

# Information Technology

Refer to important disclosures at the end of this report

## Q4FY21 preview: Revenue growth to remain strong

- We expect Tier-I techs to report qoq growth of 2.2-3.9% in Q4FY21 and 2.5-4.5% for Tier-II techs in CC terms, maintaining strong revenue growth momentum from Q3FY21. Cloud, digital transformation, automation, AI and cybersecurity continue to see healthy demand.
- Barring Coforge and Firstsource, all other companies are expected to report EBITM decline on a sequential basis due to salary hikes, promotions, bonuses and stronger rupee, partly negated by offshoring, revenue momentum and continued WFH savings.
- Deal wins remain healthy across the companies. We expect Infosys and HCLT to guide for 12-15% and 11-13% YoY CC revenue growth and 22-24% and 20-21% EBITM for FY22, respectively. Wipro is expected to give 1-3% revenue growth guidance for Q1FY22.
- We tweaked our earnings estimates after factoring in revised currency assumptions. We prefer Tier-I stocks over Tier-II stocks on a relative basis. In Tier-I stocks, our pecking order is Infosys>HCLT>TECHM (all rated Buy)>TCS>WPRO (both Hold). In Tier-II stocks, we prefer PSYS and FSOL (all rated Buy).

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**Revenue growth acceleration to continue in Mar'21 quarter:** We expect companies in our coverage universe to further accelerate YoY revenue growth momentum on broad-based demand, strong deal wins, continued traction in digital and cloud, ramp-up of large deals and demand recovery in highly impacted verticals (like travel, hospitality, etc.). Revenues of the Tier-I IT companies are likely to grow by 2.2-3.9% qoq in CC terms. Cross currency movement is likely to aid reported USD revenue by 80-110bps in Q4 for Tier-II companies. We expect Infosys and HCL Tech to provide double-digit revenue growth guidance of 12-15% and 11-13% YoY in CC terms, respectively. Wipro is likely to reap the benefits of the simplified operating model, strengthening country/geographical leadership and Metro deal ramp-ups, and is expected to guide for 1-3% revenue growth for Q1FY22. Tier-II companies are likely to report slightly better sequential growth numbers of 2.5-4.5% qoq in CC terms on the back of healthy deal wins and pipeline, client mining, and consistent execution.

**Margins likely to expand yoy but decline qoq due to wage hike:** Margins are likely to take a hit sequentially on account of salary hikes, promotions, bonuses and strong rupee. EBITM may expand on a YoY basis for most of the companies, driven by low travel costs, tight cost control and operating efficiencies. We expect Infosys and HCL Tech to defend their FY21 margins and expect them to guide for FY22 EBITM in the range of 22-24% and 20-21%, respectively.

**Key monitorables:** 1) FY22 revenue growth and margin guidance from Infosys and HCLT; 2) Digital business outlook; 3) Management commentary on: (i) demand environment in BFSI, Retail, Manufacturing, and Communications, (ii) pricing environment, (iii) update on recent deals/acquisitions, (iv) implication of US government's plan to increase corporate tax rates, and (v) financial impact from implementation of the Code on Social Security, 2020.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Information Technology \(Page 11\)](#)

### India IT – Ratings and Target Prices

Company	CMP (Rs)	Rating	Upside (%)	TP (Rs)	P/E	
					FY22E	FY23E
TCS	3,165	Hold	-0.5%	3,150	29.7	26.3
Infosys	1,385	Buy	11.9%	1,550	24.3	21.5
Wipro	416	Hold	8.2%	450	20.1	18.5
HCL Tech	1,003	Buy	12.7%	1,130	19.0	17.6
TechM	992	Buy	20.0%	1,190	16.9	15.0
LTI	4,113	Sell	-15.1%	3,490	33.0	28.3
Mindtree	2,075	Sell	-23.9%	1,580	28.1	26.6
Mphasis	1,748	Hold	-10.2%	1,570	22.6	19.9
Coforge	2,933	Hold	-6.6%	2,740	29.0	24.6
Persistent	1,953	Buy	12.6%	2,200	25.7	21.4
Birlasoft	262	Buy	10.7%	290	17.7	14.3
Firstsource	118	Buy	5.9%	125	16.3	14.2

Source: Company, Emkay Research

**Deal wins remain robust:** We expect deal win TCV numbers to be strong in Q4 on the back of steady deal closures. Deal wins were healthy across companies and were largely driven by digital deals, core transformation deals and vendor consolidation opportunities. Although the absence of mega deals would lead to lower deal wins sequentially in companies like Infosys and Wipro. The ramp-up of large deals is progressing on expected lines and deal closures are also returning to a normal level as clients become comfortable with virtual mode discussions and negotiations. The deal pipeline remains strong and broad-based.

**Changes in earnings estimates:** The NIFTY IT index delivered 6% return in Q4FY21 and broadly performed in line with broader markets. Our coverage companies saw a consensus earnings upgrade of around 1-16% in the past three months. We have tweaked our earnings estimates after factoring in recent acquisitions and foreign exchange rate forecast from our economists (INR-USD 74.5/76.0 for FY22/FY23). We prefer INFO, HCLT, TECHM, PSYS, and FSOL. Our preference order within Tier-I: INFO (Buy) > HCLT (Buy) > TECHM (Buy) > TCS (Hold) > WPRO (Hold).

