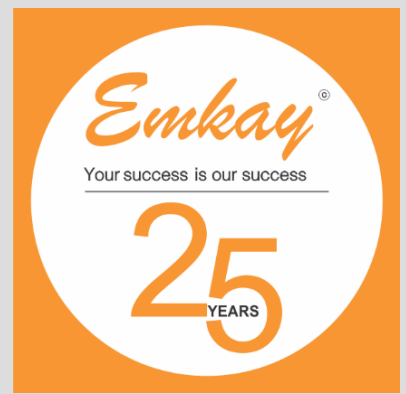


# Information Technology

Refer to important disclosures at the end of this report

## Order booking trends strong, aided by better digital mix



We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

- We continue to see a limited read-through from Accenture's Q3FY20 results as always. The company reported a 1.3% YoY local currency growth in Q3FY20 (within the guided range of -2% to +2%), while narrowed its full-year outlook for FY20 now to 3.5-4.5% YoY local currency growth (vs. 3-6% earlier).
- Growth was largely led by Health and Public Services verticals (+12% YoY local currency, an area with limited exposure for Indian techs) as growth moderated across other business segments. The positive surprise was around order bookings (+6% YoY local currency) with the company expecting strong traction here in Q4FY20.
- Accenture's higher exposure to Digital stands out, with 70% of revenues vs. 35-40% for offshore Tier I techs. We see limited read-through for Indian techs even though Accenture is reacting positively to results/commentary in trade today.
- We continue to see downside risks to growth for Indian techs in the near term, with preference for Tier I techs over Tier II. Order of preference within Tier I techs is HCLT > TechM (both Buy) > INFO > Wipro (Both Hold) > TCS (Sell). Sell rating on NITEC, MTCL and LTI. Our relative preference stays with BSOFT (Buy) and PSYS (Buy).

**Accenture reports within guided range; growth led by Public Services/Health:** Accenture reported its Q3FY20 (quarter ending in May 2020) results on June 25. The company reported revenues at US\$11bn (+1.3% YoY local currency, -1% YoY in US\$ terms, company guidance was -2% to +2% YoY local currency growth). The company's overall revenue growth has moderated sharply due to the macro-economic impact as compared to 8% YoY local currency growth reported in H1FY20. Consulting revenues saw a sharper hit, falling 2% YoY local currency in Q3 vs. 8% YoY local currency growth in the prior quarter. Outsourcing revenue growth moderated from 8% YoY local currency growth in the prior quarter to 5%. Among verticals, growth was led by Health and Public Services (12% YoY local currency growth). Growth moderated across all verticals including Communications and Financial Services (both the verticals were flat YoY in local currency).

**Cuts its full-year revenue outlook; bookings/pipeline remain decent:** After curtailing its full-year revenue growth outlook sharply in Mar'20 to 3-6% YoY local currency growth (from 6-8%) and further moderated to the upper end of the guidance to 4.5% from 6%, while raising the lower end of the range to 3.5%. We note that Accenture's revenue growth through the past several quarters has been closer to the top end of the guidance range. It reported a 6% YoY local currency growth in Order bookings in the quarter to US\$11bn and suggested that the pipeline remains strong and expects reasonable performance on order bookings in Q4FY20 (quarter ending Aug'20). Further, the company highlighted that the demand in cloud migration and security (given significant remote working) was accelerating.

**Mixed read-through as always; order booking trends positive:** We continue to see a limited read-through for Indian techs in general from Accenture's results. A further cut in Accenture's business outlook to 3.5-4.5% YoY local currency now for FY20 (with -3% to +1% YoY local currency outlook for Q4FY20) is balanced by Accenture's strong order bookings still holding fort (+6% YoY local currency) along with associated commentary on a likely strength even in Q4FY20. Further, it is worth highlighting that Accenture's Digital mix is ~70% of the overall revenues as compared to the 35-40% range for Tier I offshore techs. We continue to see near-term risks to revenue growth prospects of Indian techs, with our preference for Tier I techs over Tier II techs in general. Order of preference within Tier I techs is HCLT > TechM (both rated Buy) > INFO > Wipro (both rated Hold) > TCS (Sell). We have a Sell rating on NITEC, MTCL and LTI. Our relative preference stays with BSOFT (Buy) and PSYS (Buy).

