IT Services

Tech Stack 2.0: The 'NXT' large-caps

India

Neutral *(Initiating coverage)*

Highlighted Companies

L&T Infotech

ADD, TP Rs7671, Rs6556 close

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

Mphasis

ADD, TP Rs4073, Rs3023 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 growth momentum, in our view.

Persistent Systems Ltd

ADD, TP Rs5300, Rs4241 close

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

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
L&T Infotech	52.08	42.79	35.44
Mphasis	40.52	33.54	27.87
Persistent Systems Ltd	49.97	38.64	31.85

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
L&T Infotech	13.42	11.3	9.48
Mphasis	8.1	7.35	6.65
Persistent Systems Ltd	9.99	8.65	7.44

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
L&T Infotech	0.8%	0.93%	1.13%
Mphasis	1.47%	1.73%	2.15%
Persistent Systems Ltd	0.61%	1.04%	1.26%

- Economic downturns change technology adoption and consumption patterns.
- Changing patterns and repurposing of spends create a near-term pent-up cycle and consolidation opportunities in the medium term.
- We believe new winners emerge after every cycle. This cycle is likely to favour mid-sized IT companies, in our view.

Previous economic downturns accelerated technology adoption

Our analysis of contracting activity indicates that economic downturns accelerate technology adoption across Global 2000 companies vs. leaders and alter consumption patterns, creating structural demand cycles guided by budget constraints, talent unavailability, and cost optimization. The response to Covid-19 pandemic was identical and accelerated the shift to an as-a-service (AAS) model, in our view.

Today's large-sized IT vendors gained market share in previous cycle

Analyzing the historical performance of India's IT sector indicates market share gains in previous cycles (application development & maintenance [ADM], infrastructure management services) as talent availability and cost optimization drove offshoring higher. As sectoral tailwinds benefit most players, favourable scale then, consistent strategy, execution and leadership, and existing capacity, which helped deploy talent at scale for faster project ramp-ups, were key differentiators of the winners in previous cycles.

Mid-sized (Tier-II) firms have the building blocks to win in this cycle

In our view, key building blocks that may help mid-size Indian IT firms gain mind share and sustain growth momentum are already in place. They include concentrated ownership post re-organization, empowered leadership, favourable revenue size and operating leverage to build capabilities and attract talent, contract sizes in a sweet spot, existing capacity unlikely to be an execution constraint (Fig. 94) given client flexibility in staffing with work-from-home for transformation engagements, improving cash conversion, and payouts.

Rising delivery costs, attrition risk could jeopardize our thesis

Our analysis suggests that cost unit economics of mid-sized firms is not just higher than those of large-sized firms, employee expenses of mid-sized firms grew 22.5% yoy in 2Q, faster than the 18.8% yoy growth for Tier-I firms. Although growth remains a key operating leverage, this metric remains a key monitorable given rising cost structure, high employee retention cost, and an elevated attrition rate - all key downside risks to our thesis.

Initiate coverage with Neutral rating; prefer Persistent, Mphasis, LTI

We initiate coverage on the sector with a Neutral rating, preferring mid-sized firms Persistent Systems, LTI and Mphasis to larger peers. Although, Nifty IT Index's outperformance vs. Nifty 50 since Mar 2020 influences our sector rating, we believe long-term value creation opportunities exist given the favourable structural demand cycle. While standalone P/E (31x our FY24F EPS vs. 23x) suggests Tier-II firms trade at a premium, we draw investor's attention to PE/G metric which appears more reasonable (1.5x FY22-24F net profit CAGR vs. 1.7x PE/G for Tier-I's). We value stocks based on the PE/G metric and apply a discount (0 to 45% discount range) to TCS' PE/G to arrive at individual stock multiples. Elevated cost structure/demand upcycle are key downside/upside risks, respectively, to our estimates and ratings.

Figure 1: Valuation methodology – target prices based on FY24F EPS

Company	FY22-24F PAT CAGR	PE/G discount to TCS	Target PE/G	Target P/E
TCS	13.1%	0%	2.10	28
Infosys	15.1%	10%	1.89	28
Wipro	11.7%	10%	1.89	22
HCL Technologies	13.5%	22%	1.64	22
Tech Mahindra	12.5%	15%	1.79	22
L&T Infotech	21.2%	7%	1.95	41
Mindtree	18.6%	8%	1.93	36
Mphasis	21.0%	15%	1.79	38
Coforge	24.2%	25%	1.58	38
LTTS	20.9%	0%	2.10	44
Persistent Systems	25.3%	25%	1.58	40
Birlasoft	20.5%	45%	1.15	24

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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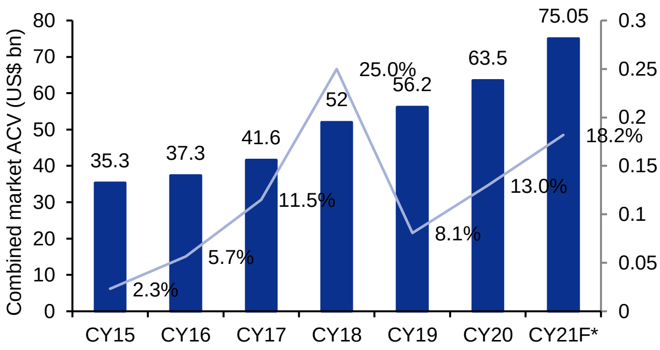
KEY CHARTS

Structural growth drivers in place
The IT services sector continues to witness a recovery, especially since Jul 2020, as it overcame Covid-19 shutdowns. An existential crisis driven by the impact on supply chains, employee availability, and customer intimacy were the underlying drivers of accelerated adoption of the as-a-service model and led to spending by Global 2000 companies vs. technology leaders. Budget constraints, talent unavailability, and cost optimization initiatives were key drivers of higher outsourcing and offshoring.

