.5 | 75.0 | 86.7 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 24.89 | 19.71 | 24.51 | 28.77 | 34.41 | 41.59 |
| Debtors | 8.12 | 9.55 | 8.35 | 9.02 | 10.06 | 11.15 |
| Other Current Assets | 9.63 | 14.36 | 14.74 | 15.91 | 17.75 | 19.68 |
| Total Current Assets | 42.63 | 43.62 | 47.61 | 53.70 | 62.22 | 72.41 |
| Net Block | 1.83 | 2.13 | 8.82 | 8.76 | 9.05 | 9.34 |
| Goodwill & Other Intangible Assets | 17.01 | 19.58 | 21.40 | 21.40 | 21.40 | 21.40 |
| Other Non-current Assets | 7.32 | 7.56 | 7.54 | 7.54 | 7.54 | 7.54 |
| Total Non Current Assets | 26.17 | 29.27 | 37.77 | 37.70 | 37.99 | 38.29 |
| Creditors | 5.02 | 7.85 | 6.67 | 7.20 | 8.03 | 8.90 |
| Other Current Liabilities & Provsns | 5.10 | 6.66 | 9.29 | 9.86 | 10.74 | 11.67 |
| Total Current Liabilities | 10.12 | 14.51 | 15.96 | 17.05 | 18.77 | 20.57 |
| TOTAL APPLICATION OF FUNDS | 58.68 | 58.39 | 69.42 | 74.35 | 81.44 | 90.13 |
| Total Shareholders' Funds | 54.82 | 52.50 | 58.30 | 63.23 | 70.32 | 79.01 |
| Total Debt | 3.90 | 5.43 | 5.71 | 5.71 | 5.71 | 5.71 |
| Other Liabilities + Minority | -0.04 | 0.46 | 5.41 | 5.41 | 5.41 | 5.41 |
| TOTAL SOURCES OF FUNDS | 58.68 | 58.39 | 69.42 | 74.35 | 81.44 | 90.13 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Operating Cash Flow (OCF) | 7.20 | 9.50 | 13.21 | 13.09 | 15.17 | 17.01 |
| Capex + Acq | -0.33 | -2.55 | -1.26 | -2.23 | -2.89 | -2.90 |
| Free Cash Flow (FCF) | 6.87 | 6.95 | 11.95 | 10.86 | 12.29 | 14.11 |
| Investing Cash Flow | 0.27 | -1.88 | 0.27 | -0.90 | -1.29 | -0.93 |
| Financing Cash Flow | -13.80 | -13.42 | -8.25 | -7.32 | -7.72 | -8.28 |
| Closing Cash & Equivalents | 24.89 | 19.71 | 24.51 | 28.77 | 34.41 | 41.59 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 14.6 | 20.0 | 20.6 | 18.9 | 20.9 | 21.6 |
| RoIC (%) | 23.3 | 29.3 | 29.4 | 26.8 | 31.3 | 34.5 |
| Tax Rate (%) | 25.7 | 23.7 | 21.8 | 26.8 | 26.2 | 24.7 |
| Debtors (Billed days) | 76 | 87 | 73 | 73 | 73 | 73 |
| DPS (Rs/sh) | 20.0 | 27.0 | 35.0 | 35.0 | 37.0 | 40.0 |
| P/E (x) | 26.4 | 20.8 | 19.6 | 19.5 | 16.0 | 13.8 |
| EV/EBITDA (x) | 19.2 | 15.9 | 12.5 | 11.5 | 9.5 | 8.3 |
| Payout Yield (Dividend + Buyback) % | 6.7 | 6.5 | 2.7 | 2.9 | 3.1 | 3.3 |

Source: Company, HSIE Research

Mindtree

The upside case of client concentration

We maintain ADD on Mindtree, supported by (1) focus on multi-year annuity deals and tail account rationalisation, supported by senior-level leadership induction and stability, (2) strong and sustainable institutionalised operational recovery, supported by SG&A optimisation and better segmental profitability, (3) growth recovery expected from 2Q, supported by the Realogy (large deal) ramp-up and demand recovery ex-travel & hospitality vertical on strong renewal deal wins, (4) large growth runway within top account despite the increasing client concentration risks, and (5) strong impetus and efforts towards workforce re-skilling and better WFH preparedness, supported by agile methodologies. Our target price for Mindtree is Rs 1,240, at 20x Jun-22E EPS (DCF-based implied multiple at 20x and 5-year +1SD at 20.5x).

Outlook: Continued pursuit of high-annuity/tail rationalisation across verticals supports growth visibility, overlaid with T1 account momentum/Realogy deal ramp-up. We have factored in -4.7/+10.1/+9.3% USD revenue growth for FY21/22/23E respectively; FY21E decline implies T1 growth at 30% and Non-T1 decline at 14%. We have factored in EBIT margin as that at 1Q level for FY21/22/23E, translating into 18% EPS CAGR over FY20-23E.

ADD

| | |
|-------------------------|----------|
| CMP (as on 21 Aug 2020) | Rs 1,163 |
| Target Price | Rs 1,240 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 847 | 1,001 | 1,089 | 1,037 | 1,142 | 1,248 |
| Growth (%) | 8.6 | 18.3 | 8.7 | -4.7 | 10.1 | 9.3 |
| Net Revenues | 54.63 | 70.22 | 77.64 | 77.91 | 86.81 | 96.73 |
| EBITDA | 7.41 | 10.64 | 10.62 | 13.22 | 14.78 | 16.69 |
| EBIT | 5.69 | 9.00 | 7.87 | 10.76 | 12.13 | 13.80 |
| EBIT (%) | 10.4 | 12.8 | 10.1 | 13.8 | 14.0 | 14.3 |
| PBT | 7.42 | 9.79 | 8.29 | 11.32 | 12.92 | 14.73 |
| APAT | 5.31 | 7.25 | 6.66 | 8.32 | 9.63 | 10.97 |
| EPS (Rs) | 32.3 | 44.1 | 40.5 | 50.5 | 58.4 | 66.6 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 10.55 | 10.60 | 13.62 | 19.94 | 24.09 | 29.15 |
| Debtors | 10.16 | 13.36 | 14.39 | 14.30 | 15.93 | 17.76 |
| Other Current Assets | 4.38 | 4.92 | 5.35 | 4.76 | 5.05 | 5.38 |
| Total Current Assets | 25.09 | 28.87 | 33.35 | 39.00 | 45.08 | 52.29 |
| Net Block | 5.03 | 4.94 | 9.36 | 8.89 | 8.92 | 8.99 |
| Goodwill & Other Intangible Assets | 4.54 | 4.73 | 4.73 | 4.73 | 4.73 | 4.73 |
| Other Non-current Assets | 2.39 | 2.86 | 2.29 | 2.29 | 2.29 | 2.29 |
| Total Non Current Assets | 11.96 | 12.53 | 16.38 | 15.91 | 15.94 | 16.01 |
| Creditors | 1.71 | 2.13 | 2.59 | 2.75 | 2.85 | 3.11 |
| Other Current Liabilities & Provsns | 5.15 | 6.42 | 10.65 | 10.65 | 10.65 | 10.65 |
| Total Current Liabilities | 6.86 | 8.55 | 13.24 | 13.40 | 13.50 | 13.76 |
| TOTAL APPLICATION OF FUNDS | 30.19 | 32.85 | 36.50 | 41.52 | 47.52 | 54.54 |
| Total Shareholders' Funds | 27.41 | 33.06 | 31.57 | 36.59 | 42.59 | 49.61 |
| Total Debt | 3.01 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other Liabilities + Minority | -0.23 | -0.21 | 4.93 | 4.93 | 4.93 | 4.93 |
| TOTAL SOURCES OF FUNDS | 30.19 | 32.85 | 36.50 | 41.52 | 47.52 | 54.54 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Operating Cash Flow (OCF) | 5.64 | 6.23 | 8.25 | 11.30 | 9.94 | 11.44 |
| Capex + Acq | -1.02 | -1.75 | -1.24 | -2.00 | -2.68 | -2.96 |
| Free Cash Flow (FCF) | 4.62 | 4.48 | 7.01 | 9.30 | 7.26 | 8.48 |
| Investing Cash Flow | 0.18 | -1.13 | -1.10 | -1.16 | -1.64 | -1.91 |
| Financing Cash Flow | -2.99 | -5.21 | -6.47 | -3.82 | -4.15 | -4.48 |
| Closing Cash & Equivalents | 10.55 | 10.60 | 13.62 | 19.94 | 24.09 | 29.15 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 21.4 | 24.9 | 19.5 | 24.4 | 24.3 | 23.8 |
| RoIC (%) | 25.2 | 33.6 | 24.3 | 31.8 | 35.9 | 38.0 |
| Tax Rate (%) | 23.2 | 23.8 | 23.9 | 26.5 | 25.5 | 25.5 |
| Debtors (Billed days) | 68 | 69 | 68 | 67 | 67 | 67 |
| DPS (Rs/sh) | 13.0 | 13.0 | 33.0 | 20.0 | 22.0 | 24.0 |
| P/E (x) | 36.0 | 26.4 | 28.7 | 23.0 | 19.9 | 17.5 |
| EV/EBITDA (x) | 24.8 | 17.0 | 16.7 | 13.0 | 11.3 | 9.7 |
| Payout Yield (Dividend + Buyback) % | 2.5 | 1.1 | 3.1 | 1.7 | 1.9 | 2.1 |

Source: Company, HSIE Research

L&T Technology Services

Portfolio cyclicality

We maintain **REDUCE** on L&T Technology Services (LTTS), based on a 'protracted' operational recovery, higher portfolio exposure to the economic slowdown and a higher proportion of discretionary services embedding cyclicality, despite the diversified vertical portfolio. Recovery is expected to be slow (vs. pre-COVID moderating growth rate). It will be supported by (1) continued traction in telecom-hi-tech vertical (inorganic in 3Q) and medical devices vertical, and (2) gradual recovery in the transportation vertical (airline sub-sector dent in 2Q also) and plant engineering vertical (O&G dent). Higher portfolio susceptibility to the global economic crisis and low-annuity/high-discretionary elements are likely to result in a slower recovery of LTTS, even as medium-term opportunities open up. Our target price is Rs 1,395, at 18x Jun-22E EPS (DCF-based implied multiple at 18x and 5-year +1SD at 22.5x).

