

# Technology

## Sep'20 Results Preview

*Strong quarter; multiple tailwinds*

	CMP(₹)	3M ret (%)	Yearly (%)
<b>Index Returns</b>			
Nifty	11,417	6.6	0.9
CNX IT	20,110	29.6	32.9
<b>Large-Caps</b>			
TCS	2,523	11.5	23.2
INFO	1,018	33.2	28.9
WPRO	313	40.6	32.0
HCLT	813	40.5	51.3
TECHM	823	41.5	16.8
<b>Mid-Caps</b>			
MTCL	1,337	39.2	85.4
MPHL	1,357	49.0	42.3
HEXW	465	38.6	27.8
ECLX	697	45.3	74.7
COFORGE	2,336	62.6	68.7
CYL	378	41.3	(16.0)
PSYS	1,305	100.4	126.6

**2QFY21E preview - Q2FY21 is expected to be a strong quarter for Indian IT companies - with multiple tailwinds. Revenues are expected to be boosted by ramp-up in deals, resolution of supply side issues and accelerated digitization. All companies have successfully transitioned to 'work-from-home' (WFH) model - leading to business continuity and significant cost savings. While cross-currency movement will boost reported revenues, INR appreciation will lead to slight negative impact on INR revenues. The overall demand commentary is expected to remain strong - however, we could see some delay in deal closures and decision making, given the upcoming US presidential elections in Nov'20. Infosys / HCL Tech remain our Top picks.**

**Expect robust growth.** We expect the Large Cap IT companies to report US\$ revenue growth of 2.9% to 5.5% QoQ with 70-160bps positive cross-currency impact. Margins will mostly expand for all companies, due to higher revenue and cost controls (no significant increase in travel expenses yet). HCLT is expected to strong cc revenue growth of 3.8% QoQ, followed by TCS at 2.7%. We expect Infosys to raise cc revenue guidance to 1-3% from 0-2% for FY21. We expect HCLT to retain 1.5-2.5% QoQ revenue growth guidance for Dec'20 and Mar'21 on organic basis. We expect Wipro to resume quarterly guidance. We expect 0-2% revenue growth guidance for Dec'20 quarter.

**EBIT margin to increase QoQ and YoY:** With no major cost increase and elimination of supply-side impact, expect EBIT margin of IT companies to be higher both QoQ and YoY basis.

**Outlook:** IT services sector has had a phenomenal rally over the last six months (Nifty IT: up 67%), significantly outperforming the broader index (Nifty 38%). Currently, most stocks are trading at their last 5-years peak multiples - some even at lifetime highs. While a large part of these high valuations is based on strong fundamentals and robust demand environment - some of it has also been driven by the surge in global liquidity - which might be volatile in nature.

**Maintain our preference towards large caps over mid-caps:** We remain cautiously optimistic on the sector. All along, it continues to appear attractive from a long-term perspective, based on strong fundamentals and accelerated digital adoption. Infosys / HCL Technologies remain our Top picks.

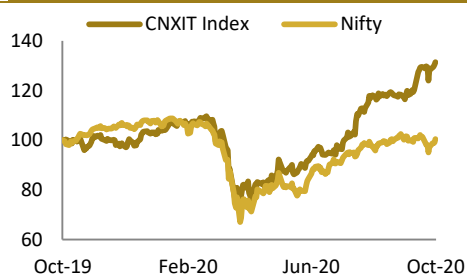
	Rating	FDEPS (₹)	
		FY21E	FY22E
TCS	Hold	82.7	92.5
INFO	Buy	41.8	46.4
WPRO	Hold	17.2	18.4
HCLT	Buy	42.4	46.9
TECHM	Buy	44.2	51.9
MTCL	Hold	55.0	62.5
MPHL	Buy	66.0	75.5
HEXW	Hold	22.6	25.7
ECLX	Buy	61.3	67.8
COFORGE	Buy	78.7	91.5
CYL	Buy	28.1	32.4
PSYS	Hold	51.2	57.5

### Exhibit 1: Key Financials for quarter ending Sep'20

(₹ mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
TCS	3,90,780	2.0	97,925	8.2	79,697	13.7
INFO	2,40,766	1.7	55,016	2.5	43,982	3.0
WPRO	1,50,011	0.6	27,891	8.8	25,627	6.3
HCLT	1,84,346	3.3	38,452	5.1	30,334	3.8
TECHM	92,364	1.4	10,839	18.2	10,128	4.2
MTCL	19,599	2.7	3,046	16.1	2,417	13.5
MPHL	23,440	2.4	3,725	4.0	2,964	7.8
HEXW	15,856	1.1	2,152	(0.5)	1,780	16.8
ECLX	3,418	1.6	645	0.7	541	4.5
COFORGE	11,409	7.9	1,474	6.1	1,176	7.0
CYL	9,843	(0.7)	850	66.4	735	(9.8)
PSYS	9,994	0.8	1,067	2.5	1,018	13.0