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(page 4\)](#)

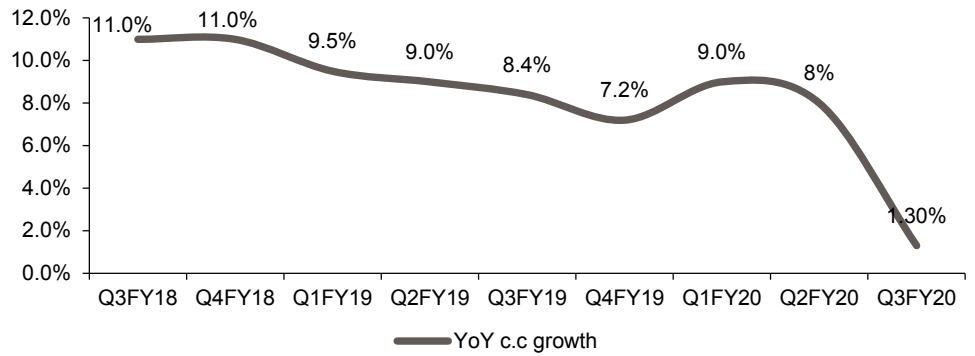
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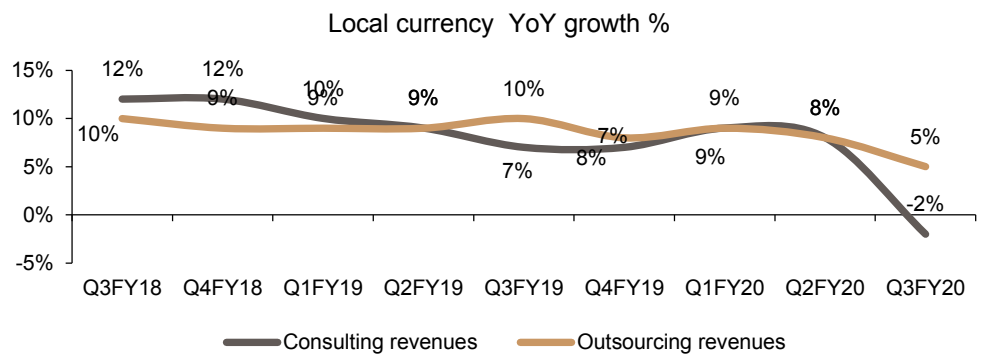
## Story in Charts