Outlook: We have factored in a revenue decline of 9.6% and margin decline of ~300bps in FY21 leading to 22% EPS decline, factoring in the recovery to 4QFY20 margin level in four quarters based on employee 'right-sizing', increase in offshore and utilisation. EPS CAGR is limited to 8% over FY20-23E, factoring USD revenue growth of ~13% in FY22/23E and an improving margin trajectory. Current valuations at 21.9/ 17.8x FY22/23E factors the 'gradual' recovery.

REDUCE

| | |
|-------------------------|----------|
| CMP (as on 21 Aug 2020) | Rs 1,605 |
| Target Price | Rs 1,395 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 580 | 723 | 786 | 711 | 801 | 906 |
| Growth (%) | 19.8 | 24.6 | 8.7 | -9.6 | 12.8 | 13.0 |
| Net Revenues | 37.47 | 50.78 | 56.19 | 53.41 | 60.90 | 70.19 |
| EBITDA | 5.76 | 9.15 | 11.11 | 8.79 | 11.10 | 13.52 |
| EBIT | 4.87 | 8.11 | 9.28 | 7.19 | 9.27 | 11.41 |
| EBIT (%) | 13.0 | 16.0 | 16.5 | 13.5 | 15.2 | 16.3 |
| PBT | 6.78 | 10.31 | 11.00 | 7.78 | 10.22 | 12.60 |
| APAT | 4.76 | 6.87 | 7.50 | 5.79 | 7.63 | 9.41 |
| EPS (Rs) | 45.6 | 65.8 | 71.9 | 55.5 | 73.1 | 90.2 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 3.75 | 7.80 | 8.55 | 11.74 | 14.32 | 17.55 |
| Debtors | 9.62 | 10.64 | 13.81 | 13.76 | 15.68 | 18.08 |
| Other Current Assets | 5.24 | 5.28 | 6.75 | 6.75 | 6.75 | 6.75 |
| Total Current Assets | 18.61 | 23.72 | 29.10 | 32.25 | 36.75 | 42.37 |
| Net Block | 1.25 | 1.44 | 5.59 | 6.15 | 6.83 | 7.62 |
| Goodwill & Other Intangible Assets | 5.84 | 6.36 | 6.15 | 6.51 | 6.55 | 6.61 |
| Other Non-current Assets | 1.08 | 2.00 | 1.89 | 1.89 | 1.89 | 1.89 |
| Total Non Current Assets | 8.17 | 9.80 | 13.62 | 14.54 | 15.27 | 16.11 |
| Creditors | 1.81 | 1.88 | 1.98 | 1.88 | 2.14 | 2.47 |
| Other Current Liabilities & Provns | 5.13 | 6.05 | 8.11 | 8.11 | 8.11 | 8.11 |
| Total Current Liabilities | 6.94 | 7.93 | 10.09 | 9.99 | 10.25 | 10.58 |
| TOTAL APPLICATION OF FUNDS | 19.84 | 25.59 | 32.64 | 36.80 | 41.77 | 47.90 |
| Total Shareholders' Funds | 19.36 | 24.79 | 27.69 | 31.85 | 36.82 | 42.95 |
| Total Debt | 0.70 | 0.70 | 0.30 | 0.30 | 0.30 | 0.30 |
| Other Liabilities + Minority | -0.22 | 0.10 | 4.65 | 4.65 | 4.65 | 4.65 |
| TOTAL SOURCES OF FUNDS | 19.84 | 25.59 | 32.64 | 36.80 | 41.77 | 47.90 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Operating Cash Flow (OCF) | 4.14 | 8.06 | 6.38 | 7.04 | 7.22 | 8.71 |
| Capex + Acq | -0.87 | -0.90 | -1.53 | -1.18 | -1.34 | -1.54 |
| Free Cash Flow (FCF) | 3.27 | 7.16 | 4.85 | 5.86 | 5.88 | 7.16 |
| Investing Cash Flow | -0.87 | -0.90 | -1.53 | -1.18 | -1.34 | -1.54 |
| Financing Cash Flow | -1.32 | -2.45 | -4.06 | -2.68 | -3.09 | -3.71 |
| Closing Cash & Equivalents | 3.75 | 7.80 | 8.55 | 11.74 | 14.32 | 17.55 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 27.8 | 31.1 | 28.6 | 19.4 | 22.2 | 23.6 |
| RoIC (%) | 25.1 | 35.6 | 33.1 | 21.9 | 26.5 | 29.6 |
| Tax Rate (%) | 25.3 | 25.5 | 25.2 | 25.2 | 25.0 | 25.0 |
| Debtors (Billed days) | 94 | 76 | 90 | 94 | 94 | 94 |
| DPS (Rs/sh) | 12.0 | 21.0 | 21.0 | 22.0 | 26.0 | 32.0 |
| P/E (x) | 35.2 | 24.4 | 22.3 | 28.9 | 21.9 | 17.8 |
| EV/EBITDA (x) | 28.6 | 17.5 | 14.3 | 17.7 | 13.8 | 11.1 |
| Payout Yield (Dividend + Buyback) % | 0.6 | 1.5 | 1.6 | 1.3 | 1.6 | 2.0 |

Source: Company, HSIE Research

Hexaware Technologies

Delisting getting closer

We maintain REDUCE on Hexaware based on relatively slow recovery path and valuations adequately factoring in the gradual recovery mode. Key risks for Hexaware include (1) weakness in Travel & Transportation and Manufacturing & Consumer verticals (~24% of revenue), which is expected to continue, and (2) lower discretionary spend and supply-side factors can continue to impact Application Transformation Management service-line and BPS service-line respectively. While business dynamics undergo 'gradual' recovery, stock price performance will trail developments around the delisting proposal (in-principle shareholder approval received and letter of offer by promoters underway). Our target price for Hexaware is Rs 385, at 15x Jun-22E EPS (DCF-based implied multiple at 15x and 5-year +1SD at 18.5x and average at 16x).

Outlook: We have factored in CY20E revenue growth at 6.7% (1.2% organic) and CY21/22E revenue growth at 8.9/12.0%; EBIT factored at 12.6% each for CY20/21/22E translating into EPS CAGR of 11.9% over CY20-22E. At CMP, Hexaware trades at 19.1x and 17.4x CY20/21E.

REDUCE

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 419 |
| Target Price | Rs 385 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | CY17 | CY18 | CY19 | CY20E | CY21E | CY22E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 607 | 678 | 793 | 846 | 922 | 1,032 |
| Growth (%) | 15.6 | 11.6 | 17.1 | 6.7 | 8.9 | 12.0 |
| Net Revenues | 39.42 | 46.48 | 55.83 | 63.18 | 70.07 | 80.01 |
| EBITDA | 6.55 | 7.34 | 8.61 | 10.25 | 11.28 | 12.72 |
| EBIT | 5.92 | 6.69 | 7.58 | 7.94 | 8.83 | 10.02 |
| EBIT (%) | 15.0 | 14.4 | 13.6 | 12.6 | 12.6 | 12.5 |
| PBT | 6.40 | 7.27 | 7.79 | 8.13 | 8.96 | 10.26 |
| APAT | 4.99 | 5.83 | 6.41 | 6.56 | 7.17 | 8.20 |
| EPS (Rs) | 16.7 | 19.6 | 21.5 | 22.0 | 24.0 | 27.5 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | CY17 | CY18 | CY19 | CY20E | CY21E | CY22E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 5.49 | 8.31 | 2.47 | 2.99 | 5.19 | 7.12 |
| Debtors | 5.36 | 8.03 | 9.80 | 10.39 | 11.71 | 13.59 |
| Other Current Assets | 3.69 | 3.53 | 4.99 | 5.59 | 6.14 | 6.95 |
| Total Current Assets | 14.54 | 19.87 | 17.25 | 18.96 | 23.04 | 27.66 |
| Net Block | 3.76 | 3.93 | 8.61 | 13.60 | 13.79 | 14.94 |
| Goodwill & Other Intangible Assets | 1.66 | 1.81 | 11.76 | 12.45 | 12.45 | 12.45 |
| Other Non-current Assets | 4.17 | 3.94 | 2.62 | 2.62 | 2.62 | 2.62 |
| Total Non Current Assets | 9.58 | 9.68 | 23.00 | 28.67 | 28.86 | 30.01 |
| Creditors | 2.20 | 3.30 | 3.95 | 4.33 | 4.80 | 5.48 |
| Other Current Liabilities & Provsns | 2.97 | 3.81 | 8.18 | 5.32 | 5.44 | 5.61 |
| Total Current Liabilities | 5.17 | 7.11 | 12.13 | 9.65 | 10.24 | 11.09 |
| TOTAL APPLICATION OF FUNDS | 18.95 | 22.44 | 28.12 | 37.98 | 41.66 | 46.58 |
| Total Shareholders' Funds | 20.07 | 23.92 | 27.65 | 31.37 | 35.55 | 40.47 |
| Total Debt | 0.00 | 0.00 | 1.43 | 4.02 | 3.52 | 3.52 |
| Other Liabilities + Minority | -1.13 | -1.48 | -0.96 | 2.58 | 2.58 | 2.58 |
| TOTAL SOURCES OF FUNDS | 18.95 | 22.44 | 28.12 | 37.98 | 41.66 | 46.58 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | CY17 | CY18 | CY19 | CY20E | CY21E | CY22E |
|---------------------------------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Operating Cash Flow (OCF) | 4.76 | 5.49 | 5.96 | 8.61 | 8.28 | 8.93 |
| Capex + Acq | -0.96 | -0.61 | -10.16 | -7.30 | -2.64 | -3.85 |
| Free Cash Flow (FCF) | 3.80 | 4.88 | -4.20 | 1.32 | 5.64 | 5.08 |
| Investing Cash Flow | -0.94 | -0.54 | -10.07 | -6.82 | -2.32 | -3.46 |
| Financing Cash Flow | -2.80 | -2.50 | -1.69 | -0.65 | -3.76 | -3.54 |
| Closing Cash & Equivalents | 5.49 | 8.31 | 2.47 | 2.99 | 5.19 | 7.12 |