**Exhibit 1: Mar'21 quarter estimates for IT services companies**

Co Name	Revenue	Revenue growth (%)		EBIT	EBITM	Adj. EBITM change (bps)		Net profit	Net profit growth (%)		Cross currency impact (bps)	Constant currency growth QoQ (%)
	(in USD mn)	QoQ	YoY	(in Rs mn)	(%)	QoQ	YoY	(in Rs mn)	QoQ	YoY		
TCS	5,987	5.0	10.0	115,880	26.6	(10)	150	92,089	5.8	14.4	110	3.9
Infosys	3,650	3.8	14.2	64,816	24.4	(105)	320	51,507	-0.9	19.2	80	3.0
Wipro	2,154	4.0	3.9	33,120	20.5	(110)	396	29,256	-1.4	25.8	90	3.1
HCL Tech	2,716	3.8	6.8	36,708	18.5	(430)	(230)	29,451	-26.0	-6.6	80	3.0
Tech M	1,348	3.0	4.1	15,240	15.5	(40)	780	12,294	-6.1	52.9	80	2.2
LTI	445	4.0	8.5	6,080	18.7	(190)	200	4,898	-5.7	14.8	30	3.7
Mphasis	350	4.7	9.3	4,169	16.3	(10)	(10)	3,276	0.6	-7.3	50	4.2
Mindtree Ltd	288	5.0	3.4	3,896	18.6	(101)	480	3,059	-6.3	48.3	50	4.5
Persistent	151	3.6	19.2	1,343	12.2	(50)	250	1,187	-1.8	41.6	40	3.2
Coforge	168	4.5	8.5	1,675	13.7	66	(20)	1,336	9.5	5.7	50	4.0
Birlasoft	124	3.4	-1.7	1,141	12.7	(140)	220	889	-7.8	28.8	20	3.2
Firstsource	192	3.8	28.6	1,631	11.7	0	90	1,235	2.0	34.8	130	2.5

Source: Company, Emkay Research

**Exhibit 2: Valuation Summary**

Co Name	CMP	Reco.	Target Price	USD revenue growth (%)			EPS			P/E			EV/EBIT		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	3,165	HOLD	3,150	0.6	15.8	11.0	87.6	106.5	120.2	36.1	29.7	26.3	27.7	22.8	20.1
Infosys	1,385	BUY	1,550	6.4	17.7	12.4	45.6	55.0	62.2	30.4	25.2	22.3	22.5	18.7	16.3
Wipro	416	HOLD	450	-1.4	17.7	10.0	19.6	20.8	22.6	21.2	20.1	18.5	16.5	15.6	13.8
HCL Tech	1,003	BUY	1,130	2.6	12.7	9.5	47.9	52.7	57.0	20.9	19.0	17.6	16.5	14.1	12.7
Tech Mahindra	992	BUY	1,190	-1.0	10.4	9.0	52.3	58.5	65.9	19.0	17.0	15.1	14.8	12.2	10.5
L&T Infotech	4,113	SELL	3,490	9.4	16.5	15.3	107.7	124.6	145.4	38.2	33.0	28.3	29.7	25.7	21.9
Mphasis	1,748	HOLD	1,570	6.3	13.5	9.8	65.7	77.4	87.8	26.6	22.6	19.9	19.4	16.5	14.4
Mindtree	2,075	SELL	1,580	-1.2	14.6	11.0	67.5	75.8	80.2	30.7	27.4	25.9	23.4	19.9	18.8
Persistent Systems	1,954	BUY	2,200	12.6	17.0	15.0	56.5	76.1	91.1	34.6	25.7	21.4	27.3	19.9	15.8
Birlasoft	262	HOLD	290	3.4	14.0	13.0	11.0	14.3	17.7	23.9	18.3	14.8	14.7	11.5	9.1
Coforge	2,933	HOLD	2,740	5.2	16.4	13.0	75.3	101.1	119.3	39.0	29.0	24.6	28.3	22.2	18.4
Firstsource Solutions	118	BUY	125	17.2	12.0	8.5	6.3	7.2	8.3	18.7	16.3	14.2	15.2	12.9	11.0

Source: Company, Emkay Research

**Exhibit 3: Foreign exchange rates movement during the quarter**

Particulars	INR/USD	INR/GBP	INR/EUR	USD/GBP	USD/EUR	JPY/USD	USD/AUD	CAD/USD
High	73.55	102.66	90.21	1.41	1.23	110.72	0.80	1.29
Low	72.33	99.02	85.51	1.35	1.17	102.72	0.76	1.24
Avg Rate	72.91	100.51	87.87	1.38	1.21	106.02	0.77	1.27
Q-o-Q chg	-1.2%	3.2%	-0.1%	4.4%	1.0%	1.5%	5.6%	-2.8%
Y-o-Y chg	-0.2%	0.7%	-2.1%	0.9%	-1.3%	2.7%	0.4%	-0.5%
Last date closing	73.11	100.77	85.78	1.38	1.17	110.72	0.76	1.26
Q-o-Q chg	0.1%	1.0%	-4.4%	0.8%	-4.0%	7.2%	-1.2%	-1.3%
Y-o-Y chg	-3.3%	7.7%	3.6%	11.0%	6.3%	3.0%	23.9%	-10.7%