US$ revenue growth	FY22F	FY23F	FY24F
TCS	15.0%	11.5%	10.5%
Infosys	18.2%	13.6%	11.4%
Wipro	27.6%	12.3%	8.9%
HCLT	11.5%	10.8%	9.2%
TechM	16.1%	12.8%	11.0%
LTI	24.0%	20.0%	16.0%
Mindtree	32.1%	20.0%	16.0%
Mphasis	20.2%	17.4%	16.5%
Coforge	38.3%	17.9%	15.0%
LTTS	18.9%	20.5%	16.0%
Persistent Systems	32.6%	25.0%	17.5%
Birlasoft	15.6%	15.6%	14.0%
Cyient	11.7%	12.0%	11.0%

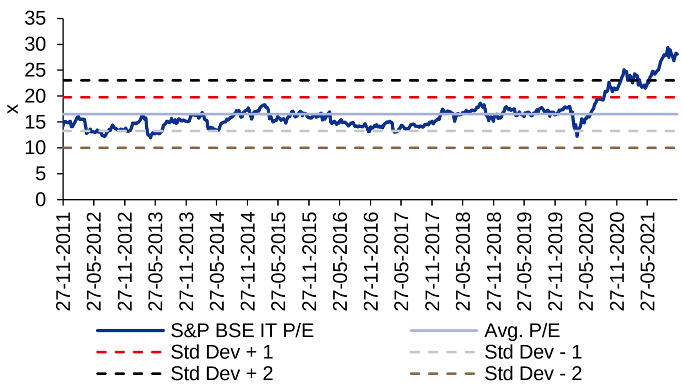
Contracting activity supports FY23F estimates
Contracting activity continues to be encouraging. Gartner Inc in its Oct 2021 release raised IT services spending forecasts to 11.2% yoy vs. 9.8% yoy forecast in Jul 2021. Commentary from company management, global technology research and advisory firms and our industry-level checks suggest that contracting is likely to remain encouraging in CY22F despite a robust 18.2% yoy growth forecast in global combined market annual contract value (ACV) in CY21F by Information Services Group's (ISG).



Cost challenges could jeopardize our underlying thesis
Supply constraints continue to challenge the industry and are compounded by a rising attrition rate, and replacement costs. Consistent cost escalations pose a downside risk to our estimates. Further, cost unit economics favour large-sized firms driven by juniorisation (a higher proportion of 0-3-year workforce) of the employee pyramid. Significant increase in unit cost economics could have a higher impact on demand fulfillment and margin execution of mid-sized firms vs. their large peers.

Large-cap (Rs mn)	2QFY22	2QFY21	YoY (%)	1QFY22	QoQ (%)
Employee expenses	6,96,807	5,86,537	18.8%	6,70,197	4.0%
SG&A expenses	1,64,245	1,50,806	8.9%	1,58,047	3.9%
Mid-cap (Rs mn)	**2QFY22**	**2QFY21**	**YoY (%)**	**1QFY22**	**QoQ (%)**
Employee expenses	94,057	76,758	22.5%	87,456	7.5%
SG&A expenses	25,691	19,677	30.6%	23,525	9.2%

Initiate coverage on IT sector with a Neutral rating
Considering the structural demand cycle, we initiate coverage on the sector with a Neutral rating. Although stock prices rose significantly from their Covid-19 lows, we feel PE/G valuations are comfortable. We believe mid-sized firms have the building blocks to gain mind and market share to 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.



*ISG FORECAST
SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT NOV 2021

Figure 2: 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	13,080	3,536	3,665	4	24	21	19	34	30	27	42	44	45
Infosys	INFO IN	ADD	7,151	1,695	1,949	15	22	19	17	33	28	25	27	29	30
Wipro	WPRO IN	HOLD	3,422	625	647	4	19	15	13	27	24	21	22	24	25
HCL Technologies	HCLT IN	ADD	3,084	1,137	1,412	24	15	13	11	23	20	18	22	23	25
Tech Mahindra	TECHM IN	ADD	1,369	1,552	1,800	16	16	13	12	24	21	19	22	22	22
Large-cap Average							19	16	14	28	25	22	27	28	29
L&T Infotech	LTI IN	ADD	1,153	6,556	7,671	17	37	29	24	52	43	35	28	29	29
Mindtree	MTCL IN	HOLD	724	4,391	4,648	6	32	26	22	48	40	34	31	30	30
Mphasis	MPHL IN	ADD	573	3,023	4,073	35	27	22	19	41	34	28	21	23	25
Coforge	COFORGE IN	ADD	318	5,125	6,229	22	28	22	19	48	36	31	26	32	34
LTTS	LTTS IN	HOLD	555	5,248	5,705	9	39	30	25	59	49	40	25	25	26
Persistent Systems	PSYS IN	ADD	324	4,241	5,300	25	32	25	20	50	39	32	29	32	34
Birlasoft	BSOFT IN	ADD	133	468	538	15	19	15	13	30	24	21	19	21	21
Cyient	CYL IN	ADD	108	986	1,324	34	11	10	9	21	19	17	22	23	24
Mid-cap Average							28	22	19	44	35	30	25	27	28

