

India

Neutral (no change)

Highlighted Companies

Persistent Systems Ltd

ADD, TP Rs5300, Rs4836 close

We believe synergistic benefits of go-to-market and delivery re-organization has brought Persistent Systems' focus on core product development strength, improved order book, mining and cross-selling across large accounts.

L&T Infotech

ADD, TP Rs7671, Rs7562 close

LTI's investments in winning large deals, sustaining growth in top accounts, addition of Fortune 500 accounts and analytics & digital in every account are likely to aid industry-leading growth, in our view.

Mphasis

ADD, TP Rs4073, Rs3396 close

Strong prospects in direct international segment led by farming strategic accounts, new logo addition and scaling new verticals like hi-tech, logistics and transportation, apart from growth in banking, will help Mphasis sustain its growth momentum, in our view.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Persistent Systems Ltd	56.99	44.06	36.32
L&T Infotech	60.07	49.35	40.87
Mphasis	45.52	37.68	31.31

P/BV (x)

	Mar22-F	Mar23-F	Mar24-F
Persistent Systems Ltd	11.39	9.86	8.48
L&T Infotech	15.48	13.03	10.94
Mphasis	9.1	8.26	7.47

Dividend Yield

	Mar22-F	Mar23-F	Mar24-F
Persistent Systems Ltd	0.54%	0.91%	1.1%
L&T Infotech	0.7%	0.81%	0.98%
Mphasis	1.31%	1.54%	1.92%

Analyst(s)



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IT Services

Beat and upgrade to continue for tier-II firms

- Tier-II companies' QoQ average US\$ revenues to outgrow Tier-1's by 210bp.
- EBIT margin largely to be flattish QoQ.
- Deal momentum to continue but mega deals likely drying up.

Tier-II companies likely to witness earnings upgrade post 3QFY22

We expect Tier-I IT services firms to report average constant currency (CC) revenue growth of 4.2% QoQ in 3QFY22F and 3.5% in reported US\$ terms due to cross-currency headwind (GBP and Euro depreciated QoQ by 2.2% and 3%, respectively). For Tier-II firms, US\$ revenue could increase on an average 5.6% QoQ led by Persistent Systems (PSYS) and L&T Infotech (LTI). Among large-caps, we expect Infosys to report the highest sequential growth at 4%, while among mid-caps PSYS revenue could grow 9.1% aided by inorganic contribution of ~3%. Deal ramp-ups and demand traction across major verticals to drive revenue growth despite headwind from seasonal weakness such as furloughs.

Smaller-sized deal momentum continues; mega deal key monitorable

Preview discussions indicate that order bookings, conversion and pipeline continue to be encouraging and consistent with Accenture's (ACN:US, not rated) commentary of a significant uptick in demand (4.8% QoQ and 17.5% YoY growth in outsourcing bookings) and healthy pipeline despite robust bookings in Q1FY22. Although addition of 15 new diamond clients (largest relationships) by ACN in Q1 vs. 13 in FY21 suggests an uptick in large deal activity, in addition to the strength in smaller-sized deals, our industry checks suggest that mega deals are drying up and are a key monitorable. Conversion of mega deals is critical to tier-I companies' earnings upgrade as current heightened activity in smaller-sized deals, a sweet spot for tier-II companies, is opening the field to competition.

Quarterly annualized attrition to moderate; LTM may still be elevated

Preview discussions indicate that monthly employee attrition trends have stabilized led by fresher hiring, while quarterly annualized attrition could be similar or lower than in 2QFY22. We believe these trends are similar to ACN, which reported a 200bp QoQ drop in annualized voluntary attrition rate to 17% in 1QFY22. However, reported last 12-month (LTM) attrition may continue to be at an elevated level.

EBITM to remain largely flat QoQ but decline YoY

We expect tier-I and tier-II EBITM to be flat on an average. Growth, operational efficiency, and higher offshoring are tailwinds while selective wage hikes, higher delivery cost due to elevated attrition and retention levels are key headwinds. We expect the highest QoQ increase in margin for HCL Technologies (50bp) among large-caps, and Coforge (150bp) among mid-caps.

Retain preference for mid-caps over large-caps

IT sector continues to witness growth acceleration led by digital, cloud transformation, core modernization and cyber security coupled while resilient EBITM driven by operational efficiency, reduction in operating expenses, ongoing pyramid rationalization and automation efforts could aid earnings recovery. We believe mid-sized firms have the building blocks to gain mind and market share, sustain the current growth momentum and deliver better revenue and earnings growth vs. their large peers. Superior executors such as Persistent Systems, LTI, and Mphasis are our top picks. Tech Mahindra remains a restructuring candidate within tier-I companies, which in turn could drive sustainable earnings upgrade.