Source: Company, Emkay Research

**Exhibit 4: Changes in estimates (Revenues, Margins)**

Change in Estimates	Revenues (Old)			Revenues (New)			% change			EBIT Margins., % (Old)			EBIT Margins , % (New)			% change (bps)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Tier I Techs</b>																		
TCS	22,115	25,426	28,230	22,172	25,678	28,498	0.3%	1.0%	0.9%	24.9	25.5	25.4	25.1	25.8	25.5	16	30	10
Infosys	13,570	15,881	17,860	13,599	16,007	17,994	0.2%	0.8%	0.8%	24.4	24.5	24.0	24.5	24.5	24.0	4	1	2
Wipro	8,120	9,493	10,445	8,139	9,578	10,538	0.2%	0.9%	0.9%	19.9	18.0	17.5	19.7	18.0	17.5	-13	-1	0
HCL Tech	10,174	11,397	12,485	10,195	11,486	12,581	0.2%	0.8%	0.8%	21.6	20.8	20.2	20.9	21.0	20.2	-69	20	3
TechM	5,130	5,642	6,149	5,130	5,664	6,173	0.0%	0.4%	0.4%	13.9	14.6	14.5	14.0	14.7	14.7	11	10	17
<b>Tier II Techs</b>																		
LTI	1,663	1,929	2,180	1,668	1,943	2,216	0.3%	0.7%	1.6%	19.2	18.8	18.6	19.2	18.7	18.6	0	-11	5
Mphasis	1,314	1,484	1,633	1,316	1,494	1,644	0.2%	0.7%	0.7%	16.1	16.2	16.2	16.1	16.2	16.2	0	0	2
Mindtree	1,071	1,210	1,343	1,076	1,234	1,370	0.5%	1.9%	1.9%	18.1	17.4	16.0	17.5	17.5	16.0	-60	4	-4
Persistent	565	661	760	565	661	760	0.0%	0.0%	0.0%	11.9	13.5	14.1	11.9	13.5	14.1	0	0	0
Coforge	624	724	818	624	726	821	0.0%	0.4%	0.4%	13.0	14.0	14.4	13.0	14.0	14.4	-1	0	2
Birlasoft	481	548	619	480	547	618	-0.2%	-0.1%	-0.1%	11.9	12.8	13.4	12.1	12.8	13.4	17	3	0
Firstsource	674	753	816	677	759	823	0.5%	0.8%	0.8%	11.5	11.7	11.8	11.5	11.7	11.8	-3	1	3

Source: Company, Emkay Research

**Exhibit 5: Changes in estimates (EPS, Target Prices)**

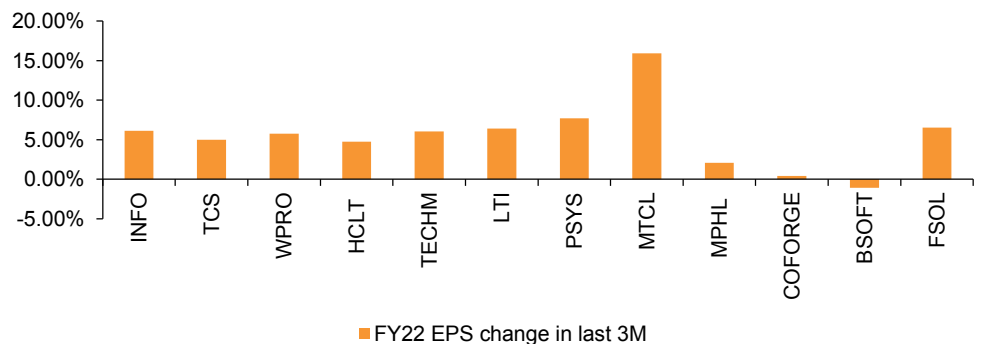
Change in Estimates	EPS (Old)			EPS (New)			% change in EPS			Target Price	
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	Old	New
<b>Tier I Techs</b>											
TCS	87.2	106.6	121.0	87.6	106.5	120.2	0.5%	-0.1%	-0.6%	3,150	3,150
Infosys	45.5	54.9	61.8	45.6	55.0	62.2	0.1%	0.1%	0.7%	1,550	1,550
Wipro	19.7	20.7	22.4	19.6	20.8	22.6	-0.6%	0.2%	0.8%	450	450
HCL Tech	49.4	51.5	56.6	47.9	52.7	57.0	-3.1%	2.2%	0.7%	1,130	1,130
TechM	52.1	58.3	65.2	52.3	58.5	65.9	0.5%	0.3%	1.1%	1,170	1,190
<b>Tier II Techs</b>											
LTI	107.3	125.2	142.9	107.7	124.6	145.4	0.4%	-0.5%	1.7%	3,430	3,490
Mphasis	65.8	77.3	87.3	65.7	77.4	87.8	0.0%	0.1%	0.7%	1,570	1,570
Mindtree	68.8	74.8	79.0	67.5	75.8	80.2	-1.8%	1.3%	1.5%	1,580	1,580
Persistent	56.5	76.1	91.1	56.5	76.1	91.1	0.0%	0.0%	0.0%	2,200	2,200
Coforge	78.5	101.5	119.3	78.3	101.1	119.3	-0.3%	-0.4%	0.0%	2,740	2,740
Birlasoft	10.9	14.7	18.1	11.2	14.6	18.1	2.5%	-0.4%	-0.1%	290	290
Firstsource	6.3	7.2	8.2	6.3	7.2	8.3	0.0%	0.2%	1.2%	125	125