**Exhibit 1: Overall YoY c.c growth moderates sharply for Accenture in Q3FY20**



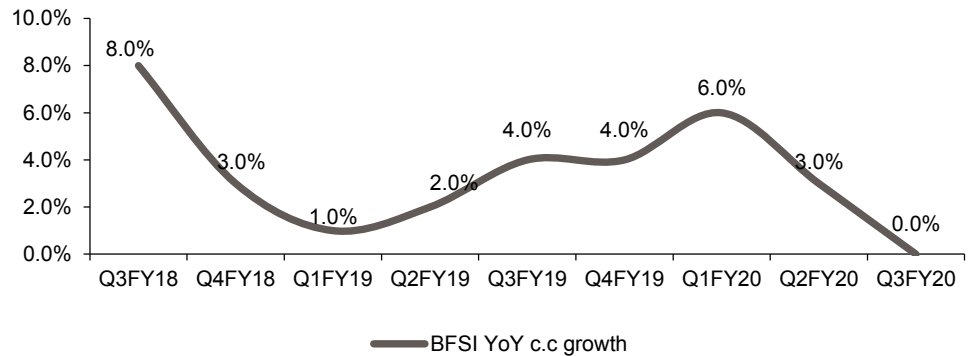
Source: Company, Emkay Research

**Exhibit 2: Consulting revenues see much sharper hit as compared to Outsourcing for Accenture**



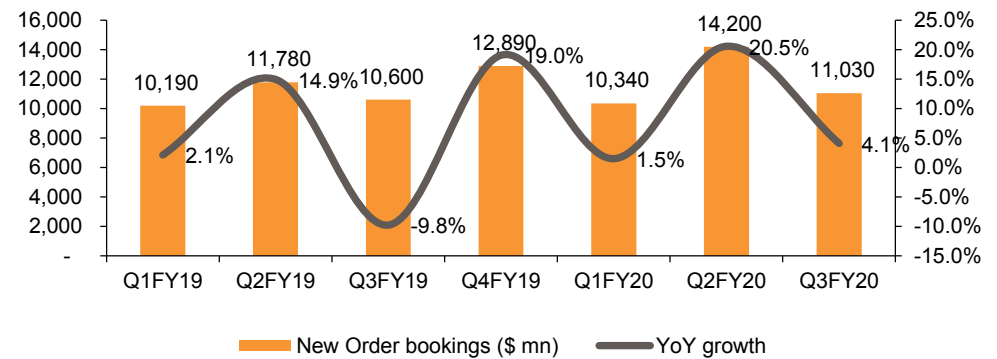
Source: Company, Emkay Research

**Exhibit 3: Growth largely supported by Health/Public Services, while all other verticals drag**



Source: Company, Emkay Research

**Exhibit 4: Order bookings remained strong despite the macroeconomic challenges**



Source: Company, Emkay Research

## Exhibit 5: Valuation Summary

Co Name	CMP	Reco.	Target Price	US\$ revenue growth (%)			EPS			P/E			EV/EBIT		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>IT Services companies</b>															
TCS	2,011	SELL	1,520	-3.3	9.6	9.0	82.7	94.7	103.3	24.3	21.2	19.5	19.0	16.5	14.9
Infosys	700	HOLD	590	-3.2	11.2	10.5	37.2	42.3	47.7	18.8	16.6	14.7	13.7	11.7	10.2
Wipro	218	HOLD	210	-3.4	5.2	5.5	16.8	17.7	19.0	13.0	12.3	11.5	8.5	6.9	5.6
HCL Tech	550	BUY	600	-1.7	9.9	11.6	39.1	45.7	51.6	14.1	12.0	10.7	10.3	8.8	7.6
Tech Mahindra	554	BUY	620	-4.3	9.6	9.6	42.7	51.9	59.3	13.0	10.7	9.3	8.9	6.8	5.3
L&T Infotech	1,893	SELL	1,430	3.2	12.1	12.8	87.1	102.2	113.5	21.7	18.5	16.7	16.3	13.3	11.3
Mphasis	872	HOLD	815	-0.1	6.1	9.4	61.2	67.9	75.5	14.3	12.8	11.6	9.9	8.7	7.6
Mindtree	917	SELL	740	-2.3	11.4	11.2	46.3	54.9	65.3	19.8	16.7	14.0	12.3	10.5	9.0
Hexaware*	324	NOT RATED	-	3.9	9.5	7.9	19.4	23.8	25.6	16.7	13.6	12.7	13.0	9.8	8.4
Persistent Systems	610	HOLD	550	-1.0	9.3	10.9	45.2	58.9	70.3	13.5	10.4	8.7	8.5	5.6	4.0
Birlasoft	88	BUY	125	1.8	11.0	9.4	8.2	12.3	14.8	10.8	7.1	6.0	5.2	3.1	2.3
NIIT Tech	1,379	SELL	1,040	0.6	9.4	9.1	68.2	86.5	99.8	20.2	15.9	13.8	13.4	10.7	9.0
<b>Other companies</b>															
eClerx Services	440	HOLD	495	-5.1	9.4	7.1	49.2	61.9	67.3	8.9	7.1	6.5	3.9	2.7	2.0
Firstsource Solutions	39	HOLD	39	-2.8	7.7	5.1	4.4	5.2	5.7	8.9	7.4	6.8	7.7	5.9	4.8