Figure 1: Tier-II companies set to outgrow their Tier-I counterparts

Particulars	Tier 1	QoQ	YoY	Tier 2	QoQ	YoY
Revenues (Rs m)	13,33,680	4.5%	18.5%	1,70,154	7.2%	28.5%
EBIT (Rs m)	2,91,456	4.3%	7.7%	27,256	7.5%	24.2%
PAT (Rs m)	2,36,051	4.5%	6.5%	22,356	8.8%	24.8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS. TIER-I COMPRISES TCS, INFOSYS, WIPRO, HCL TECH & TECHM, TIER-II COMPRISES LTI, MPHASIS, MINDTREE, COFORGE, PERSISTENT SYSTEMS, BIRLASOFT, LTTS & CYEINT

Figure 2: Preview commentary

Particulars	Dec 20	Sep 21	Dec 21	QoQ (%)	YoY (%)	Comments
BirlaSoft						
Revenue (US\$ m)	119.5	136.9	143.1	4.5	19.7	
Revenue (Rs m)	8,807.8	10,116.9	10,726.7	6.0	21.8	Growth to be led by life sciences, energy & utilities and manufacturing, while BFSI could be soft. Enterprise business recovery continues, although growth could be lower than other segments. Expect uptick in deal momentum in enterprise business.
EBIT	1,242.0	1,324.2	1,404.9	6.1	13.1	EBITM to be flattish QoQ as headwinds from one-month impact of wage hike, lower working days, and increased hiring & retention costs would likely be offset by rupee depreciation, lower travel costs & sub-contracting expenses.
EBIT margin (%)	14.1	13.1	13.1	1 bp	-100 bp	Key monitorable: New deal wins, traction in top 20 accounts, tail account rationalization, and capital allocation.
Profit	963.9	1,030.3	1,151.4	11.8	19.5	
EPS	3.4	3.6	4.1	11.6	19.2	
Coforge						
Revenue (US\$ m)	161	213	222	4.3	38.1	
Revenue (Rs m)	11,906	15,694	16,649	6.1	39.8	CC revenue growth of 5.3% QoQ.
EBIT	1,547	2,139	2,517	17.7	62.7	Ramp-up of deals in BFS and Insurance vertical to aid growth.
EBIT margin (%)	13.0	13.6	15.1	149 bp	212 bp	Growth leverage and license deal in insurance are key margin tailwinds.
Profit	1,220	1,468	1,762	20.0	44.4	Key monitorable: Order intake and executable order book over next 12 months.
EPS	19.8	23.7	28.4	20.0	43.6	Spending patterns in travel & BFSI verticals.
Cyient						
Revenue (US\$ m)	141	150	156	4.0	10.4	
Revenue (Rs m)	10,443	11,116	11,706	5.3	12.1	Expect 50-70bp cross-currency headwind.
EBIT	1,150	1,555	1,538	(1.1)	33.7	Growth to be led by aerospace, communication, and portfolio while transportation could decline QoQ. Expect Design led manufacturing (DLM) to grow ~10% QoQ, as anticipated.
EBIT margin (%)	11.0	14.0	13.1	-85 bp	212 bp	Selected wage hikes, lower working days and DLM mix to impact EBIT margin.
Profit	954	1,213	1,245	2.6	30.5	Key monitorable: Outlook on aerospace, transportation & communication vertical, DLM business, margin levers and capital allocation.
EPS	8.7	11.1	11.3	2.6	30.8	
HCL Technologies						
Revenue (US\$ m)	2,617	2,791	2,898	3.8	10.7	
Revenue (Rs m)	1,93,020	2,06,550	2,17,294	5.2	12.6	Constant currency (CC) revenue growth of 4.5% QoQ.
EBIT	44,150	39,160	42,372	8.2	(4.0)	Ramp-up of deals to drive growth in IT & ER&D services business.
EBIT margin (%)	22.9	19.0	19.5	54 bp	-337 bp	Strong seasonality in product business to aid margins.
Profit	39,810	32,640	34,041	4.3	(14.5)	Key monitorable: Medium-term revenue and margin trajectory, outlook on ER&D business, and products & platform; M&A strategy.
EPS	14.7	12.0	12.5	4.3	(14.5)	
Infosys						
Revenue (US\$ m)	3,516	3,998	4,159	4.0	18.3	
Revenue (Rs m)	2,59,270	2,96,020	3,12,366	5.5	20.5	CC revenue growth of 4.6% QoQ.
EBIT	65,890	69,720	72,563	4.1	10.1	One-month contribution from Daimler deal to aid growth momentum.
EBIT margin (%)	25.4	23.6	23.2	-32 bp	-218 bp	Wage hike for senior leaders, business investments and retention costs are key EBIT margin headwinds.
Profit	51,970	54,210	57,160	5.4	10.0	Key monitorable: Large deal traction, revenue growth and margin guidance, vertical commentary, capital allocation and M&A strategy.
EPS	12.2	12.9	13.6	5.4	10.8	
L&T Infotech						
Revenue (US\$ m)	428	509	547	7.5	27.9	
Revenue (Rs mn)	31,528	37,670	41,033	8.9	30.1	CC revenue growth of 8% QoQ.
EBIT	6,501	6,482	7,158	10.4	10.1	Momentum in BFSI and Manufacturing to aid revenue growth.
EBIT margin (%)	20.6	17.2	17.4	24 bp	-318 bp	Pass-through cost, lower working days, rising delivery costs, and higher sub-contractor cost are key EBIT margin headwinds.
Profit	5,192	5,517	6,044	9.5	16.4	Key monitorable: Outlook on BFSI, energy vertical, deal wins, DSO trajectory, capital allocation and M&A strategy.
EPS	29.5	31.4	34.4	9.5	16.5	
L&T Technology Services						
Revenue (US\$ m)	190	217	226	4.0	19.0	
Revenue (Rs m)	14,007	16,077	16,959	5.5	21.1	Seasonality, furloughs and lower working days to impact growth momentum.
EBIT	2,132	2,964	3,054	3.0	43.3	Lower working days, higher delivery and retention cost, and investments in digital capabilities are key EBITM headwinds.
EBIT margin (%)	15.2	18.4	18.0	-43 bp	279 bp	Key monitorable: Outlook on transportation, industrial & plant engineering verticals, deal wins, DSO trajectory, top 30 client outlook and capital allocation.
Profit	1,861	2,300	2,520	9.6	35.4	
EPS	17.6	21.8	24.4	9.6	35.3	