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

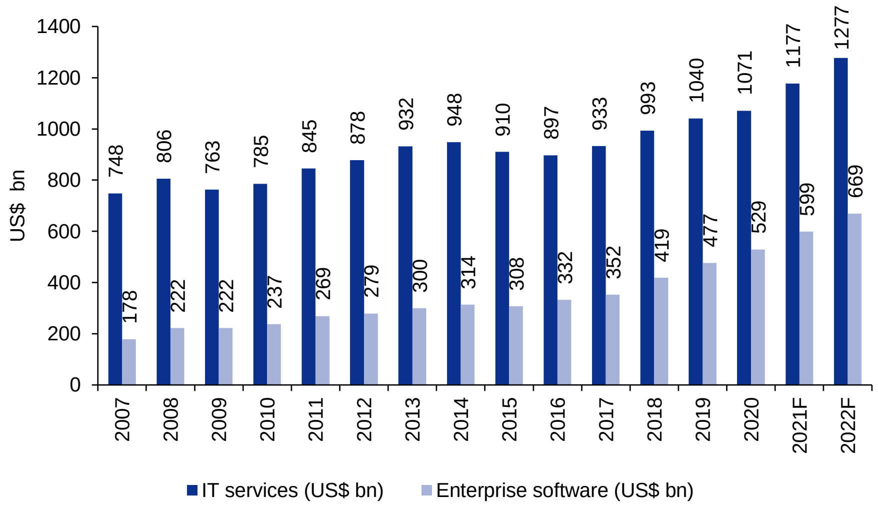
Tech Stack 2.0: The 'NXT' large-caps

Economic downturns and cost variabalisation

Demand accelerates post economic downturns

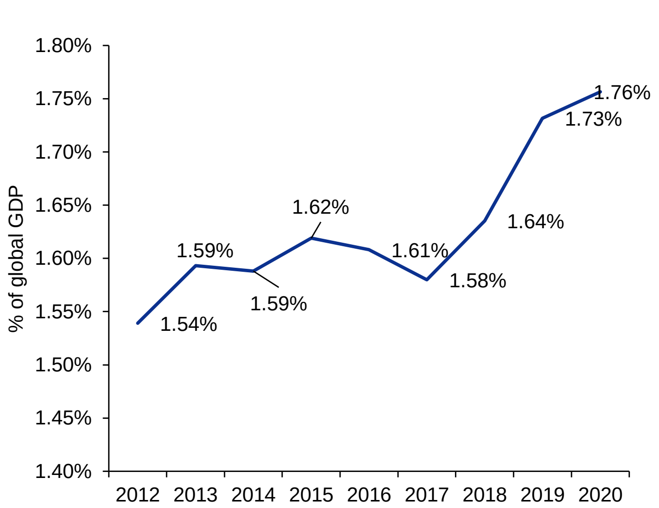
Our analysis of India's IT sector's performance over the previous two decades (2001-2020) suggests the global economic downturns resulted in structural demand cycles, benefitting growth rates. Changes in technology adoption and consumption patterns, repurposing of spends driven by budget constraints, talent unavailability, and cost optimization initiatives remain the underlying demand drivers for higher outsourcing and offshoring. Analysing contracting activity suggests application development and maintenance (ADM), and infrastructure management services (IMS) outsourcing accelerated post early 2000 recession and the Global Financial Crisis (GFC), while enterprises accelerated their digital transformation (DX) journey underpinned by the as-a-service (AAS) operating model (a pay-as-you-use model vs. installing software's on-premise model) post the Covid-19-driven crisis. Finally, cost optimization initiatives, given the perceived higher impact of Covid-19 on the supply chain vs. GFC, as per an Infosys-HFS study, is likely to drive traditional sourcing contracting growth to its highest level since 2015, as per global technology research and advisory firm Information Services Group Inc. (ISG).

Figure 3: Spending trend across cycles



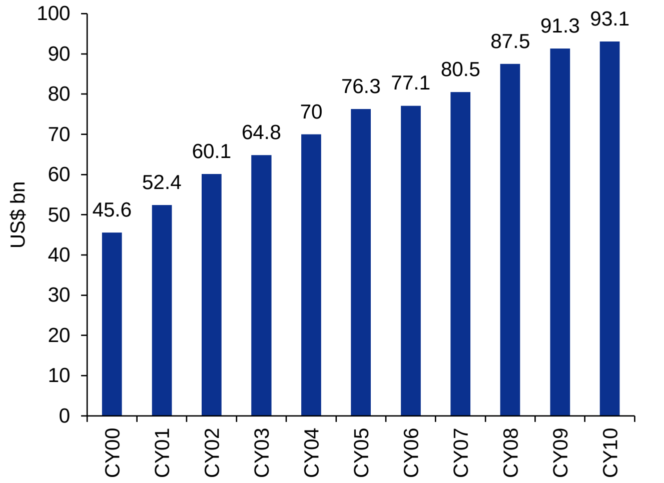
SOURCES: INCRED RESEARCH, GARTNER INC.

Figure 4: IT services + enterprise software market, as a percentage of GDP, is on the rise



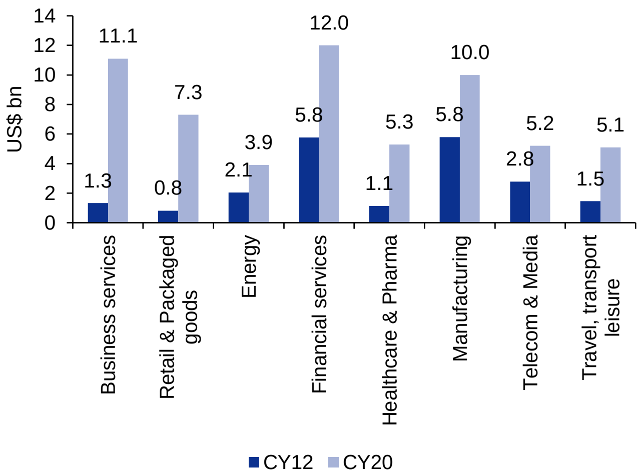
SOURCES: INCRED RESEARCH, GARTNER INC., WORLD BANK