Source: Company, Emkay Research

**Exhibit 6: Price performance**

Index / Stock	CMP (Rs)	Return (%)					% Outperformance / Underperformance wrt Nifty				
		1M	3M	6M	1Y	3Y	1M	3M	6M	1Y	3Y
Nifty 50	14,867	-0.3%	6.1%	30.2%	80.1%	46.8%					
Nifty IT	25,980	2.7%	6.2%	29.2%	115.7%	108.0%	3.0%	0.2%	-1.0%	35.6%	61.2%
INFO	1,385	4.1%	7.5%	36.1%	136.5%	146.4%	4.5%	1.5%	5.9%	56.4%	99.6%
TCS	3,165	3.8%	4.1%	25.4%	91.3%	117.5%	4.1%	-1.9%	-4.8%	11.2%	70.7%
WPRO	416	-5.1%	5.0%	33.0%	131.3%	97.2%	-4.8%	-1.0%	2.8%	51.2%	50.4%
HCLT	1,003	4.7%	2.3%	23.3%	147.1%	109.0%	5.0%	-3.8%	-6.9%	66.9%	62.2%
TECHM	992	2.5%	-1.0%	22.9%	94.1%	63.6%	2.8%	-7.0%	-7.3%	14.0%	16.9%
LTI	4,113	4.8%	7.0%	62.7%	203.7%	190.7%	5.1%	0.9%	32.5%	123.6%	143.9%
MTCL	2,076	19.0%	22.9%	55.4%	196.1%	166.3%	19.4%	16.8%	25.1%	116.0%	119.5%
MPHL	1,748	3.6%	15.0%	28.8%	160.2%	101.0%	3.9%	9.0%	-1.4%	80.1%	54.2%
COFORGE	2,933	11.3%	3.3%	25.6%	182.7%	238.6%	11.7%	-2.7%	-4.6%	102.6%	191.8%
PSYS	1,953	15.6%	28.5%	49.8%	279.9%	188.6%	15.9%	22.5%	19.6%	199.8%	141.8%
BSOFT	262	10.4%	3.3%	34.7%	347.0%	92.1%	10.8%	-2.8%	4.5%	266.8%	45.3%
FSOL	118	9.4%	16.4%	63.5%	324.1%	115.5%	9.7%	10.4%	33.2%	243.9%	68.7%

Source: Company, Emkay Research

**Exhibit 7: Consensus estimate change in last 3 months**

Source: Company, Emkay Research

**Exhibit 8: Deals signed in Q4FY21**

Customer	Company	Deal Duration (years)	Deal details
Johnson Controls	Infosys	NA	Infosys successfully implemented a global warranty solution on SAP S/4 HANA, across all Johnson Controls ducted products.
Fiat Chrysler	Wipro	NA	Wipro will source and build a talent pool of more than 1000 skilled consultants and technologists for FCA ICT India (global digital hub for Fiat) to support FCA's Information and Communication Technology operations to focus on delivering premium mobility services and help FCA achieve its goal to enhance customer centricity through digital transformation.
Three UK	TCS	NA	TCS will manage the configuration of a new core next generation mobile network, and ensure it integrates correctly with the 5G radio access network. This work will include configuring the core network for new site deployments, site upgrades, performance management, and 3G and 4G tuning changes.
Aflac	Mindtree	NA	Mindtree will develop an enhanced mobile application, called MyAflac Mobile, which enables users to conveniently file claims directly from their mobile device, simplifying the claims process.
Siemens Gamesa Renewable Energy	Infosys	NA	Infosys successfully implemented a Greenfield SAP S/4HANA solution across 7 countries, replacing 2 legacy ERP systems. Siemens Gamesa has further engaged Infosys for an industrialized rollout across 50+ countries, 22 manufacturing plants covering all business units (including onshore, offshore, services and corporate functions), leveraging Infosys Cobalt.
Airbus	HCL Tech	5 years	HCL will establish a modernized digital workplace to enhance the user experience and service quality for the majority of Airbus employees globally.
Spirit AeroSystems	Infosys	NA	Infosys as a lead technology integration partner will drive and set up the end-to-end applications and infrastructure integration of a few of Bombardier's former aerostructures and aftermarket services assets, which have been recently acquired by Spirit.
Telefónica Germany/O2	Wipro	5 years	As a part of this contract, Wipro will work with Telefónica Germany / O2 and its wider ecosystem to transform its Business Support Systems and associated Quality Assurance to enable superior customer experience and growth in the B2B market segment.
Telefónica Germany/O2	Tech Mahindra	NA	Through this digital transformation, Tech Mahindra will support Telefonica Germany / O2 to deliver faster product launches and provide a more 'human centered' experience to its customers in the mass market segment.
BankservAfrica	TCS	NA	TCS BaNCS™ for Market Infrastructure has been selected by South African Bankers Services Company Proprietary Limited (BankservAfrica) to drive the Rapid Payments Program (RPP), a significant national initiative to introduce a next-generation, easy to use, real-time retail payments system for the growing payments ecosystem in South Africa
VodafoneZiggo	TCS	NA	As part of the partnership, TCS will deploy AI and machine learning technology as well as TCS TwinX™, its digital twin solution for enterprises.
Newmont Corporation	Infosys	5 years	As part of the engagement, Infosys BPM will provide an enhanced end-to-end digital service to Newmont with its analytics-driven platform-as-a-service offering.
Knauf	Mindtree	NA	Mindtree will provide application development services, help digitizing their infrastructure, transforming their supply chain systems, and further develop digital platforms.
Skanska	TCS	NA	TCS will leverage its Machine First™ Delivery Model (MFDM™) framework to streamline Skanska's journey to the cloud and help it transition to a more proactive IT model with automated processes. TCS will also be responsible for the application management of the company's Oracle Cloud applications across finance, projects, procurement, supply chain, human capital management and analytics planning functions.
Societe Generale	TCS	NA	Societe Generale Securities Services (SGSS) has successfully deployed TCS BaNCS as its next generation, multi-entity asset servicing platform in Germany, UK, France, Ireland and Luxembourg.
Tenneco	HCL Tech	NA	As part of this engagement, HCL will help Tenneco enhance their IT simplification, modernization and transformation journey while helping to reduce technical complexities and support the global IT application portfolio.