Source: Company, Emkay Research

## Emkay Alpha Portfolio – Information Technology



### Analyst: Manik Taneja

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#### Sector

IT Services, ITeS and Software

#### Analyst bio

Manik is a seasoned Equities professional who has covered the offshore IT Services space since 2006. He has rejoined Emkay Global recently after a 1.5-year stint in Business Finance and Financial strategy in the US. Manik holds a PGDBA (Finance) from SIIB.

### EAP – Information Technology

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Information Technology</b>	<b>11.48</b>	<b>10.99</b>	<b>-4%</b>	<b>-49</b>	<b>100.00</b>
Birlasoft	0.00	0.25	NA	25	2.18
eClerx Services	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.00	NA	0	0.00
HCL Tech	1.09	1.34	23%	25	11.68
Hexaware Technologies	0.00	0.00	NA	0	0.00
Infosys	4.79	4.77	0%	-2	41.53
Intellect Design*	0.00	0.00	NA	0	0.00
L&T Infotech	0.15	0.00	-100%	-15	0.00
Majesco*	0.00	0.00	NA	0	0.00
Mindtree	0.15	0.00	-100%	-15	0.00
Mphasis	0.14	0.14	-2%	0	1.18
MPS	0.00	0.00	NA	0	0.00
NIIT	0.00	0.00	NA	0	0.00
NIIT Tech	0.00	0.00	NA	0	0.00
Nucleus Software*	0.00	0.00	NA	0	0.00
Oracle Financial Services*	0.11	0.00	-100%	-11	0.00
Persistent Systems	0.00	0.51	NA	51	4.48
Ramco Systems*	0.00	0.00	NA	0	0.00
TCS	3.85	2.68	-30%	-117	23.32
Tech Mahindra	0.62	0.72	16%	10	6.28
Wipro	0.58	0.58	0%	0	5.06
<b>Cash</b>	<b>0.00</b>	<b>0.49</b>	<b>NA</b>	<b>49</b>	<b>4.28</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

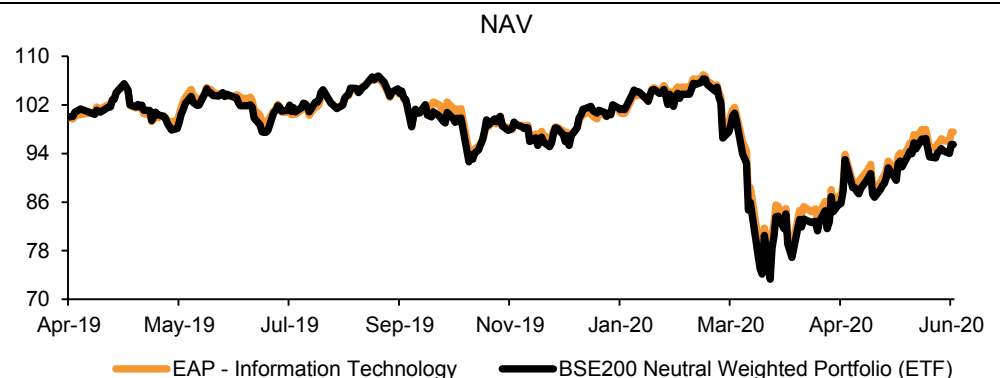
### Sector portfolio NAV

	Base					Latest
	01-Apr-19	23-Sep-19	26-Dec-19	25-Mar-20	26-May-20	24-Jun-20
EAP - Information Technology	100.0	98.6	99.7	82.5	91.0	97.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	98.4	100.6	80.4	89.6	95.5

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 26 Jun 2020 12:26:11 (SGT)

Dissemination Date: 26 Jun 2020 12:27:11 (SGT)

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