Figure 5: Annualized revenues based on total contract value (TCV) doubled during 2000-2010



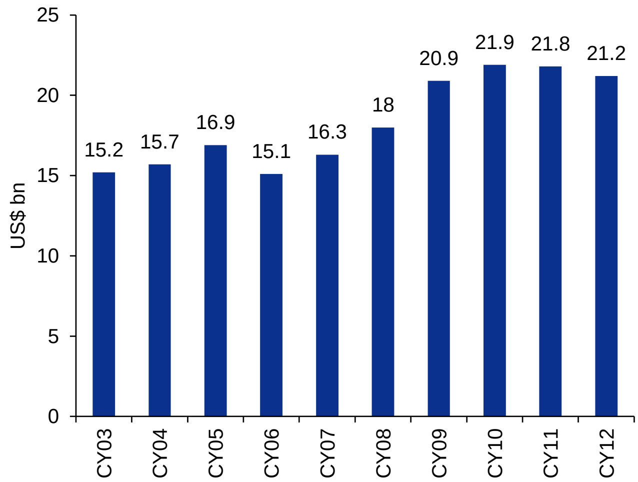
SOURCES: INCRED RESEARCH, TCV BASED ON >US$ 25 MN+ CONTRACTS INFORMATION SERVCIES GROUP (ISG)

Figure 6: ACV rose significantly over CY12-20



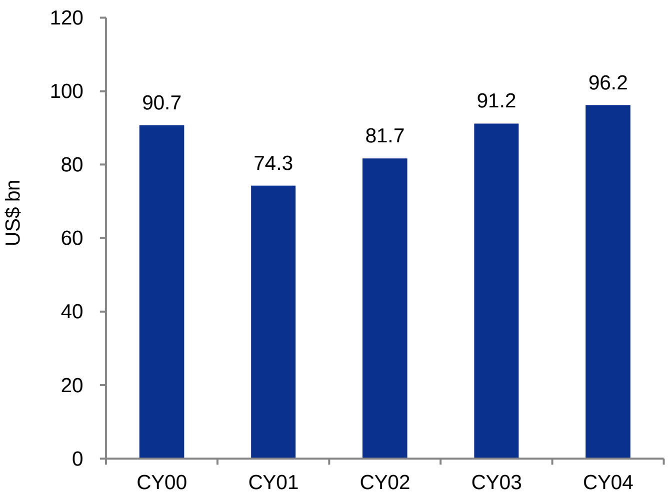
SOURCES: INCRED RESEARCH, ACV IS ANNUAL CONTRACT VALUE, INFORMATION SERVICES GROUP INC (ISG)

Figure 7: CY20 financial services ACV alone was ~57% of CY12's total ACV



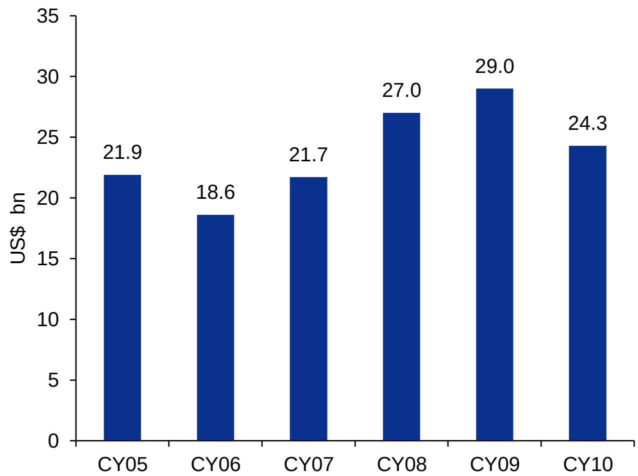
SOURCES: INCRED RESEARCH, >US$ 5 MN ANNUAL CONTRACT VALUE OF AWARDS, INFORMATION SERVCIES GROUP INC (ISG)

Figure 8: Contracting accelerated post early 2000 recession



TRANSACTED CONTRACT VALUE TREND FOR DEALS >US$ 25M
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC

Figure 9: Global financial crisis drove IMS deal activity

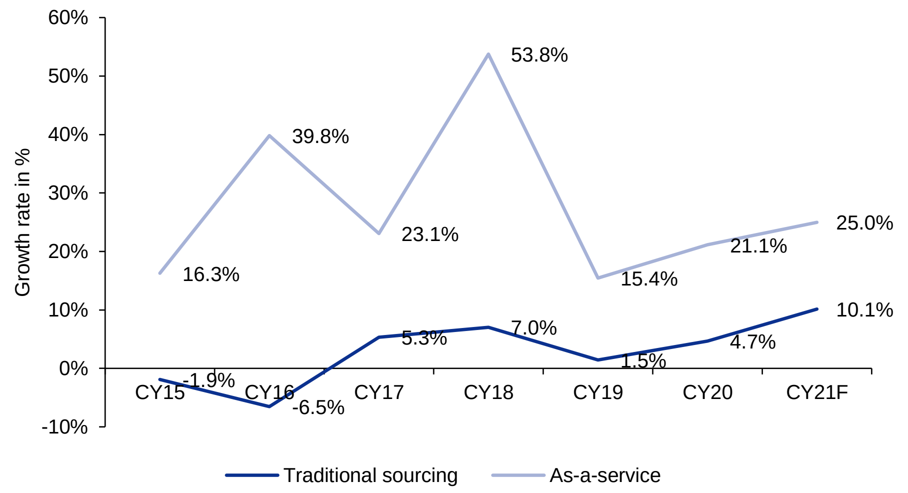


TCV TREND FOR DEALS >US$ 25M, INFRASTRUCTURE MANAGEMENT SERVICES (IMS), SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC

Response post Covid-19 was identical - pace of recovery was faster as the perceived impact was higher than GFC…

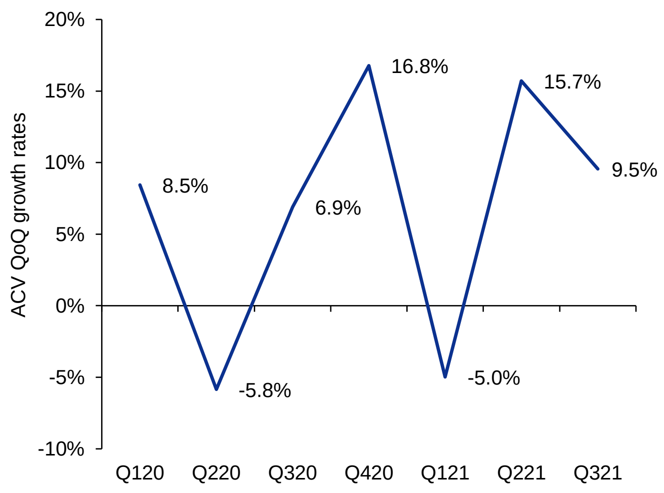
We believe Covid-19 accelerated structural shift to the as-a-service (AAS) model by large and small enterprises as 67% of the 400 Global 2000 executives surveyed by Infosys and HFS Research in Dec 2020 believed the impact on the supply chain, employee availability and customer intimacy (the worst-affected areas) was even bigger than the GFC (global financial crisis) of 2008. This, we believe, is the key to 1) faster recovery in contracting activity vs. volatility post GFC with a yoy decline over four quarters, and 2) a sharp uptick in cost takeout-linked traditional sourcing, which as per current ISG estimates could report the fastest yoy growth in contracting since 2015.

Figure 10: Covid-19 drove traditional sourcing growth to its highest level since 2015…



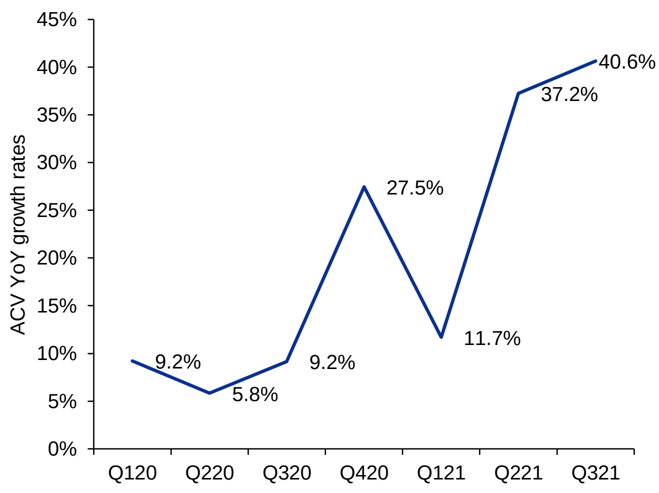
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC FORECAST

Figure 11: … led by a sharp recovery in yoy ACV…



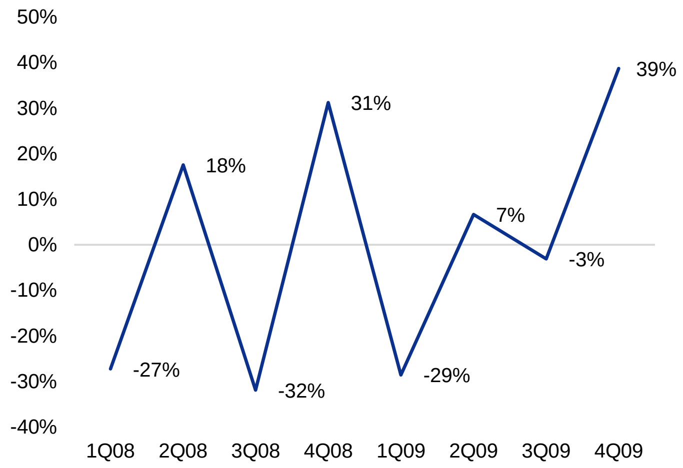
CALENDAR YEAR-END
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC (ISG)

Figure 12: … post 2QCY20 - a contrast to GFC…



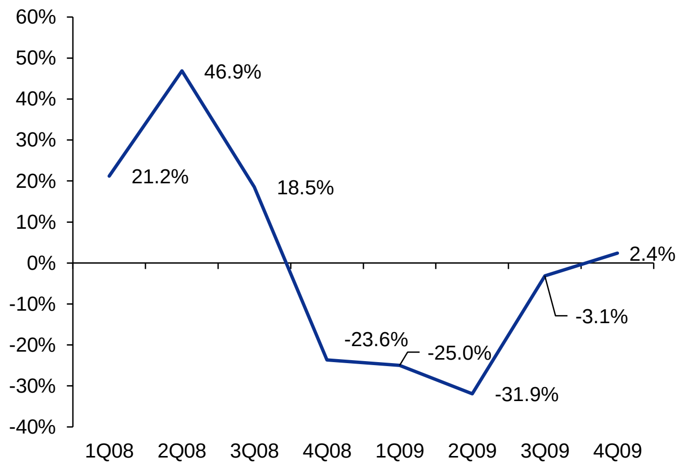
CALENDAR YEAR-END
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC (ISG)

Figure 13: …when sequential contracting was volatile...