Key Ratios

| | CY17 | CY18 | CY19 | CY20E | CY21E | CY22E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 26.6 | 26.5 | 24.9 | 22.2 | 21.4 | 21.6 |
| RoIC (%) | 36.2 | 38.9 | 31.4 | 21.1 | 19.8 | 21.1 |
| Tax Rate (%) | 22.0 | 19.7 | 17.7 | 19.4 | 20.0 | 20.0 |
| Debtors (Billed days) | 50 | 63 | 64 | 60 | 61 | 62 |
| DPS (Rs/sh) | 4.0 | 7.0 | 8.5 | 9.0 | 10.0 | 11.0 |
| P/E (x) | 25.0 | 21.4 | 19.5 | 19.1 | 17.4 | 15.2 |
| EV/EBITDA (x) | 18.2 | 15.9 | 14.4 | 12.3 | 10.9 | 9.5 |
| Payout Yield (Dividend + Buyback) % | 2.2 | 2.0 | 2.4 | 2.3 | 2.4 | 2.6 |

Source: Company, HSIE Research

Persistent Systems

Moving up the pecking order

We upgrade Persistent Systems (PSYS) to ADD (REDUCE earlier) based on (1) structural recovery in Technology Services business (77% of revenue) supporting 'industry-leading FY21', following the prior leadership changes and sales re-alignment, and (2) better operational focus and business synergies improving the operating profile. While the Alliance business uncertainty persists, the expectation of integrated operations following the recent CEO exit and Red Hat opportunity will be value accretive. We expect capital allocation to improve for PSYS and upside risk to operating margins, which will further improve its relative attractiveness. In the near term, outperformance is expected, based on continued focus towards managed services, annuity business, improving client mining and robust partner ecosystem (Salesforce, Appian). Our target price for PSYS is Rs 1,105, at 19x Jun-22E EPS (DCF-based implied multiple at 20x and 5-year +1SD at 16.5x).

Outlook: We have factored in revenue growth of +8.9/9.7%/8.9% for FY21/22/23E, based on Technology Services growth at 14.6/10.6/9.8% and Alliance growth at -7.0/+6.6/+5.6% over the same period; factored in EBIT at 10.2/10.0/10.0% for FY21/22/23E, translating into a 10% EPS CAGR over FY20-23E.

ADD

| | |
|-------------------------|----------|
| CMP (as on 21 Aug 2020) | Rs 1,040 |
| Target Price | Rs 1,105 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 471 | 481 | 502 | 546 | 599 | 653 |
| Growth (%) | 9.7 | 2.2 | 4.3 | 8.9 | 9.7 | 8.9 |
| Net Revenues | 30.34 | 33.66 | 35.66 | 41.05 | 45.54 | 50.58 |
| EBITDA | 4.69 | 5.81 | 4.93 | 6.04 | 6.57 | 7.32 |
| EBIT | 3.10 | 4.23 | 3.27 | 4.18 | 4.55 | 5.06 |
| EBIT (%) | 10.2 | 12.6 | 9.2 | 10.2 | 10.0 | 10.0 |
| PBT | 4.29 | 4.86 | 4.52 | 5.34 | 5.68 | 6.30 |
| APAT | 3.23 | 3.66 | 3.59 | 3.99 | 4.26 | 4.73 |
| EPS (Rs) | 42.3 | 47.8 | 47.0 | 52.3 | 55.7 | 61.9 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 11.13 | 14.16 | 14.15 | 15.54 | 17.38 | 19.38 |
| Debtors | 4.85 | 4.92 | 5.92 | 7.09 | 7.86 | 8.73 |
| Other Current Assets | 4.44 | 3.96 | 4.20 | 4.83 | 5.36 | 5.95 |
| Total Current Assets | 20.42 | 23.04 | 24.27 | 27.46 | 30.60 | 34.06 |
| Net Block | 2.58 | 2.33 | 2.79 | 2.99 | 3.15 | 3.34 |
| Goodwill & Other Intangible Assets | 2.58 | 1.98 | 1.66 | 1.86 | 2.05 | 2.28 |
| Other Non-current Assets | 0.36 | 0.80 | 1.24 | 1.24 | 1.24 | 1.24 |
| Total Non Current Assets | 5.52 | 5.11 | 5.69 | 6.08 | 6.44 | 6.86 |
| Creditors | 1.67 | 1.52 | 2.25 | 2.59 | 2.87 | 3.19 |
| Other Current Liabilities & Provns | 3.20 | 3.40 | 4.23 | 4.62 | 4.95 | 5.32 |
| Total Current Liabilities | 4.87 | 4.92 | 6.47 | 7.21 | 7.82 | 8.51 |
| TOTAL APPLICATION OF FUNDS | 21.08 | 23.23 | 23.49 | 26.33 | 29.22 | 32.41 |
| Total Shareholders' Funds | 21.27 | 23.45 | 23.86 | 26.70 | 29.59 | 32.78 |
| Total Debt | 0.02 | 0.01 | 0.05 | 0.05 | 0.05 | 0.05 |
| Other Liabilities + Minority | -0.21 | -0.23 | -0.42 | -0.42 | -0.42 | -0.42 |
| TOTAL SOURCES OF FUNDS | 21.08 | 23.23 | 23.49 | 26.33 | 29.22 | 32.41 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Operating Cash Flow (OCF) | 4.22 | 4.32 | 3.23 | 3.98 | 4.80 | 5.33 |
| Capex + Acq | -1.06 | -0.53 | -1.19 | -2.10 | -2.08 | -2.43 |
| Free Cash Flow (FCF) | 3.16 | 3.80 | 2.03 | 1.88 | 2.72 | 2.91 |
| Investing Cash Flow | -0.59 | 0.11 | -0.88 | -1.23 | -1.23 | -1.50 |
| Financing Cash Flow | -0.96 | -1.60 | -3.01 | -1.20 | -1.43 | -1.59 |
| Closing Cash & Equivalents | 11.13 | 14.16 | 14.15 | 15.54 | 17.38 | 19.38 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 16.0 | 15.7 | 14.4 | 15.8 | 15.1 | 15.2 |
| RoIC (%) | 22.6 | 32.2 | 26.7 | 31.1 | 30.2 | 30.6 |
| Tax Rate (%) | 24.7 | 27.7 | 24.8 | 25.3 | 25.0 | 25.0 |
| Debtors (Billed days) | 58 | 53 | 61 | 63 | 63 | 63 |
| DPS (Rs/sh) | 10.0 | 11.0 | 12.0 | 15.0 | 18.0 | 20.0 |
| P/E (x) | 24.6 | 21.7 | 22.1 | 19.9 | 18.7 | 16.8 |
| EV/EBITDA (x) | 14.6 | 11.3 | 13.3 | 10.6 | 9.5 | 8.2 |
| Payout Yield (Dividend + Buyback) % | 1.2 | 2.0 | 3.7 | 1.4 | 1.7 | 1.9 |

Source: Company, HSIE Research

Cyient

Getting back on track

Cyient's primary concerns are (1) stress in services portfolio (-18.6% in FY21E), (2) issues in top accounts (A&D), (3) focus on lower margin DLM business and (4) low margin profile. The higher mix of mechanical services, elevated exposure to stressed verticals (aerospace, travel and ENU) have magnified the COVID-19 impact vs. its peers. Concerns related to a slowdown in decision making, COVID-19 related uncertainty, and a higher mix of legacy services remain, but we believe that the worst is over and the company will return to the growth path in 2HFY21E. Growth will be led by communication and healthcare verticals, supported by transportation. A restart of commercial airlines activity and European railways will accelerate the recovery process. Margin recovery will happen in 2H with growth and offshoring. We increase our target multiple to 13x (vs. 9x earlier), in line with the five-year average. Our target price now stands at Rs 410, based on 13x Jun-22E EPS. The stock currently trades at a P/E of 14.9/12.6x FY21/22E. Upgrade to ADD.