Source: Trust

### Nifty vs CNX IT



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**Exhibit 2: Results preview for quarter ending September 2020**

₹ Mn		Sep'20E	Sep'19	YoY (%)	Jun'20	QoQ (%)	Comments
TCS	Revenues (US\$)	5,267	5,517	(4.5)	5,059	4.1	Expect a cc revenue growth of 2.7% and cc tailwind of 140 bps - conversion of large deals into revenue.
	Revenues	3,90,780	3,89,770	0.3	3,83,220	2.0	Bookings to be healthy YoY - Phoenix Group US\$1.5bn expanded deal will help.
	EBIT	97,925	93,610	4.6	90,480	8.2	Expect margin increase of 140bps - from higher utilization rate and strong revenue trajectory.
	PAT	79,697	80,420	(0.9)	70,080	13.7	Will lookout for commentary on demand, pricing, WFH strategy and Increase in IT spending.
Infosys	Revenues (US\$)	3,245	3,210	1.1	3,121	4.0	Expect a cc revenue growth of 2.6% and cc tailwind of 140 bps - growth across verticals which are not hit.
	Revenues	2,40,766	2,26,290	6.4	2,36,650	1.7	Expect flattish margin, operational efficiencies to help.
	EBIT	55,016	49,120	12.0	53,650	2.5	Expect Infosys to raise cc revenue guidance to 1-3% from 0-2% for FY21 - led by better environment.
	PAT	43,982	40,370	8.9	42,720	3.0	Will lookout for commentary on demand, pricing, WFH strategy and IT spending.
Wipro	Revenues (US\$) - IT	1,977	2,049	(3.5)	1,922	2.9	Expect a cc revenue growth of 1.5% and cc tailwind of 140 bps. Increase will be on account of IMS and Digital.
	Revenues	1,50,011	1,51,256	(0.8)	1,49,131	0.6	Expect margin increase of 140bps - from higher utilization rate and operational efficiencies.
	EBIT	27,891	26,094	6.9	25,636	8.8	Expect Wipro to resume quarterly guidance. We expect 0-2% revenue growth guidance for Dec'20 quarter.
	PAT	25,627	25,612	0.1	24,113	6.3	Will lookout for update in the turnaround strategy, new account growth, New CEOs strategy and receivables.
HCL Tech	Revenues (US\$)	2,484	2,486	(0.0)	2,356	5.5	Expect QoQ revenue increase of 3.8% and cc tailwind of 170 bps - Growth to be broad based across verticals.
	Revenues	1,84,346	1,75,280	5.2	1,78,410	3.3	Expect margin to be up 25bps QoQ, operational efficiencies to help.
	EBIT	38,452	34,970	10.0	36,600	5.1	Expect HCLT to retain 1.5-2.5% QoQ revenue growth guidance for Dec'20 and Mar'21 on organic basis.
	PAT	30,334	26,510	14.4	29,230	3.8	Will lookout for commentary on demand outlook, competitive intensity in IMS and profitability & IT spending.
Tech Mahindra	Revenues (US\$)	1,245	1,287	(3.3)	1,207	3.1	Expect a cc revenue growth of 1.7% and cc tailwind of 140 bps. Increase will be on account of growth in BPO.
	Revenues	92,364	90,699	1.8	91,063	1.4	Expect margin increase of 170bps - from higher utilization rate, cost optimization and operational efficiencies.
	EBIT	10,839	11,594	(6.5)	9,173	18.2	Net profit up 4.2% QoQ due to lower Fx gains as compared to gains earlier.
	PAT	10,128	11,239	(9.9)	9,723	4.2	Update on outlook of tech spending around telecom and estimated timelines for pickup in 5G investments.
Mphasis	Revenues (US\$)	316	305	3.7	305	3.4	Expect QoQ revenue increase of 2.7% and cc tailwind of 70 bps - Growth to be on account of Digital Risk.
	Revenues	23,440	21,581	8.6	22,882	2.4	Expect margin to be up 25bps QoQ, operational efficiencies to help.
	EBIT	3,725	3,470	7.4	3,583	4.0	TCV of new deals will be strong on back of strong deal activity and US\$216mn deal announced in Jul'20.
	PAT	2,964	2,733	8.4	2,750	7.8	Lookout for commentary on - HP Enterprise, HP Non-Enterprise and the Direct Channel ramp-up going forward.
Hexaware	Revenues (US\$)	214	211	1.5	208	2.7	Expect a cc revenue growth of 2% and cc tailwind of 70 bps - momentum in BFS and Healthcare & Insurance verticals
	Revenues	15,856	14,813	7.0	15,691	1.1	Expect flattish margin, operational efficiencies to help.
	EBIT	2,152	2,116	1.7	2,163	(0.5)	Expect little commentary from the management, as the stock delisting process is already in progress (successful).
	PAT	1,780	1,837	(3.1)	1,525	16.8	