CALENDAR YEAR-END
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC (ISG)

Figure 14: …with yoy contracting declining for four quarters

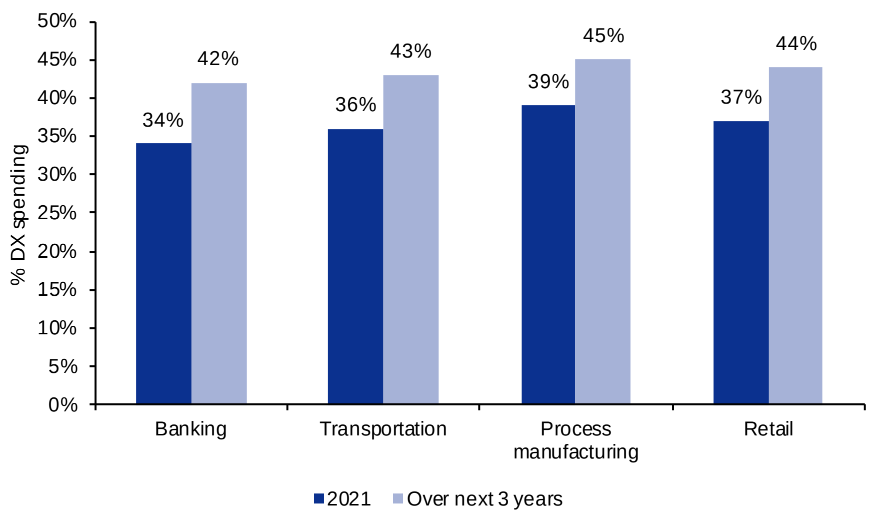


CALENDAR YEAR-END
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC (ISG)

… and accelerated DX journey underpinned by AAS model

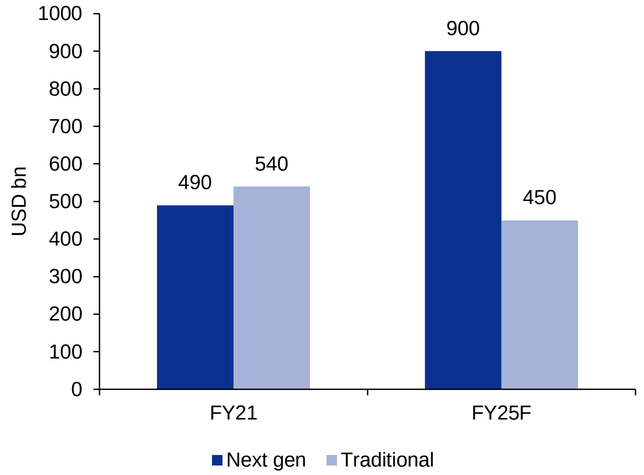
International Data Corporation (IDC), a global market intelligence firm, in its Sep 2021 State of the Market Outlook highlights that digital transformation (DX) remains a key investment priority in the medium term, with spending likely to increase across key industries and primarily driven by mobile applications, Internet of Things (IoT), next-generation security, artificial intelligence, and big data technologies. The shift could create incremental net revenue opportunities worth ~US$320bn over FY21-25F according to Wipro Nov 2020 presentation, driven by 1) ~15-20% CAGR in digital (comprising Cloud hosting, Cloud migration, ADM DevOps) services, and 2) ~35-45% CAGR in next-gen services (5G, robotics, block chain, digital strategy and consulting, IoT, others), while the traditional sourcing market could decline US$90bn over the same period.

Figure 15: Digital transformation spending rising across key verticals



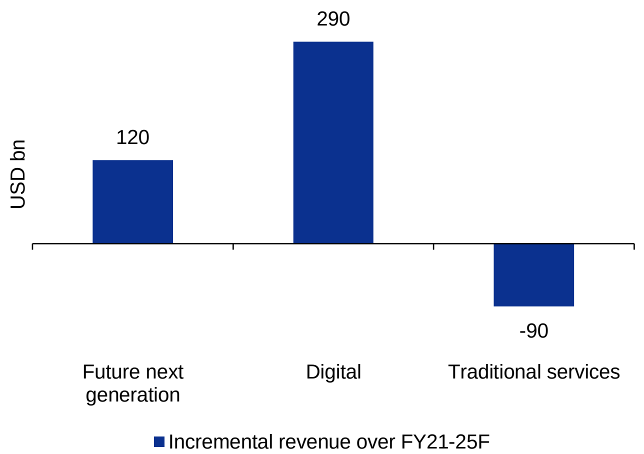
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP, INC

Figure 16: Revenue growth to be driven by next-gen services over FY21-25F…



SOURCES: INCRED RESEARCH, COMPANY PRESENTATION

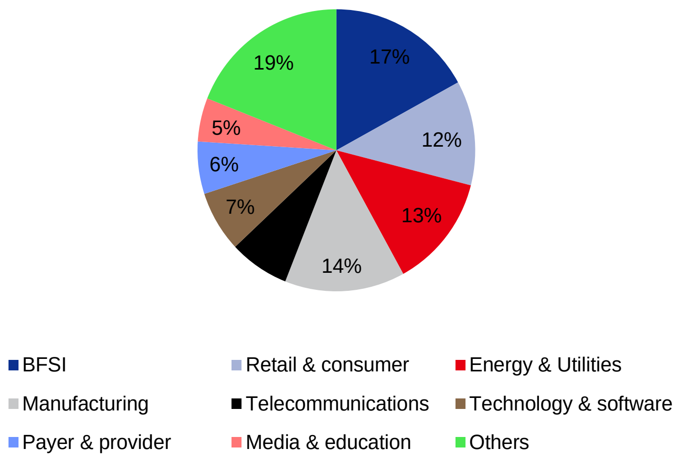
Figure 17: …even as traditional market set to decline



SOURCES: INCRED RESEARCH, COMPANY PRESENTATION

As per Wipro's Nov 2020 presentation, the Americas could contribute 42% of the incremental demand over FY21-25F, while 58% could come from Europe and Asia Pacific/Middle East/Africa (APMEA). Of the key verticals, BFSI could contribute 17% of incremental demand, retail and consumer 12%, energy and utilities 13% and manufacturing 14% over FY21-25.