Outlook: We have factored in -16/+6% USD revenue growth for FY21/22E respectively; FY21E implies 2/3/4Q revenue growth of -0.3/+0.4/+2.4%. Margin in 2QFY21 will recover to 4QFY20 level (~8%), and the exit rate will be 9-10%.

ADD

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 389 |
| Target Price | Rs 410 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 608 | 660 | 625 | 525 | 557 | 601 |
| Growth (%) | 13.0 | 8.6 | -5.3 | -16.0 | 6.0 | 7.9 |
| Net Revenues | 39.18 | 46.18 | 44.27 | 39.53 | 42.34 | 45.71 |
| EBITDA | 5.49 | 6.44 | 5.96 | 5.09 | 6.03 | 6.66 |
| EBIT | 4.44 | 5.33 | 4.08 | 3.11 | 3.93 | 4.42 |
| EBIT (%) | 11.3 | 11.5 | 9.2 | 7.9 | 9.3 | 9.7 |
| PBT | 5.36 | 6.20 | 4.51 | 3.82 | 4.49 | 4.94 |
| APAT | 4.33 | 4.90 | 3.73 | 2.88 | 3.39 | 3.74 |
| EPS (Rs) | 38.5 | 44.4 | 33.9 | 26.2 | 30.9 | 34.0 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 11.24 | 10.25 | 9.93 | 12.39 | 13.93 | 15.64 |
| Debtors | 6.91 | 8.14 | 7.26 | 6.71 | 7.31 | 7.76 |
| Other Current Assets | 5.61 | 7.73 | 7.87 | 7.59 | 8.13 | 8.78 |
| Total Current Assets | 23.75 | 26.12 | 25.06 | 26.70 | 29.37 | 32.19 |
| Net Block | 4.43 | 4.52 | 7.68 | 7.08 | 6.46 | 5.82 |
| Goodwill & Other Intangible Assets | 3.55 | 5.26 | 5.37 | 5.37 | 5.37 | 5.37 |
| Other Non-current Assets | 2.28 | 2.70 | 3.29 | 3.00 | 3.11 | 3.24 |
| Total Non Current Assets | 10.25 | 12.48 | 16.34 | 15.45 | 14.94 | 14.43 |
| Creditors | 3.81 | 3.70 | 3.73 | 3.57 | 3.71 | 4.01 |
| Other Current Liabilities & Provs | 3.03 | 4.06 | 4.53 | 4.09 | 4.63 | 4.95 |
| Total Current Liabilities | 6.84 | 7.76 | 8.26 | 7.67 | 8.34 | 8.95 |
| TOTAL APPLICATION OF FUNDS | 27.16 | 30.84 | 33.15 | 34.48 | 35.97 | 37.66 |
| Total Shareholders' Funds | 23.44 | 25.64 | 25.61 | 26.80 | 28.21 | 29.76 |
| Total Debt | 2.41 | 3.25 | 3.74 | 3.74 | 3.74 | 3.74 |
| Other Liabilities + Minority | 1.32 | 1.95 | 3.80 | 3.94 | 4.02 | 4.16 |
| TOTAL SOURCES OF FUNDS | 27.16 | 30.84 | 33.15 | 34.48 | 35.97 | 37.66 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|-------------|--------------|--------------|--------------|
| Operating Cash Flow (OCF) | 2.96 | 3.70 | 5.82 | 4.82 | 4.45 | 4.98 |
| Capex + Acq | -1.69 | -1.53 | -2.30 | -1.38 | -1.48 | -1.60 |
| Free Cash Flow (FCF) | 1.28 | 2.17 | 3.53 | 3.43 | 2.97 | 3.38 |
| Investing Cash Flow | -0.65 | -2.64 | -1.67 | -0.23 | -0.45 | -0.58 |
| Financing Cash Flow | -1.36 | -2.32 | -4.46 | -2.13 | -2.46 | -2.68 |
| Closing Cash & Equivalents | 11.24 | 10.25 | 9.93 | 12.39 | 13.93 | 15.64 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 19.4 | 20.0 | 14.5 | 11.0 | 12.3 | 12.9 |
| RoIC (%) | 22.5 | 22.5 | 14.2 | 10.4 | 13.5 | 15.2 |
| Tax Rate (%) | 25.8 | 23.0 | 23.8 | 24.3 | 24.0 | 24.0 |
| Debtors (Billed days) | 75 | 74 | 70 | 73 | 73 | 71 |
| DPS (Rs/sh) | 14.0 | 15.0 | 15.0 | 13.1 | 15.4 | 17.0 |
| P/E (x) | 9.9 | 8.7 | 11.5 | 14.9 | 12.6 | 11.5 |
| EV/EBITDA (x) | 6.3 | 5.7 | 6.3 | 6.9 | 5.6 | 4.8 |
| Payout Yield (Dividend + Buyback) % | 4.4 | 6.7 | 8.2 | 3.9 | 4.6 | 5.0 |

Source: Company, HSIE Research

Zensar Technologies

On the path to recovery

We maintain our ADD rating on Zensar, based on (1) recovery in TCW wins (USD 150mn, ~30% NN), (2) healthy deal pipeline of USD 1.5bn, (3) resilient Hi-Tech vertical led by the top client, (4) stability in Manufacturing/Retail and recovery in BFSI. We expect growth to recover in 2HFY21E and core EBITDA margin to be in the range of 13-15%. Zensar's Retail portfolio, which was struggling in the pre-COVID times, is now stabilising. The worst is now over, and recovery should start in 2H. Zensar has also rebranded the CIS segment and has repositioned it to cater to the post COVID world. The Cynosure acquisition (Insurance) is seeing increased traction and will support growth in BFSI. The margin recovery process is on track with a focus on offshoring and reducing sub-contracting expenses. The company has also started to hire permanent WFH workforce, which will increase delivery flexibility. We increase our target multiple to 14x (vs. 12x earlier), a slight premium to the five-year average. Our target price now stands at Rs 200, based on 14x Jun-22E EPS. The stock currently trades at a P/E of 16.2/13.1x FY21/22E.

Outlook: We have factored in -11.4/+6.9% USD revenue growth for FY21/22E respectively; FY21E implies 2/3/4Q revenue growth of -1.2/+0.8/+1.4%. EBIT margin assumption for FY21/22E is 8.8/9.9%.

ADD

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 180 |
| Target Price | Rs 200 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 482 | 557 | 590 | 522 | 558 | 603 |
| Growth (%) | 5.4 | 15.6 | 5.8 | -11.4 | 6.9 | 8.0 |
| Net Revenues | 31.16 | 39.15 | 41.77 | 39.28 | 42.42 | 45.80 |
| EBITDA | 3.73 | 5.08 | 5.13 | 5.22 | 6.12 | 6.69 |
| EBIT | 3.08 | 4.19 | 3.54 | 3.44 | 4.21 | 4.59 |
| EBIT (%) | 9.9 | 10.7 | 8.5 | 8.8 | 9.9 | 10.0 |
| PBT | 3.51 | 4.61 | 3.82 | 3.52 | 4.32 | 4.73 |
| APAT | 2.41 | 3.24 | 2.68 | 2.54 | 3.13 | 3.43 |
| EPS (Rs) | 10.6 | 14.2 | 11.7 | 11.1 | 13.7 | 15.0 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 5.05 | 4.74 | 8.63 | 9.90 | 11.29 | 13.22 |
| Debtors | 6.42 | 8.76 | 6.66 | 6.99 | 7.90 | 8.53 |
| Other Current Assets | 4.84 | 6.91 | 6.08 | 6.36 | 6.87 | 7.42 |
| Total Current Assets | 16.31 | 20.41 | 21.37 | 23.26 | 26.07 | 29.18 |
| Net Block | 1.69 | 3.47 | 6.76 | 6.35 | 5.93 | 5.43 |
| Goodwill & Other Intangible Assets | 4.22 | 6.03 | 6.47 | 6.47 | 6.47 | 6.47 |
| Other Non-current Assets | 0.43 | 0.55 | 0.86 | 0.53 | 0.55 | 0.58 |
| Total Non Current Assets | 6.34 | 10.04 | 14.09 | 13.35 | 12.95 | 12.47 |
| Creditors | 1.84 | 3.01 | 2.65 | 2.61 | 2.98 | 3.22 |
| Other Current Liabilities & Provns | 3.46 | 4.94 | 5.51 | 5.50 | 5.51 | 5.73 |
| Total Current Liabilities | 5.30 | 7.95 | 8.16 | 8.11 | 8.50 | 8.94 |
| TOTAL APPLICATION OF FUNDS | 17.35 | 22.50 | 27.30 | 28.50 | 30.51 | 32.71 |
| Total Shareholders' Funds | 16.69 | 19.42 | 20.90 | 22.25 | 23.91 | 25.74 |
| Total Debt | 0.06 | 2.58 | 2.89 | 2.89 | 2.89 | 2.89 |
| Other Liabilities + Minority | 0.61 | 0.50 | 3.51 | 3.37 | 3.71 | 4.08 |
| TOTAL SOURCES OF FUNDS | 17.35 | 22.50 | 27.30 | 28.50 | 30.51 | 32.71 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-------------|--------------|-------------|-------------|--------------|--------------|
| Operating Cash Flow (OCF) | 2.06 | 1.56 | 6.23 | 4.08 | 4.58 | 5.38 |
| Capex + Acq | -1.45 | -4.17 | -1.38 | -1.37 | -1.48 | -1.60 |
| Free Cash Flow (FCF) | 0.61 | -2.61 | 4.85 | 2.71 | 3.09 | 3.78 |
| Investing Cash Flow | -1.38 | -4.13 | -1.33 | -0.99 | -1.10 | -1.23 |
| Financing Cash Flow | -2.04 | 2.01 | -1.19 | -1.82 | -2.09 | -2.22 |
| Closing Cash & Equivalents | 5.05 | 4.74 | 8.63 | 9.90 | 11.29 | 13.22 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 15.1 | 17.7 | 12.9 | 11.4 | 13.1 | 13.4 |
| RoC (%) | 18.9 | 19.9 | 14.0 | 13.7 | 16.5 | 17.5 |
| Tax Rate (%) | 29.9 | 28.4 | 27.7 | 26.0 | 26.0 | 26.0 |
| Debtors (Billed days) | 75 | 82 | 58 | 65 | 68 | 68 |
| DPS (Rs/sh) | 2.7 | 2.8 | 5.2 | 5.2 | 6.4 | 7.0 |
| P/E (x) | 17.0 | 12.6 | 15.3 | 16.2 | 13.1 | 12.0 |
| EV/EBITDA (x) | 9.5 | 7.6 | 6.8 | 6.4 | 5.3 | 4.5 |
| Payout Yield (Dividend + Buyback) % | 1.5 | 1.6 | 3.0 | 2.9 | 3.6 | 4.0 |