Source: Company, Emkay Research

## Exhibit 9: Global IT relative valuation summary (Bloomberg consensus earnings)

Company	Year-end	Currency	CMP	M Cap (USD bn)	P/E		P/S		EV/EBITDA		ROE (%)	
					1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
TATA CONSULTANCY SVCS LTD	03/2020	INR	3,165	160.0	35.4	29.7	7.1	6.2	24.4	21.1	38.0	42.7
INFOSYS LTD	03/2020	INR	1,385	80.6	30.3	26.3	5.9	5.1	20.5	18.2	28.1	29.5
WIPRO LTD	03/2020	INR	416	31.2	21.4	20.2	3.7	3.2	13.1	12.0	19.0	19.2
HCL TECHNOLOGIES LTD	03/2020	INR	1,003	37.2	20.3	18.9	3.6	3.2	12.8	11.7	23.5	22.0
TECH MAHINDRA LTD	03/2020	INR	992	13.1	20.7	18.2	2.5	2.3	13.0	11.3	20.1	20.4
LARSEN & TOUBRO INFOTECH LTD	03/2020	INR	4,113	9.8	38.1	32.5	5.8	5.0	25.4	22.5	31.0	30.0
MPHASIS LTD	03/2020	INR	1,746	4.5	26.4	22.3	3.3	3.0	17.5	15.1	20.3	22.0
MINDTREE LTD	03/2020	INR	2,075	4.7	31.8	28.1	4.3	3.7	20.1	17.6	29.8	28.8
L&T TECHNOLOGY SERVICES LTD	03/2020	INR	2,722	3.9	42.8	32.0	5.2	4.5	28.1	21.8	22.1	24.9
BIRLASOFT LTD	03/2020	INR	262	1.0	23.7	18.0	2.0	1.8	12.8	10.8	15.1	17.6
COFORGE LIMITED	03/2020	INR	2,933	2.4	37.7	28.7	3.8	3.3	21.6	17.9	19.2	22.9
CYIENT LTD	03/2020	INR	662	1.0	19.8	16.4	1.8	1.6	11.0	9.1	13.8	15.3
PERSISTENT SYSTEMS LTD	03/2020	INR	1,955	2.0	34.6	27.8	3.6	3.1	20.4	17.3	17.0	18.6
ZENSAR TECHNOLOGIES LTD	03/2020	INR	275	0.8	17.2	15.1	1.6	1.5	8.3	7.8	15.5	16.2
SONATA SOFTWARE LTD	03/2020	INR	526	0.8	23.5	18.4	1.4	1.2	13.7	11.7	31.3	36.0
FIRSTSOURCE SOLUTIONS LTD	03/2020	INR	118	1.1	18.7	15.8	1.6	1.5	11.9	10.2	15.4	17.6
INTL BUSINESS MACHINES CORP	12/2020	USD	133	119.1	12.0	11.2	1.6	1.6	9.1	9.2	42.7	42.3
ACCENTURE PLC-CL A	08/2020	USD	278	177.2	32.1	29.6	3.6	3.4	18.5	17.1	30.5	29.7
COGNIZANT TECH SOLUTIONS-A	12/2020	USD	79	41.9	19.8	18.1	2.3	2.2	11.8	11.0	17.3	16.7
HEWLETT PACKARD ENTERPRISE	10/2020	USD	16	20.4	8.4	8.1	0.7	0.7	6.0	5.9	12.8	12.4
CAPGEMINI SE	12/2020	EUR	148	29.4	19.0	16.7	1.5	1.4	12.1	11.1	18.3	18.6
CGI INC	09/2020	CAD	106	20.9	19.1	18.2	2.1	2.1	11.5	11.1	17.9	16.7
DXC TECHNOLOGY CO	03/2020	USD	31	7.8	12.8	9.1	0.4	0.5	3.9	3.7	3.5	13.3
ATOS SE	12/2020	EUR	58	7.5	8.2	7.4	0.6	0.6	5.1	4.7	8.7	10.0
EPAM SYSTEMS INC	12/2020	USD	400	22.5	51.3	40.7	6.8	5.6	34.0	27.2	19.4	20.2
ALTEN SA	12/2020	EUR	102	4.1	25.9	20.3	1.4	1.3	13.6	11.7	9.8	11.1
ENDAVA PLC- SPON ADR	06/2020	USD	84	4.6	72.6	61.9	10.9	8.9	32.0	28.1	19.2	21.3
GLOBANT SA	12/2020	USD	210	8.4	66.6	54.4	7.9	6.5	39.6	31.4	13.4	13.9
ASSYSTEM	12/2020	EUR	26	0.5	14.1	12.1	0.8	0.8	6.7	5.8	7.6	8.7
BERTRANDT AG	09/2020	EUR	50	0.6	28.4	14.4	0.5	0.5	7.5	5.7	4.1	7.5
AKKA TECHNOLOGIES	12/2020	EUR	23	0.9	-174.7	12.1	0.5	0.4	11.0	7.4	1.8	13.1