Particulars	Dec 20	Sep 21	Dec 21	QoQ (%)	YoY (%)	Comments
Mindtree						
Revenue (US\$ m)	274	350	369	5.5	34.8	
Revenue (Rs m)	20,237	25,862	27,701	7.1	36.9	
EBIT	3,962	4,697	4,986	6.2	25.9	CC revenue growth of 6% QoQ led by broad-based growth across verticals. BFSI could be below company average.
EBIT margin (%)	19.6	18.2	18.0	-16 bp	-158 bp	EBITM to be stable QoQ as higher cost of delivery will be offset by lower sub-contracting expenses.
Profit	3,265	3,989	4,268	7.0	30.7	Key monitorable: Deal wins, top account outlook, tail account rationalization and capital allocation.
EPS	19.8	24.2	25.9	7.0	30.5	
Mphasis						
Revenue (US\$ m)	334	385	406	5.5	21.7	
Revenue (Rs m)	24,744	28,692	30,463	6.2	23.1	Direct international segment could grow ~7% QoQ including ~2% inorganic contribution offset by continued weakness in DXC on YoY basis.
EBIT	4,048	4,317	4,600	6.5	13.6	
EBIT margin (%)	16.4	15.0	15.1	5 bp	-126 bp	Earnout and amortisation costs are key EBITM headwinds.
Profit	3,255	3,412	3,627	6.3	11.4	Key monitorable: Deal wins in direct channel, outlook on HP/DXC business, BFSI vertical outlook and capital allocation.
EPS	17.2	18.0	19.1	6.3	10.9	
Persistent Systems						
Revenue (US\$ m)	146	182	199	9.1	36.1	Growth to be led by organic business and aided by acquisitions (SCI & Shree Partners).
Revenue (Rs m)	10,754	13,512	14,917	10.4	38.7	Organic growth to be aided by IP business seasonality.
EBIT	1,364	1,873	1,999	6.7	46.6	Acquisition integration costs, ESOP plan and higher delivery costs are key EBITM headwinds while growth leverage is key tailwind. Expect strong order bookings momentum to continue with higher TCV mix.
EBIT margin (%)	12.7	13.9	13.4	-46 bp	72 bp	
Profit	1,209	1,618	1,739	7.5	43.8	Key monitorable: Outlook on Services unit, deal wins on TCV and ACV basis and IP business trajectory, margin levers and capital allocation.
EPS	15.8	21.2	22.8	7.5	43.8	
TCS						
Revenue (US\$ m)	5,702	6,333	6,445	1.8	13.0	
Revenue (Rs m)	4,20,150	4,68,670	4,83,263	3.1	15.0	CC revenue growth of 2.6% QoQ.
EBIT	1,11,840	1,20,000	1,23,391	2.8	10.3	Weak seasonality to restrict growth momentum.
EBIT margin (%)	26.6	25.6	25.5	-7 bp	-109 bp	Operational efficiency to aid margins.
Profit	87,010	96,240	99,768	3.7	14.7	Key monitorable: Deal pipeline, outlook on BFSI, retail & manufacturing verticals and commentary on CY22E IT spending.
EPS	23.2	26.3	27.0	3.7	16.3	
Tech Mahindra						
Revenue (US\$ m)	1,309	1,473	1,532	4.0	17.0	
Revenue (Rs m)	96,471	1,08,813	1,15,037	5.7	19.2	CC revenue growth of 4.9%.
EBIT	15,371	16,522	17,541	6.2	14.1	Revenue growth to be aided by acquisitions like We Make Websites and Lodestone.
EBIT margin (%)	15.9	15.2	15.2	6 bp	-69 bp	Stable EBTIM as headwinds from higher hiring and acquisition integration costs to be offset by operational efficiency.
Profit	13,098	13,387	14,447	7.9	10.3	We expect tax rate to normalise and aid PAT.
EPS	14.9	15.1	16.3	7.9	9.9	Key monitorable: Deal wins, outlook on communication and enterprise segments, DSO trend & M&A strategy.
Wipro						
IT Services Revenue (US\$ m)	2,071	2,580	2,674	3.6	29.1	
Revenue (Rs m)	1,56,700	1,96,674	2,05,720	4.6	31.3	IT services cc revenue growth of 4.2% QoQ.
EBIT	33,247	33,972	35,590	4.8	7.0	Revenue growth to be aided by BFSI and consumer verticals.
EBIT margin (%)	21.2	17.3	17.3	3 bp	-392 bp	Wage inflation impact, attrition rate, and higher delivery costs are key EBITM headwinds offset by operational efficiency.
Profit	29,667	29,307	30,634	4.5	3.3	Key monitorable: Revenue growth guidance for Q4FY22, deal win trajectory, and integration outlook of acquisitions.
EPS	5.2	5.3	5.6	4.6	8.2	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Coverage universe valuation