Source: Company, HSIE Research

Sonata Software

Strong building blocks

We maintain our BUY rating on Sonata, based on (1) relatively stable portfolio ex-Travel, (2) focus on high growth Microsoft ecosystem, (3) opportunity in the Dynamics modernisation program, (4) IP-led business model and, (5) highest margin (IITS) in Tier-2 IT. Sonata has continuously invested in strengthening its Microsoft relationship (~60% of IIT revenue), which has yielded positive results (four-year CAGR of +19%). A gradual recovery in top travel client and traction in Microsoft related services (Dynamics 365) would lead to growth in 2HFY21. The impact on margins is minimal; operational efficiency, cost-cutting, resource re-allocation and offshoring should keep the margin in the desired range of 20-21%. Healthy payout yield and high RoE (~38%) command a premium. We increase our target multiple to 14x (vs. 12x earlier), ~25% premium to the five-year average. Our target price now stands at Rs 370, based on 14x Jun-22E EPS. The stock currently trades at a P/E of 14.3/12.1x FY21/22E.

Outlook: We expect IITS revenue to recover from 2QFY21, IITS growth ex-TUI for 2/3/4Q will be 0.4/1.7/1.8% QoQ. IITS margin will be at 21.1/21.4% for FY21/22E.

BUY

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 313 |
| Target Price | Rs 370 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 144 | 161 | 181 | 153 | 171 | 186 |
| Growth (%) | 18.6 | 12.0 | 12.2 | -15.3 | 11.8 | 8.8 |
| Net Revenues | 24.54 | 29.61 | 37.43 | 37.39 | 41.41 | 45.37 |
| EBITDA | 2.31 | 3.36 | 3.73 | 3.20 | 3.72 | 4.13 |
| EBIT | 2.19 | 3.23 | 3.36 | 2.80 | 3.28 | 3.65 |
| EBIT (%) | 8.9 | 10.9 | 9.0 | 7.5 | 7.9 | 8.1 |
| PBT | 2.60 | 3.49 | 3.79 | 3.04 | 3.59 | 4.01 |
| APAT | 1.91 | 2.47 | 2.77 | 2.27 | 2.68 | 2.99 |
| EPS (Rs) | 18.4 | 23.7 | 26.7 | 21.8 | 25.7 | 28.7 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 5.46 | 3.46 | 4.10 | 4.90 | 5.58 | 6.35 |
| Debtors | 3.96 | 8.11 | 7.00 | 7.68 | 8.51 | 9.32 |
| Other Current Assets | 0.80 | 0.96 | 0.88 | 1.02 | 1.17 | 1.34 |
| Total Current Assets | 10.22 | 12.53 | 11.98 | 13.60 | 15.25 | 17.02 |
| Net Block | 0.33 | 0.54 | 1.42 | 1.44 | 1.33 | 1.21 |
| Goodwill & Other Intangible Assets | 0.81 | 1.45 | 1.56 | 1.56 | 1.56 | 1.56 |
| Other Non-current Assets | 0.85 | 0.64 | 0.96 | 1.08 | 1.22 | 1.39 |
| Total Non Current Assets | 1.99 | 2.63 | 3.94 | 4.08 | 4.11 | 4.16 |
| Creditors | 4.32 | 5.87 | 5.62 | 6.56 | 7.23 | 7.91 |
| Other Current Liabilities & Provsns | 0.96 | 1.09 | 1.27 | 1.29 | 1.36 | 1.43 |
| Total Current Liabilities | 5.29 | 6.97 | 6.89 | 7.85 | 8.58 | 9.33 |
| TOTAL APPLICATION OF FUNDS | 6.93 | 8.19 | 9.03 | 9.83 | 10.78 | 11.84 |
| Total Shareholders' Funds | 6.53 | 7.68 | 6.70 | 7.50 | 8.45 | 9.51 |
| Total Debt | 0.41 | 0.52 | 2.58 | 2.58 | 2.58 | 2.58 |
| Other Liabilities + Minority | -0.02 | -0.01 | -0.24 | -0.24 | -0.24 | -0.24 |
| TOTAL SOURCES OF FUNDS | 6.93 | 8.19 | 9.03 | 9.83 | 10.78 | 11.84 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-------------|--------------|-------------|-------------|-------------|-------------|
| Operating Cash Flow (OCF) | 2.98 | -0.06 | 3.69 | 2.44 | 2.42 | 2.71 |
| Capex + Acq | -0.06 | -0.46 | -0.08 | -0.41 | -0.33 | -0.36 |
| Free Cash Flow (FCF) | 2.91 | -0.52 | 3.60 | 2.02 | 2.09 | 2.35 |
| Investing Cash Flow | 0.03 | -0.41 | 0.00 | 0.00 | 0.15 | 0.16 |
| Financing Cash Flow | -1.40 | -1.66 | -3.10 | -1.63 | -1.90 | -2.10 |
| Closing Cash & Equivalents | 5.46 | 3.46 | 4.10 | 4.90 | 5.58 | 6.35 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| RoE (%) | 30.8 | 34.7 | 38.5 | 31.9 | 33.5 | 33.3 |
| RoIC (%) | 109.6 | 48.4 | 49.8 | 42.3 | 47.0 | 49.6 |
| Tax Rate (%) | 26.3 | 29.0 | 27.0 | 25.5 | 25.5 | 25.5 |
| Debtors (Billed days) | 59 | 100 | 68 | 75 | 75 | 75 |
| DPS (Rs/sh) | 10.5 | 12.8 | 20.3 | 12.0 | 14.2 | 15.8 |
| P/E (x) | 17.0 | 13.2 | 11.7 | 14.3 | 12.1 | 10.9 |
| EV/EBITDA (x) | 12.4 | 9.2 | 8.3 | 9.4 | 7.9 | 7.0 |
| Payout Yield (Dividend + Buyback) % | 3.5 | 4.4 | 10.9 | 4.5 | 5.3 | 5.9 |

Source: Company, HSIE Research

Majesco

Value unlocking

We maintain our BUY rating post the value unlocking of the US subsidiary. We always maintained a constructive stance on Majesco's niche and rated Insurance platform. The deal with Thoma Bravo at 5x EV/revenue (~110% premium to pre-deal valuations) reflects embedded value. Majesco Ltd, which holds a 74% stake in Majesco US, will receive cash of Rs 31.4 bn (post-tax). This cash will be distributed to Indian shareholders through buyback/dividend. Majesco's growth will be led by traction in the Products segment (48% of revenue, cloud subscription + licence + AMC). Majesco has positioned itself as a pure-play Products company and is focusing on driving growth through SI partnerships. COVID-19 has accelerated shift to cloud initiative for Insurance companies, and Majesco will be a beneficiary. The impact of COVID-19 was minimal, with only some of the deals in the pipeline getting deferred by 1-2 quarters. The Services portfolio (52% of revenue, cloud implementation + on-premise + professional services) is relatively stable. EBIT margin expansion was healthy, supported by higher-margin cloud subscription revenue. We increase the EV/revenue multiple to 3x (vs. 1x earlier) and arrive at a target price of Rs 1,050 based on June-22E revenue.

Outlook: We have assumed Majesco revenue growth of 14.8/10.1% for FY21/22E and ~12.8/13.4% EBITDA margin. FY21E growth implies 2/3/4Q revenue growth of +0.8/+1.4/+1.7%, which is modest.