Source: Bloomberg

# Information Technology

Name			Mar'21	Dec'20	Mar'20	YoY chg	QoQ chg	Comments
<b>TCS (Apr 12)</b>								We build in 3.9% QoQ CC revenue growth with ~110bps cross currency tailwinds. EBIT margin is expected to remain flat QoQ as benefits from sustained revenue growth momentum and operating efficiencies are negated by integration of low margin deals and acquisitions and stronger rupee. Key things to watch out for: 1) demand trends in key verticals like BFSI, Retail, Manufacturing and Communications; 2) deal intake in Q4 and management commentary on deal pipeline and deal closure momentum; 3) pricing trends - competitive intensity and clients demand for different rate cards around remote delivery; 4) captives takeover and vendor consolidation opportunities; 5) margin outlook; 6) supply-side challenges and attrition; 7) financial impact from implementation of the Code on Social Security, 2020.
CMP(Rs)	3,165	Net Sales (Rs mn)	4,36,460	4,20,150	3,99,460	9.3%	3.9%	
Mkt Cap (Rs bn)	11,707	EBITDA (Rs mn)	1,26,573	1,22,070	1,09,760	15.3%	3.7%	
Reco	Hold	EBITDA Margin (%)	29.0	29.1	27.5	152 bps	-5 bps	
Target Price (Rs)	3,150	PAT (Rs mn)	92,089	87,010	80,490	14.4%	5.8%	
% Upside	-1%	EPS (Rs)	24.9	23.2	21.5	16.1%	7.4%	
<b>Infosys (Apr 14)</b>								We expect 3.0% QoQ CC revenue growth in Q4FY21. USD revenue is likely to grow 3.8% QoQ, considering 80bps cross currency tailwind. EBIT margin is expected to decline by ~100bps sequentially due to a salary hike effective Jan'21, partly negated by continued strong revenue growth momentum, offshore shift and other operating efficiencies. Key monitorables: 1) FY22 guidance - we expect company to guide 12-15% CC YoY revenue growth and 22-24% EBITM; 2) large deals intake; 3) management commentary on: (i) CY21 IT budget and spending pattern normalisation, (ii) demand environment in BFSI, Manufacturing, Retail, and Communications, (iii) pricing environment, (iv) deal pipeline and deal closure momentum, (v) financial impact from implementation of the Code on Social Security, 2020.
CMP(Rs)	1,385	Net Sales (Rs mn)	2,66,056	2,59,270	2,32,670	14.3%	2.6%	
Mkt Cap (Rs bn)	5,902	EBITDA (Rs mn)	73,650	74,150	56,760	29.8%	-0.7%	
Reco	Buy	EBITDA Margin (%)	27.7	28.6	24.4	329 bps	-92 bps	
Target Price (Rs)	1,550	PAT (Rs mn)	51,507	51,970	43,210	19.2%	-0.9%	
% Upside	12%	EPS (Rs)	12.1	12.2	10.2	18.8%	-0.9%	
<b>Wipro (Apr 15)</b>								We expect 4.0% QoQ revenue growth with ~90bps cross currency tailwinds. Wipro had guided for revenue growth in the range of 1.5%-3.5% QoQ in CC terms. We expect IT Services EBIT margins to decline by 70bps sequentially to 21% due to a salary hike to ~80% of employees wef Jan'21, partly offset by offshore shift and operating efficiencies. Key things to watch out for: 1) Q1 outlook - we expect 1-3% revenue growth guidance; 2) demand trends in key verticals like BFSI, Consumer, Manufacturing, Health, and E&U; 3) update on transition to new operating model; 4) margin outlook; 5) deal intake and pipeline.
CMP(Rs)	416	Net Sales (Rs mn)	1,61,514	1,56,700	1,57,110	2.8%	3.1%	
Mkt Cap (Rs bn)	2,282	EBITDA (Rs mn)	38,544	41,174	30,799	25.1%	-6.4%	
Reco	Hold	EBITDA Margin (%)	23.9	26.3	19.6	426 bps	-241 bps	
Target Price (Rs)	450	PAT (Rs mn)	29,256	29,667	23,260	25.8%	-1.4%	
% Upside	8%	EPS (Rs)	5.3	5.2	4.1	31.2%	2.9%	

## Information Technology

Name			Mar'21	Dec'20	Mar'20	YoY chg	QoQ chg	Comments
<b>HCL Tech</b>								We build in 3.8% QOQ USD revenue growth, with ~80bps cross currency tailwinds. It has guided for 2-3% CC QoQ growth. We expect EBIT margins to decline by ~440bps due to the second round of wage hike (80-90bps impact) and one-time special bonus (~USD90mn plus payroll taxes; ~350bps impact). Profits may decline 26% QoQ due to the one-time special bonus to employees and absence of tax reversals. Things to watch out for: 1) FY22 outlook – we expect 11-13% CC YoY revenue growth guidance and 20-21% EBITM guidance; 2) deal wins, deal pipeline and pace of deal closures; 3) growth outlook for ER&D and the Products Business; 4) demand outlook for major verticals like BFSI, Manufacturing, and Healthcare; 5) pricing environment; and 6) update on vendor consolidation/captives carve-out opportunities.
CMP(Rs)	1,003	Net Sales (Rs mn)	1,98,013	1,93,020	1,85,900	6.5%	2.6%	
Mkt Cap (Rs bn)	2,721	EBITDA (Rs mn)	46,533	54,420	47,200	-1.4%	-14.5%	
Reco	Buy	EBITDA Margin (%)	23.5	28.2	25.4	-189 bps	-469 bps	
Target Price (Rs)	1,130	PAT (Rs mn)	29,451	39,810	31,530	-6.6%	-26.0%	
% Upside	13%	EPS (Rs)	10.9	14.7	11.6	-6.6%	-26.0%	
<b>Tech Mahindra (Apr 27)</b>								We expect 3% QoQ growth in USD revenue with cross currency benefits of 80bps. We expect broadly similar sequential growth in the communications and enterprise business. We expect EBIT margins to decline 40bps sequentially. Key things to watch out for: 1) Communications and Enterprise business outlook; 2) update on 5G rollout timelines and technology spending expectations; 3) performance of the BPO business; 4) FY22 revenue growth and margin outlook; and 5) Deal intake during the quarter, deal pipeline and deal closure momentum.
CMP(Rs)	992	Net Sales (Rs mn)	98,266	96,471	94,902	3.5%	1.9%	
Mkt Cap (Rs bn)	961	EBITDA (Rs mn)	19,064	18,954	13,478	41.4%	0.6%	
Reco	Buy	EBITDA Margin (%)	19.4	19.6	14.2	520 bps	-25 bps	
Target Price (Rs)	1,190	PAT (Rs mn)	12,294	13,098	8,039	52.9%	-6.1%	
% Upside	20%	EPS (Rs)	14.1	14.8	9.1	55.5%	-4.3%	
<b>L&amp;T Infotech</b>								We expect 4% QoQ USD revenue growth for LTI, including 30bps cross currency tailwinds. EBIT margins may decline by 190bps sequentially on the back of salary hike, lower utilisation, and S&M investments. Things to watch out for: 1) FY22 revenue growth and margins outlook; 2) demand outlook across major industries like BFS, Insurance, Manufacturing, E&U, etc.; 3) technology budget and spending outlook across top clients; 4) deal wins and pipeline; 5) pricing environment; and 6) investment plans and progress made in new business units - Cloud and Data products.
CMP(Rs)	4,113	Net Sales (Rs mn)	32,434	31,528	30,119	7.7%	2.9%	
Mkt Cap (Rs bn)	721	EBITDA (Rs mn)	6,973	7,320	5,781	20.6%	-4.7%	
Reco	Sell	EBITDA Margin (%)	21.5	23.2	19.2	231 bps	-172 bps	
Target Price (Rs)	3,490	PAT (Rs mn)	4,898	5,192	4,266	14.8%	-5.7%	
% Upside	-15%	EPS (Rs)	28.0	29.7	24.5	14.4%	-5.7%	