Figure 18: Key verticals BFSI, retail, manufacturing to contribute ~43% of incremental growth (FY21-25)

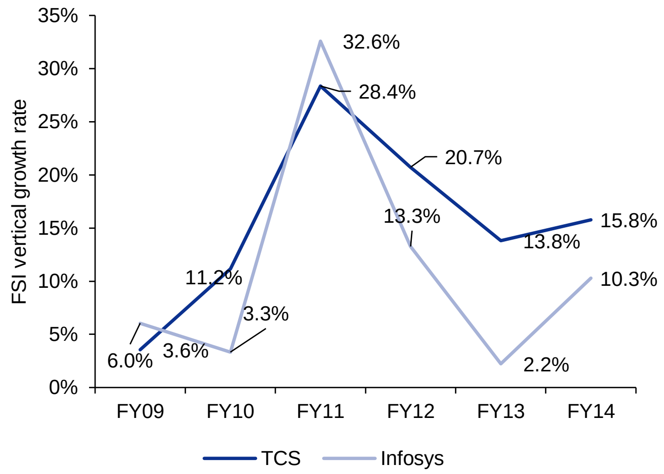


SOURCES: INCRED RESEARCH, COMPANY PRESENTATION

Banks incrementally looking to offshore vs. insource in the near term

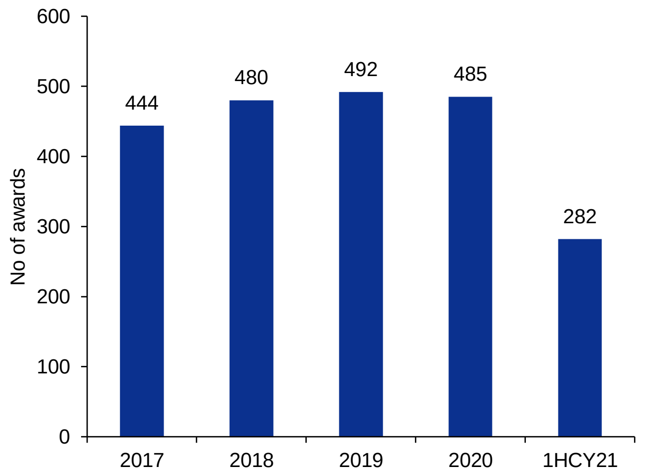
Our interactions with industry participants help us understand the underlying trends in the key outsourcing-vs.-insourcing debate. While insourcing remains a key priority for large banks, we understand from our industry interactions that banks are increasingly looking to outsource to third-party vendors in the near term. Although the availability of talent is central to this argument, there are other interesting dynamics at play, in our view. Considerable outsourcing by the financial services (FSI) segment post GFC resulted in Indian vendors capturing a significant market share of incremental spending – Fig. 19 depicts FSI growth for Tata Consultancy Services (TCS) and Infosys post-GFC. This, coupled with trends such as pilots for adoption of next-gen technologies, nearshoring, and vertical-focused start-up ecosystem by industry leaders, shifted incremental market share to non-Indian vendors. However, we believe banks are increasingly likely to lean towards offshoring post Covid-19 given 1) the availability of large talent pools trained on next-gen technologies, and 2) reduced market share of 2015-2020 spends. This could be positive for Indian vendors in the near term. ISG commentary of FSI setting an all-time contracting record corroborates our checks (Fig. 20).

Figure 19: FSI growth trend post-GFC



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 20: ISG commentary on FSI contracting corroborates our checks

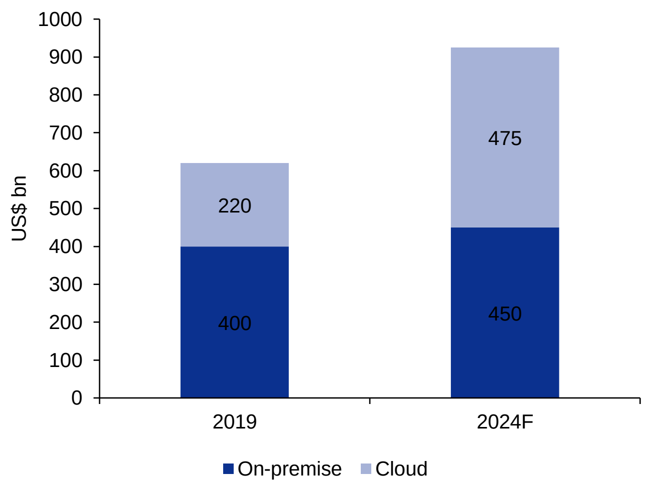


SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP (ISG)