BUY

| | |
|-------------------------|----------|
| CMP (as on 21 Aug 2020) | Rs 750 |
| Target Price | Rs 1,050 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 123 | 140 | 146 | 168 | 185 | 213 |
| Growth (%) | 1.0 | 13.7 | 4.7 | 14.8 | 10.1 | 15.0 |
| Net Revenues | 8.06 | 9.88 | 10.40 | 12.62 | 14.06 | 16.17 |
| EBITDA | 0.23 | 0.93 | 1.17 | 1.61 | 1.88 | 2.51 |
| EBIT | 0.05 | 0.73 | 0.83 | 1.21 | 1.44 | 2.07 |
| EBIT (%) | 0.6 | 7.4 | 7.9 | 9.6 | 10.3 | 12.8 |
| PBT | 0.21 | 1.03 | 1.17 | 1.14 | 1.52 | 2.15 |
| APAT | -0.04 | 0.51 | 0.54 | 0.72 | 0.86 | 1.22 |
| EPS (Rs) | -1.5 | 18.3 | 19.4 | 25.7 | 30.8 | 43.7 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-------------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|
| Cash & Equivalents | 4.03 | 4.04 | 4.18 | 3.34 | 3.97 | 5.01 |
| Debtors | 1.28 | 1.20 | 1.98 | 2.03 | 2.55 | 2.86 |
| Other Current Assets | 0.94 | 1.78 | 1.68 | 2.34 | 2.60 | 2.99 |
| Total Current Assets | 6.26 | 7.01 | 7.83 | 7.71 | 9.12 | 10.86 |
| Net Block | 0.67 | 0.91 | 1.06 | 1.92 | 2.04 | 2.25 |
| Goodwill & Other Intangible Assets | 1.89 | 2.47 | 2.62 | 2.62 | 2.62 | 2.62 |
| Other Non-current Assets | 0.08 | 0.20 | 0.32 | 0.33 | 0.35 | 0.36 |
| Total Non Current Assets | 2.63 | 3.59 | 3.99 | 4.87 | 5.01 | 5.23 |
| Creditors | 0.16 | 0.17 | 0.30 | 0.34 | 0.39 | 0.43 |
| Other Current Liabilities & Provsns | 1.79 | 2.15 | 3.16 | 3.10 | 3.55 | 3.94 |
| Total Current Liabilities | 1.95 | 2.32 | 3.46 | 3.44 | 3.93 | 4.38 |
| TOTAL APPLICATION OF FUNDS | 6.95 | 8.28 | 8.36 | 9.13 | 10.19 | 11.72 |
| Total Shareholders' Funds | 5.43 | 6.77 | 6.98 | 7.51 | 8.30 | 9.45 |
| Total Debt | 0.69 | 0.24 | 0.24 | 0.24 | 0.24 | 0.24 |
| Other Liabilities + Minority | 0.83 | 1.27 | 1.14 | 1.38 | 1.66 | 2.03 |
| TOTAL SOURCES OF FUNDS | 6.95 | 8.28 | 8.36 | 9.13 | 10.19 | 11.72 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|--------------|--------------|--------------|--------------|-------------|-------------|
| Operating Cash Flow (OCF) | -0.23 | 0.48 | 1.19 | 0.55 | 1.19 | 1.68 |
| Capex + Acq | -0.14 | -0.88 | -1.33 | -1.26 | -0.56 | -0.65 |
| Free Cash Flow (FCF) | -0.36 | -0.40 | -0.13 | -0.71 | 0.63 | 1.03 |
| Investing Cash Flow | -0.11 | -0.84 | -1.23 | -1.31 | -0.47 | -0.55 |
| Financing Cash Flow | 2.32 | 0.17 | -0.09 | -0.08 | -0.09 | -0.09 |
| Closing Cash & Equivalents | 4.03 | 4.04 | 4.18 | 3.34 | 3.97 | 5.01 |

Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | -1.0 | 8.4 | 7.9 | 9.9 | 10.9 | 13.8 |
| RoIC (%) | 0.2 | 14.3 | 15.1 | 17.2 | 17.3 | 23.1 |
| Tax Rate (%) | 86.9 | 30.2 | 23.1 | 29.1 | 28.0 | 28.0 |
| Debtors (Billed days) | 58 | 44 | 69 | 59 | 66 | 64 |
| DPS (Rs/sh) | 1.2 | 2.1 | 2.6 | 2.0 | 2.5 | 2.5 |
| P/E (x) | NM | 40.9 | 38.7 | 29.2 | 24.4 | 17.2 |
| EV/EBITDA (x) | 78.0 | 18.5 | 14.6 | 11.1 | 9.2 | 6.5 |
| Payout Yield (Dividend + Buyback) % | 0.1 | 0.0 | 0.6 | 0.3 | 0.3 | 0.3 |

Source: Company, HSIE Research

Mastek

Shifting gears

We maintain our BUY rating on Mastek, based on (1) sticky UK government relationship, (2) successful integration of higher-margin EVOSYS (Oracle cloud) business, (3) improving margin profile, (4) value unlocking of Majesco US and, (5) healthy balance sheet with net cash of Rs 3.73bn (22% of Mcap) post-Evosys payout and Majesco US stake sale. The UK government portfolio will continue to perform well given Mastek's strong relationship, integration of Evosys capabilities, and revival of the UK government spending. The slowdown in Retail has impacted the US revenue, the recovery of which could be protracted. Margin expansion was led by the integration of high-margin Evosys, cost-cutting, and offshoring. Evosys growth will be driven by higher cloud adoption/migration opportunity emerging post COVID. Mastek and Evosys go-to-market strategy will open access to new clients and geographies. The company is changing orbit, and successful execution/cross-sell can lead to higher growth. We increase our target multiple to 12x (vs. 9x earlier), ~10% premium to the five-year average. Our target price now stands at Rs 815, based on 12x Jun-22E EPS. The stock currently trades at a P/E of 13/12x FY21/22E.

Outlook: We have assumed Evosys revenue of USD 71/78mn for FY21/22E and ~20% EBITDA margin. Mastek organic growth for FY21/22E is expected to be at +5/+9% with margins of 14.3/14.8% respectively.

BUY

| | |
|-------------------------|--------|
| CMP (as on 21 Aug 2020) | Rs 728 |
| Target Price | Rs 815 |
| NIFTY | 11,372 |

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Income Statement (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|------|-------|-------|-------|-------|-------|
| Net Revenues (USD mn) | 127 | 148 | 151 | 204 | 217 | 236 |
| Growth (%) | 51.8 | 16.5 | 2.2 | 34.9 | 6.5 | 9.0 |
| Net Revenues | 8.17 | 10.33 | 10.71 | 15.33 | 16.49 | 17.97 |
| EBITDA | 1.00 | 1.34 | 1.57 | 2.47 | 2.71 | 3.00 |
| EBIT | 0.82 | 1.16 | 1.32 | 2.15 | 2.36 | 2.61 |
| EBIT (%) | 10.0 | 11.3 | 12.3 | 14.0 | 14.3 | 14.5 |
| PBT | 0.96 | 1.33 | 1.43 | 2.46 | 2.56 | 2.81 |
| APAT | 0.70 | 1.01 | 1.31 | 1.59 | 1.73 | 1.91 |
| EPS (Rs) | 27.7 | 39.9 | 51.5 | 55.9 | 60.8 | 66.9 |

Balance Sheet (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|------------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 2.06 | 2.07 | 3.75 | 4.88 | 6.22 | 7.54 |
| Debtors | 1.74 | 2.08 | 3.16 | 3.49 | 3.61 | 3.94 |
| Other Current Assets | 0.49 | 0.69 | 1.74 | 2.10 | 2.29 | 2.52 |
| Total Current Assets | 4.28 | 4.84 | 8.65 | 10.46 | 12.12 | 14.00 |
| Net Block | 0.71 | 0.70 | 1.80 | 1.94 | 2.08 | 2.23 |
| Goodwill & Other Intangible Assets | 1.08 | 0.98 | 6.77 | 6.77 | 6.77 | 6.77 |
| Other Non-current Assets | 1.80 | 2.98 | 1.43 | 1.43 | 1.43 | 1.43 |
| Total Non Current Assets | 3.59 | 4.66 | 10.00 | 10.14 | 10.28 | 10.43 |
| Creditors | 0.19 | 0.09 | 1.05 | 1.18 | 1.27 | 1.38 |
| Other Current Liabilities & Provs | 1.50 | 1.58 | 2.70 | 3.09 | 3.27 | 3.49 |
| Total Current Liabilities | 1.69 | 1.68 | 3.75 | 4.27 | 4.53 | 4.87 |
| TOTAL APPLICATION OF FUNDS | 6.18 | 7.83 | 14.90 | 16.33 | 17.88 | 19.57 |
| Total Shareholders' Funds | 5.49 | 7.16 | 7.90 | 9.12 | 10.42 | 11.85 |
| Total Debt | 0.70 | 0.70 | 3.34 | 3.35 | 3.35 | 3.35 |
| Other Liabilities + Minority | -0.01 | -0.04 | 3.65 | 3.87 | 4.11 | 4.36 |
| TOTAL SOURCES OF FUNDS | 6.18 | 7.83 | 14.90 | 16.33 | 17.88 | 19.57 |