## Information Technology

Name			Mar'21	Dec'20	Mar'20	YoY chg	QoQ chg	Comments
<b>Mphasis</b>								
CMP(Rs)	1,748	Net Sales (Rs mn)	25,638	24,743	23,462	9.3%	3.6%	We build in 4.2% QoQ CC revenue growth with 50bps cross currency tailwinds. The Direct business should lead revenue growth on the back of vendor consolidation benefits driving growth at top clients. DXC revenue may show some stability and recovery in Q4. We expect EBIT margins to be nearly flat on both QoQ and YoY basis. Net profits should grow 0.6% QoQ due to steady operating performance, partly negated by higher ETR sequentially. Things to watch out for: 1) outlook on business in the Direct Channel and Digital Risk business in particular; 2) management commentary on the DXC business growth outlook - pre-MRC period and post-MRC period, fallback provisions to protect economic interest; 3) order booking and deal pipeline.
Mkt Cap (Rs bn)	327	EBITDA (Rs mn)	4,794	4,654	4,441	8.0%	3.0%	
Reco	Hold	EBITDA Margin (%)	18.7	18.8	18.9	-23 bps	-11 bps	
Target Price (Rs)	1,570	PAT (Rs mn)	3,276	3,255	3,533	-7.3%	0.6%	
% Upside	-10%	EPS (Rs)	17.5	17.4	18.9	-7.4%	0.6%	
<b>Mindtree (Apr 15)</b>								
CMP(Rs)	2,075	Net Sales (Rs mn)	20,981	20,237	20,505	2.3%	3.7%	We build in 4.5% QoQ CC revenue growth with ~50bps cross currency tailwinds, translating into 5% QoQ USD revenue growth. We expect EBIT margins to decline 100bps QoQ due to salary hike wef Jan'21 (250bps impact), partly negated by strong revenue growth momentum, offshore shift and other operating efficiencies. We expect net profits to decline ~6% sequentially due to lower EBITM and lower forex gain. Key things to watch out for: 1) deal intake during the quarter and growth in deal pipeline; 2) outlook on business in key verticals like BFSI, Hitech, Travel and CPG verticals; 3) outlook on Top client and other major clients; 4) margin outlook.
Mkt Cap (Rs bn)	342	EBITDA (Rs mn)	4,506	4,679	3,512	28.3%	-3.7%	
Reco	Sell	EBITDA Margin (%)	21.5	23.1	17.1	435 bps	-165 bps	
Target Price (Rs)	1,580	PAT (Rs mn)	3,059	3,265	2,062	48.3%	-6.3%	
% Upside	-24%	EPS (Rs)	18.6	19.8	12.5	48.2%	-6.3%	
<b>Coforge</b>								
CMP(Rs)	2,933	Net Sales (Rs mn)	12,267	11,906	11,093	10.6%	3.0%	We expect 4.5% QoQ USD revenue growth, including 50bps cross currency benefit. BFS is expected to lead growth. Travel is expected to recover steadily on the back of wallet share gain. EBIT margins should improve 70bps QoQ amid offshore shift, higher utilization and other operating efficiencies. Key things to watch out for: 1) FY22 outlook - revenue growth and margins outlook; 2) order bookings in the quarter, growth in NTM executable order book and deal pipeline; 3) demand trends across BFS, Insurance, Manufacturing and Travel verticals.
Mkt Cap (Rs bn)	178	EBITDA (Rs mn)	2,171	2,009	1,971	10.2%	8.1%	
Reco	Hold	EBITDA Margin (%)	17.7	16.9	17.8	-7 bps	83 bps	
Target Price (Rs)	2,740	PAT (Rs mn)	1,336	1,220	1,264	5.7%	9.5%	
% Upside	-7%	EPS (Rs)	22.0	20.1	20.2	9.0%	9.5%	