Company	Bloomberg Ticker	Rating	Mcap (INR bn)	CMP (INR)	TP (INR)	Upside (%)	EV/EBITDA (x)			P/E (x)			ROE (%)		
							FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
TCS	TCS IN	HOLD	14,368	3,885	3,665	-6	26	23	21	37	33	29	43	44	45
Infosys	INFO IN	ADD	8,011	1,899	1,949	3	25	22	19	36	32	28	28	29	30
Wipro	WPRO IN	HOLD	3,954	722	647	-10	22	17	15	32	28	25	22	23	25
HCL Technologies	HCLT IN	ADD	3,619	1,333	1,412	6	17	15	13	27	24	21	22	23	25
Tech Mahindra	TECHM IN	ADD	1,579	1,790	1,800	1	18	16	14	28	24	22	22	22	22
Large-cap Average							22	19	16	32	28	25	27	28	29
L&T Infotech	LTI IN	ADD	1,329	7,562	7,671	1	43	34	28	59	49	41	28	29	29
Mindtree	MTCL IN	HOLD	788	4,778	4,648	-3	35	29	24	50	44	37	32	30	29
Mphasis	MPHL IN	ADD	644	3,396	4,073	20	30	25	21	45	38	31	21	23	25
Coforge	COFORGE IN	ADD	379	6,105	6,229	2	33	26	22	59	43	37	26	32	34
LTTS	LTTS IN	HOLD	625	5,916	5,705	-4	43	34	28	66	54	45	25	26	26
Persistent Systems	PSYS IN	ADD	370	4,836	5,300	10	37	28	23	56	44	36	29	32	34
Birlasoft	BSOFT IN	ADD	159	560	538	-4	23	18	15	36	28	24	19	21	21
Cyient	CYL IN	ADD	119	1,081	1,324	22	13	11	10	24	20	19	22	23	24
Mid-cap Average							32	26	21	49	40	34	25	27	28

SOURCES: INCRED RESEARCH, COMPANY REPORTS, RATING & TARGET PRICE AS ON LAST PUBLISHED NOTE

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

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- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.