Source: Company, HSIE Research

Cash Flow (Consolidated)

| YE March (Rs bn) | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Operating Cash Flow (OCF) | 0.64 | 0.75 | 1.84 | 1.66 | 2.07 | 2.14 |
| Capex + Acq | -0.21 | -0.32 | -4.41 | -0.46 | -0.49 | -0.54 |
| Free Cash Flow (FCF) | 0.43 | 0.43 | -2.58 | 1.20 | 1.57 | 1.60 |
| Investing Cash Flow | -0.17 | -0.30 | -2.72 | -0.05 | -0.19 | -0.23 |
| Financing Cash Flow | -0.07 | -0.16 | 2.06 | -0.47 | -0.54 | -0.58 |
| Closing Cash & Equivalents | 2.06 | 2.07 | 3.75 | 4.88 | 6.22 | 7.54 |

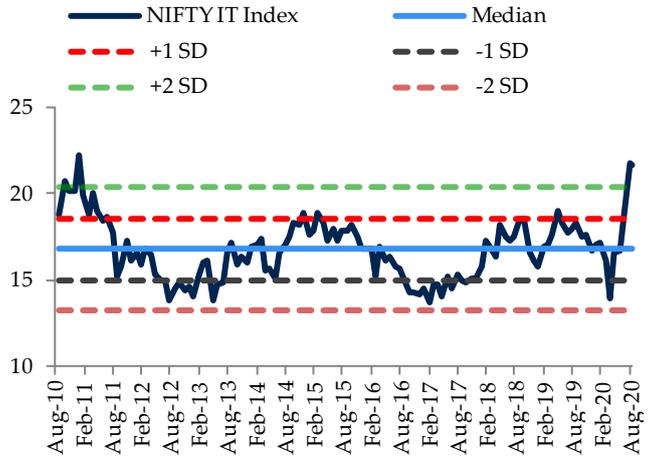
Key Ratios

| | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|------------|------------|------------|------------|------------|------------|
| RoE (%) | 13.7 | 15.9 | 17.4 | 18.7 | 17.7 | 17.1 |
| RoIC (%) | 23.9 | 32.8 | 16.2 | 15.7 | 17.6 | 18.9 |
| Tax Rate (%) | 27.1 | 23.9 | 21.2 | 26.3 | 23.0 | 23.0 |
| Debtors (Billed days) | 78 | 74 | 108 | 83 | 80 | 80 |
| DPS (Rs/sh) | 6.0 | 8.5 | 11.3 | 13.6 | 14.8 | 16.3 |
| P/E (x) | 26.3 | 18.2 | 14.1 | 13.0 | 12.0 | 10.9 |
| EV/EBITDA (x) | 17.0 | 12.8 | 11.6 | 7.8 | 6.6 | 5.5 |
| Payout Yield (Dividend + Buyback) % | 0.6 | 1.0 | 1.7 | 1.9 | 2.1 | 2.3 |

Source: Company, HSIE Research

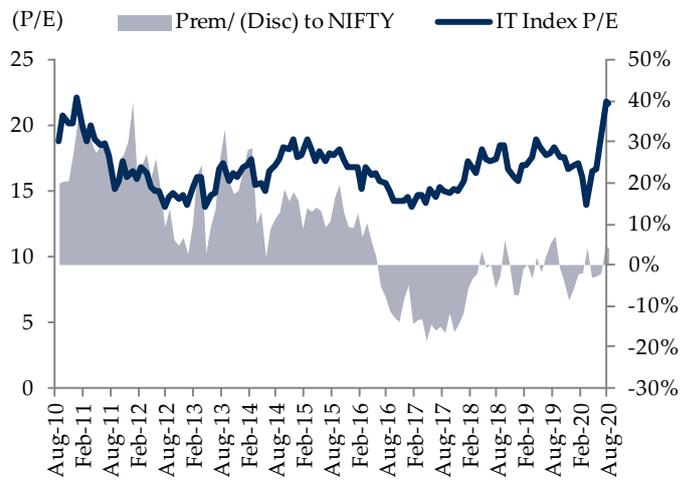
Valuation charts

NIFTY IT Index Valuation Trend (P/E 1-yr fwd)