## Information Technology

Name		Mar'21	Dec'20	Mar'20	YoY chg	QoQ chg	Comments
<b>Persistent Systems (Apr 29)</b>							We expect 3.6% QoQ USD revenue growth, led by continued momentum in the Technology Services business and contribution from Capiot acquisition (likely to add incremental ~USD0.9mn in revenue), negating seasonal weakness in the Alliance business.
CMP(Rs)	1,954	Net Sales (Rs mn)	11,041	10,754	9,264	19.2%	2.7%
Mkt Cap (Rs bn)	149	EBITDA (Rs mn)	1,797	1,825	1,318	36.4%	-1.5%
Reco	Buy	EBITDA Margin (%)	16.3	17.0	14.2	205 bps	-69 bps
Target Price (Rs)	2,200	PAT (Rs mn)	1,187	1,209	838	41.6%	-1.8%
% Upside	13%	EPS (Rs)	15.5	15.8	11.0	41.6%	-1.8%
<b>Birlasoft</b>							We expect 3.4% CC QoQ revenue growth with ~20bps cross currency tailwinds. EBIT margins should decline by ~140bps due to the salary hike impact, partly negated by benefits from cost optimisation measures. We expect net profits to decline by 7.8% sequentially due to the salary hike impact. Key things to watch out for: 1) order wins and deal pipeline; (2) outlook on revenue and margin trends through FY22; (3) outlook for key industries like Manufacturing, Life Sciences, BFSI, and E&U.
CMP(Rs)	262	Net Sales (Rs mn)	9,005	8,808	9,071	-0.7%	2.2%
Mkt Cap (Rs bn)	73	EBITDA (Rs mn)	1,351	1,444	1,167	15.7%	-6.5%
Reco	Buy	EBITDA Margin (%)	15.0	16.4	12.9	213 bps	-140 bps
Target Price (Rs)	290	PAT (Rs mn)	889	964	690	28.8%	-7.8%
% Upside	11%	EPS (Rs)	3.2	3.5	2.5	28.5%	-7.8%
<b>Firstsource Solutions</b>							We build in 3.8% QoQ USD revenue growth, led by the Healthcare business (2 months of incremental revenue from PatientMatters) and cross currency benefits. EBIT margins should improve marginally by ~10bps to 11.7%. Key things to look out for: 1) FY22 business outlook; 2) outlook on Mortgage business (particularly Origination) with recent uptick in interest rates in the US; 3) demand trends and outlook in BFSI, CMT and Healthcare verticals; 4) progress on building business with born digital companies.
CMP(Rs)	118	Net Sales (Rs mn)	13,987	13,652	10,804	29.5%	2.5%
Mkt Cap (Rs bn)	82	EBITDA (Rs mn)	2,149	2,103	1,641	30.9%	2.2%
Reco	Buy	EBITDA Margin (%)	15.4	15.4	15.2	17 bps	-5 bps
Target Price (Rs)	125	PAT (Rs mn)	1,235	1,210	916	34.8%	2.0%
% Upside	6%	EPS (Rs)	1.8	1.7	1.3	34.5%	2.0%

## Emkay Alpha Portfolio – Information Technology



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#### Sector

IT Services, ITeS and Software

#### Analyst bio

Dipesh is a seasoned Equities professional who has covered Technology sector for over 15 years. Dipesh has completed his B.E. in Information Technology from Sardar Patel University and MMS in Finance from Mumbai University.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Information Technology</b>	<b>13.26</b>	<b>13.01</b>	<b>-2%</b>	<b>-25</b>	<b>100.00</b>
BirlaSoft*	0.00	0.11	NA	11	0.81
Coforge	0.00	0.00	NA	0	0.00
eClerx Services*	0.00	0.00	NA	0	0.00
Firstsource Solutions	0.00	0.09	NA	9	0.66
HCL Tech	1.30	1.39	7%	9	10.45
Infosys	6.05	6.08	1%	4	45.88
Intellect Design*	0.00	0.00	NA	0	0.00
L&T Infotech*	0.21	0.00	-100%	-21	0.00
Majesco*	0.00	0.00	NA	0	0.00
Mindtree	0.11	0.00	-100%	-11	0.00
Mphasis	0.17	0.14	-16%	-3	1.08
MPS*	0.00	0.00	NA	0	0.00
NIIT*	0.00	0.00	NA	0	0.00
Nucleus Software*	0.00	0.00	NA	0	0.00
Oracle Financial Services*	0.09	0.00	-100%	-9	0.00
Persistent Systems	0.00	0.50	NA	50	3.75
Ramco Systems*	0.00	0.00	NA	0	0.00
TCS	3.91	3.31	-15%	-60	24.98
Tech Mahindra	0.73	0.74	1%	1	5.59
Wipro	0.71	0.65	-8%	-5	4.92
<b>Cash</b>	<b>0.00</b>	<b>0.25</b>	<b>NA</b>	<b>25</b>	<b>1.88</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	1-Apr-20	1-Oct-20	30-Dec-20	2-Mar-21	1-Apr-21
EAP - Information Technology	100.0	81.0	137.7	163.9	170.6	179.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	79.1	129.5	154.7	160.9	169.1

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

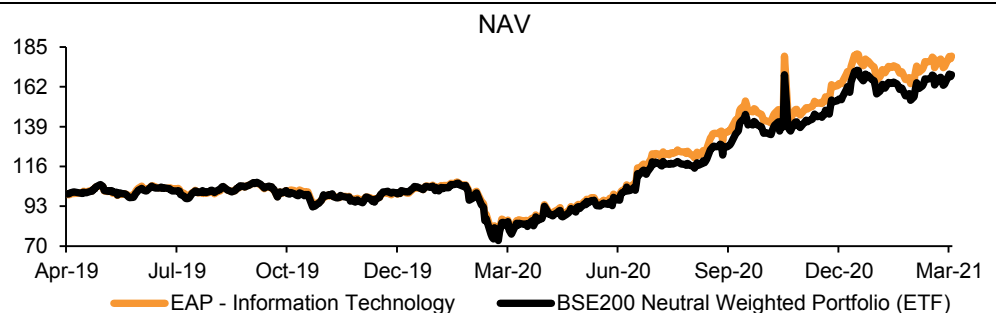
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Information Technology	5.3%	9.6%	30.4%	121.9%
BSE200 Neutral Weighted Portfolio (ETF)	5.1%	9.3%	30.6%	113.8%

Source: Emkay Research

### NAV chart



Source: Emkay Research

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

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

“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: 05 Apr 2021 09:02:45 (SGT)

Dissemination Date: 05 Apr 2021 09:03:45 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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