₹ Mn		Sep'20E	Sep'19	YoY (%)	Jun'20	QoQ (%)	Comments
MindTree	Revenues (US\$)	264	271	(2.5)	253	4.3	Expect QoQ revenue increase of 3.6% and cc tailwind of 70 bps - recovery in financial services and CPG verticals.
	Revenues	19,599	19,143	2.4	19,088	2.7	Expect margin to be up 155bps QoQ, operational efficiencies and cost control.
	EBIT	3,046	1,775	71.6	2,623	16.1	We expect healthy deal pipeline led by CMT and CPG verticals.
	PAT	2,417	1,350	79.0	2,130	13.5	We would lookout for 1) Growth outlook of top client, 2) margin outlook, 3) management strategy for next 2 years.
Coforge	Revenues (US\$)	154	149	3.4	140	9.6	Expect USD revenue growth of 8% CC QoQ (guidance 7.0% QoQ in CC) - led by deal ramps in Insurance vertical.
	Revenues	11,409	10,385	9.9	10,570	7.9	Expect flattish margin, operational efficiencies to help.
	EBIT	1,474	1,451	1.6	1,389	6.1	Travel vertical is expected remain subdued.
	PAT	1,176	1,195	(1.6)	1,099	7.0	Commentary on demand and deals wins. Update on outlook for travel and BFSI vertical would be the key.
eClerx	Revenues (US\$)	46	50	(8.1)	45	2.8	Expect revenue growth of 2.8% QoQ aided by recovery in CLX business and abatement of supply-side challenges.
	Revenues	3,418	3,565	(4.1)	3,366	1.6	Expect margin increase of 40bps - from higher utilization rate, cost optimization and operational efficiencies.
	EBIT	645	604	6.8	641	0.7	Lower ETR to aid PAT sequentially
	PAT	541	437	23.7	518	4.5	We will keep a look on 1) recovery in segments like CLX and US onshore business, (2) outlook on revenues/margins.
Cyient	Revenues (US\$)	133	164	(19.2)	131	1.6	Expect QoQ revenue increase of 1.6% - to be driven by 0.5% QoQ growth in services and +8.9% QoQ growth in DLM
	Revenues	9,843	11,589	(15.1)	9,917	(0.7)	Margins are expected to increase sharply by 370bps QoQ on lower base and from cost efficiency measures
	EBIT	850	1,111	(23.5)	511	66.4	Outlook for A&D vertical in a scenario where airlines globally are facing challenges.
	PAT	735	986	(25.5)	814	(9.8)	Commentary on deal pipeline, demand outlook and margin improvement needs to be seen.
Persistent Systems	Revenues (US\$)	135	126	7.3	131	2.8	Expect revenue growth +2.9% to be led by continued traction in Technology Services Unit
	Revenues	9,994	8,846	13.0	9,914	0.8	Expect flattish margin, operational efficiencies to help.
	EBIT	1,067	842	26.8	1,042	2.5	Economic impact on key verticals - BFSI, Healthcare & LS and Hi-tech & Industrial, impact on Salesforce services
	PAT	1,018	861	18.2	901	13.0	Watch out for CEO announcement, outlook, deal win & pipeline commentary and IP business outlook.

Source: Company, Trust

**Exhibit 3: Depreciation of currencies against the US Dollar**

	US\$/£	US\$/Euro	¥/US\$	US\$/AU\$	Rs/US\$
30 Jun'20	1.24	1.10	107.3	0.67	75.5
30 Sep'20	1.30	1.17	105.6	0.72	74.2
% change (QoQ)	4.5	6.2	1.6	8.2	1.8

Source: Bloomberg

**Exhibit 4: Appreciation of the Rupee against other currencies**

	INR/GBP	INR/Euro	Yen/INR	INR/AUD
30 Jun'20	93.7	83.1	1.4	49.8
30 Sep'20	96.1	86.7	1.4	53.1
% change (QoQ)	(2.4)	(4.2)	(0.2)	(6.1)

Source: Bloomberg

**Exhibit 5: Valuation details**

Rating	PER (x)		EV/EBITDA (x)		RoE (%)		
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
TCS	Hold	30.5	27.3	23.1	20.7	32.5	30.3
INFO	Buy	24.4	21.9	16.6	14.8	26.2	26.3
WPRO	Hold	18.2	17.0	13.7	11.7	16.2	14.9
HCLT	Buy	19.2	17.3	11.2	9.8	20.3	19.0
TECHM	Buy	18.6	15.9	9.1	7.4	14.9	15.9
MTCL	Hold	24.3	21.4	9.8	8.9	25.7	24.1
MPHL	Buy	20.6	18.0	16.0	14.0	20.1	20.8
HEXW	Hold	20.6	18.1	12.1	9.8	23.7	23.4
ECLX	Buy	11.4	10.3	3.9	3.1	14.2	13.6
COFORGE	Buy	29.7	25.5	16.7	14.1	21.2	23.8
CYL	Buy	13.5	11.7	7.2	6.2	11.7	12.7
PSYS	Hold	25.5	22.7	15.7	13.5	15.6	15.7

Source: Bloomberg

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Hold                     15% to -15%

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