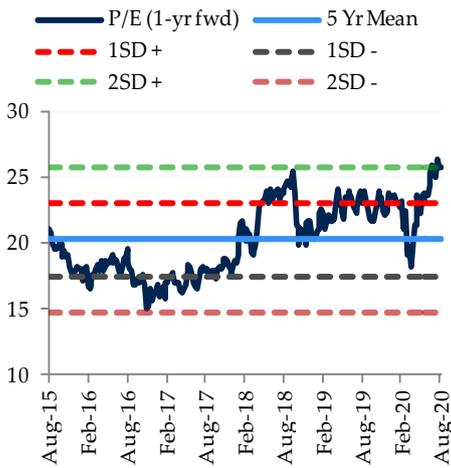
Source: Bloomberg, HSIE Research

IT Index Valuation Trend vs NIFTY



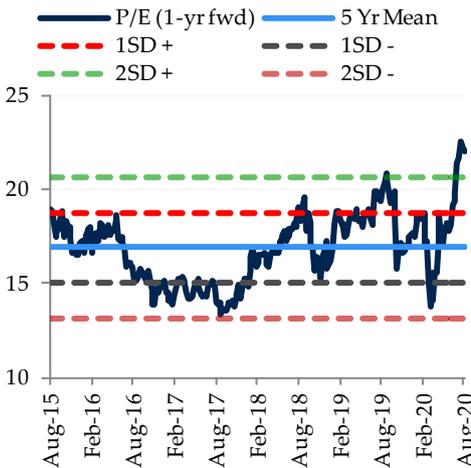
Source: Bloomberg, HSIE Research

TCS P/E (1-yr fwd) Trend

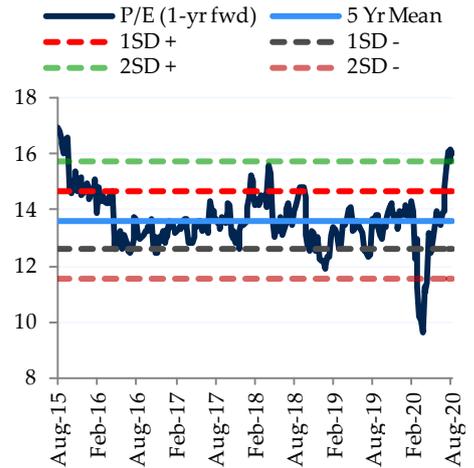


Source: Bloomberg, HSIE Research

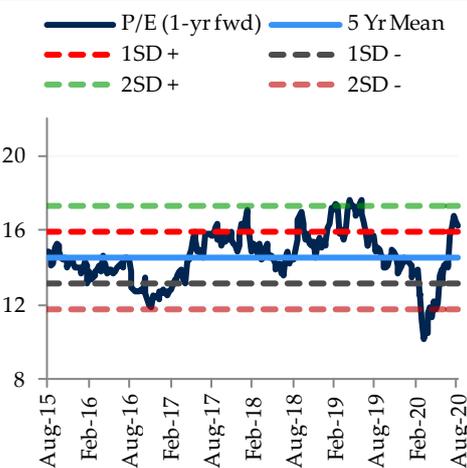
Infosys P/E (1-yr fwd) Trend



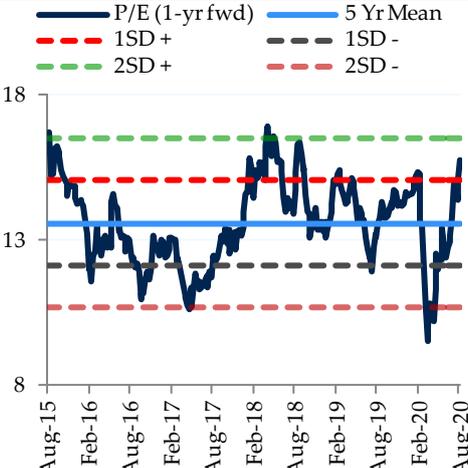
HCL Tech P/E (1-yr fwd) Trend



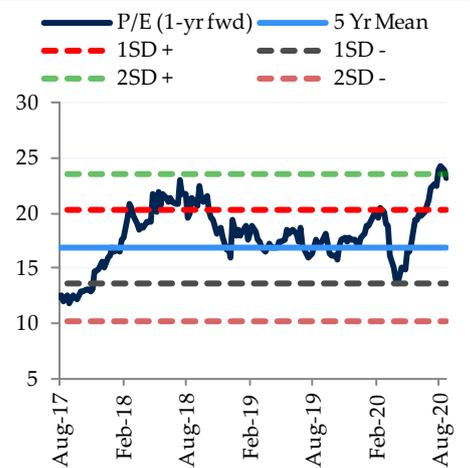
Wipro P/E (1-yr fwd) Trend



TECHM P/E (1-yr fwd) Trend



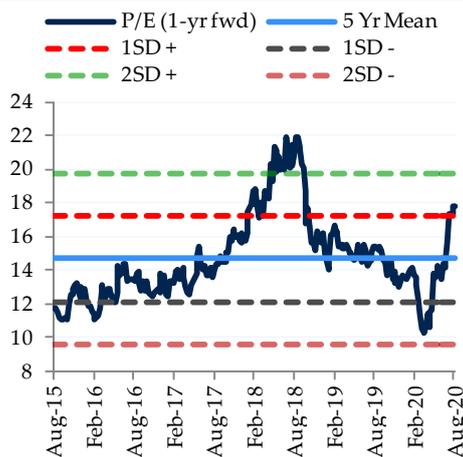
L&T Infotech P/E (1-yr fwd) Trend



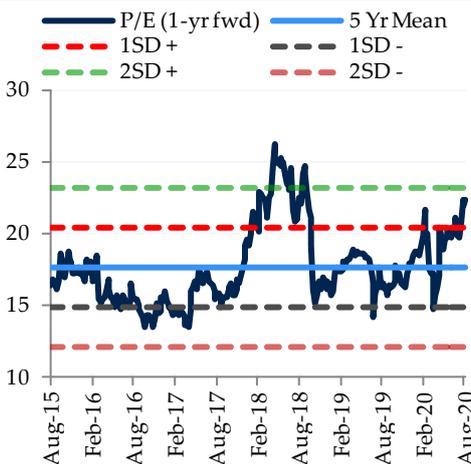
Source: Bloomberg, HSIE Research

IT : Sector Thematic

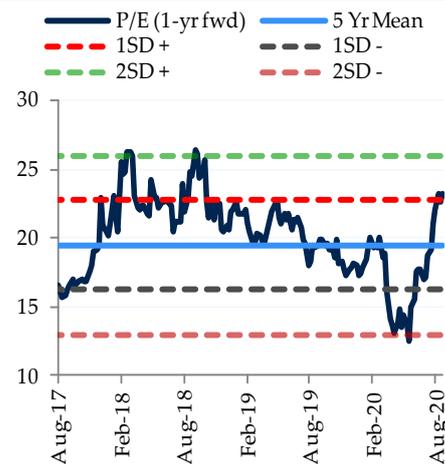
Mphasis P/E (1-yr fwd) Trend



Mindtree P/E (1-yr fwd) Trend

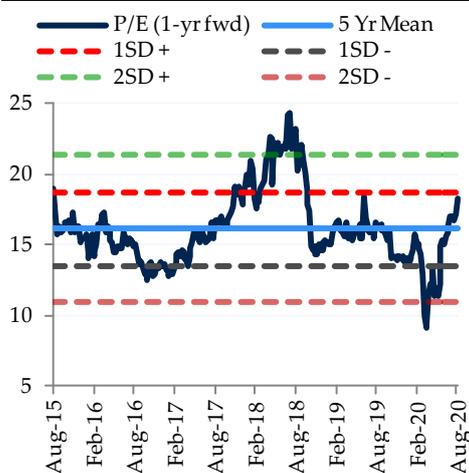


L&T Tech P/E (1-yr fwd) Trend

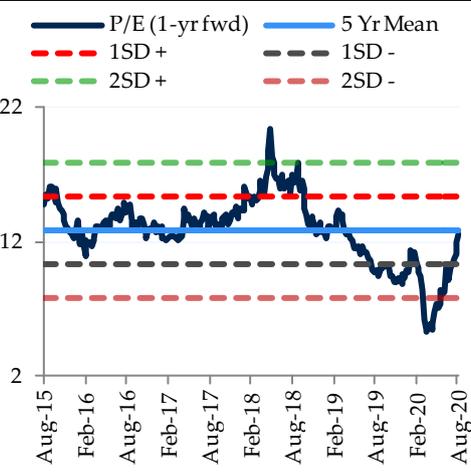


Source: Bloomberg, HSIE Research

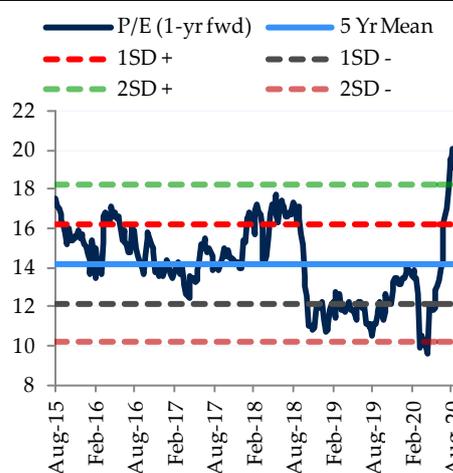
Hexaware P/E (1-yr fwd) Trend



Cyient P/E (1-yr fwd) Trend

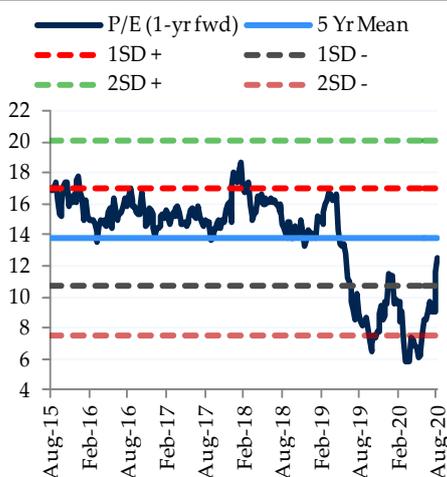


Persistent P/E (1-yr fwd) Trend

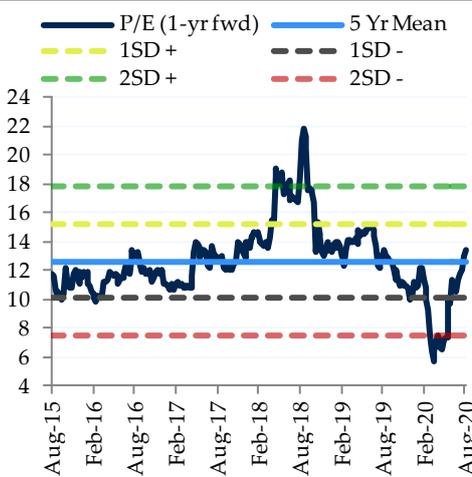


Source: Bloomberg, HSIE Research

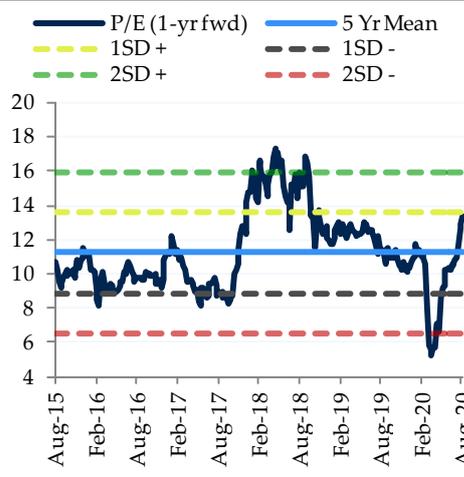
eClerx P/E (1-yr fwd) Trend



Zensar P/E (1-yr fwd) Trend

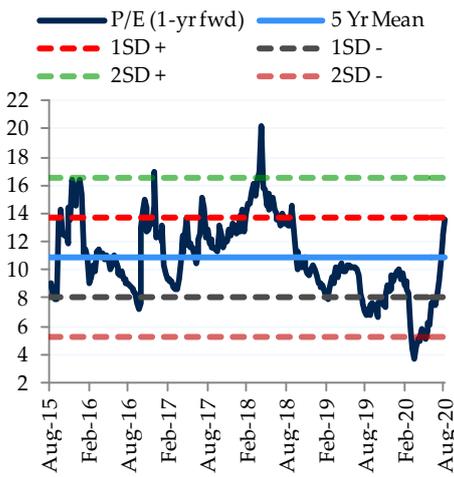


Sonata P/E (1-yr fwd) Trend

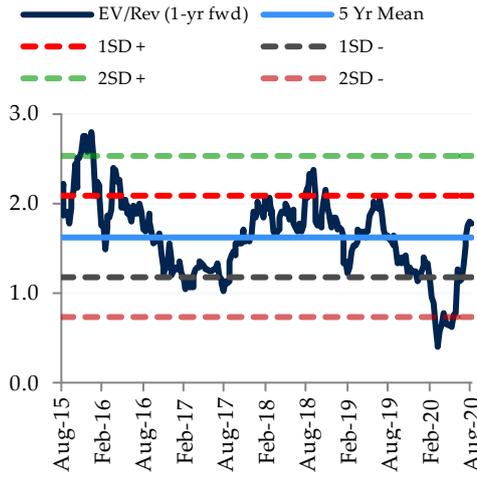


Source: Bloomberg, HSIE Research

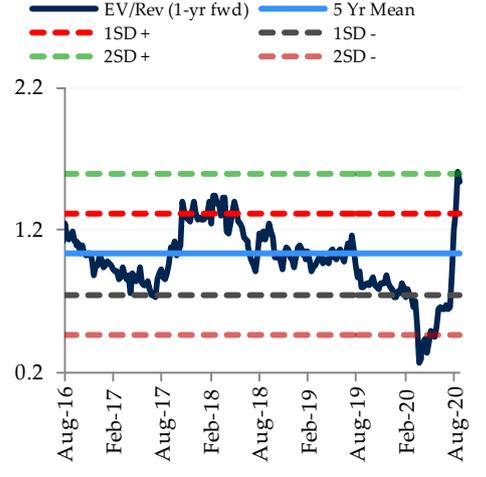
Mastek P/E (1-yr fwd) Trend



Intellect EV/Revenue (1-yr fwd) Trend



Majesco EV/Revenue (1-yr fwd) Trend



Source: Bloomberg, HSIE Research

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

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