Cloud is central to this journey; adoption implies good runway

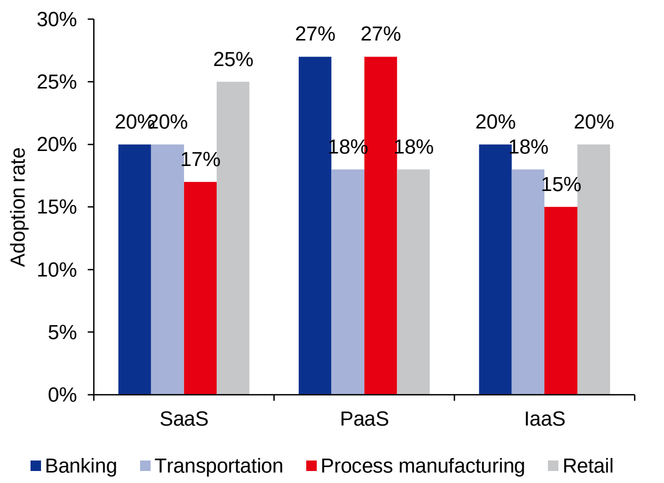
IDC's Sep 2021 State of the Market Outlook highlights that Cloud, central to DX, is set to account for >50% of worldwide software spending (~US$475bn) in 2024 vs. ~35% or ~US$210bn in 2019 as Cloud adoption rates accelerate. With a 16.6% CAGR over 2019-2024, Cloud will account for ~84% of the incremental growth dollars while the overall market is likely to witness a 8.7% CAGR in the same period. Interestingly, despite a meagre 2.4% CAGR, on-premise software would continue to be a US$450bn opportunity in 2024. Finally, ISG's Sep 2021 study on Cloud buying interest suggests the buying intent has more than doubled since Dec 2020 and alleviates investor concerns on the durability of demand.

Figure 21: Cloud set to account for more than half of overall software market



SOURCES: INCRED RESEARCH, INTERNATIONAL DATA CORPORATION (IDC)

Figure 22: Cloud adoption implies a good runway for growth over the next few years



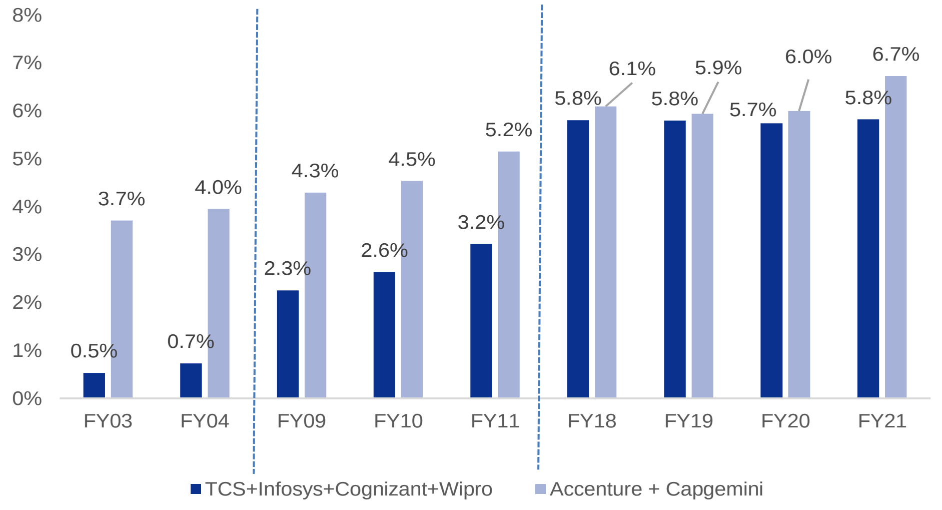
SOURCES: INCRED RESEARCH, SOFTWARE AS A SERVICE (SAAS), PLATFORM AS A SERVICE (PAAS), INFRASTRCUTURE AS A SERVICE (IAAS), ADOPTION RATE AS PER IDC JULY 2021 SURVEY.

Multi-sourcing strategy by clients, existing scale, and stable leadership was central to winners of the previous cycles.

Large-sized vendors gained market share in previous cycles ›

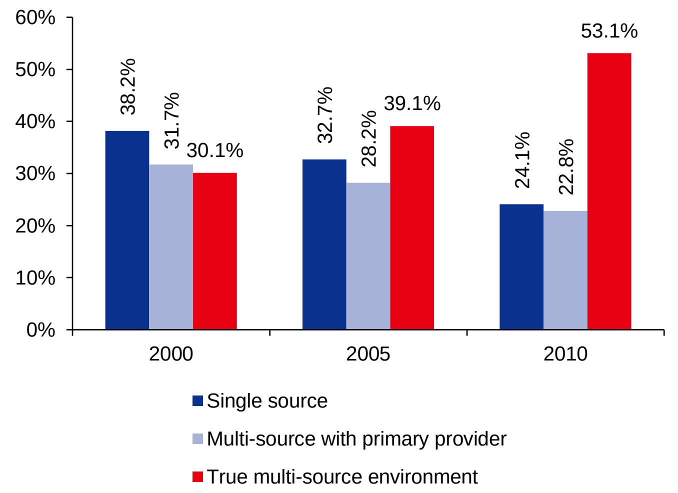
Analysing India's IT sector's performance over 2001-2010 suggests global economic downturns have generally led to market share gains, primarily driven by offshoring and available talent pool. <u>During FY02-08, TCS posted ADM revenue CAGR of 23%, Infosys 34%, while Wipro posted 28% CAGR during FY04-08 as multi-sourcing by Global 2000 enterprises (G-2000) opened opportunities for competition</u>. Similarly, the three companies and HCL Technologies posted IMS revenue CAGR of 28%, 19%, 25% and 36%, respectively, in FY10-14, post-GFC. We believe a favourable scale then, consistent strategy, execution and leadership, and existing capacity, which helped deploy talent at scale for faster project ramp -ups, were key differentiators that helped TCS, Infosys, Wipro and HCLT win incremental revenue market share.

Figure 23: Indian vendors gained revenue market share across cycles



MARKET SHARE CALCULATED AS % OF INDUSTRY REVENUE
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 24: Almost half of G-2000 sourced from 3+ IT services providers in 2010…



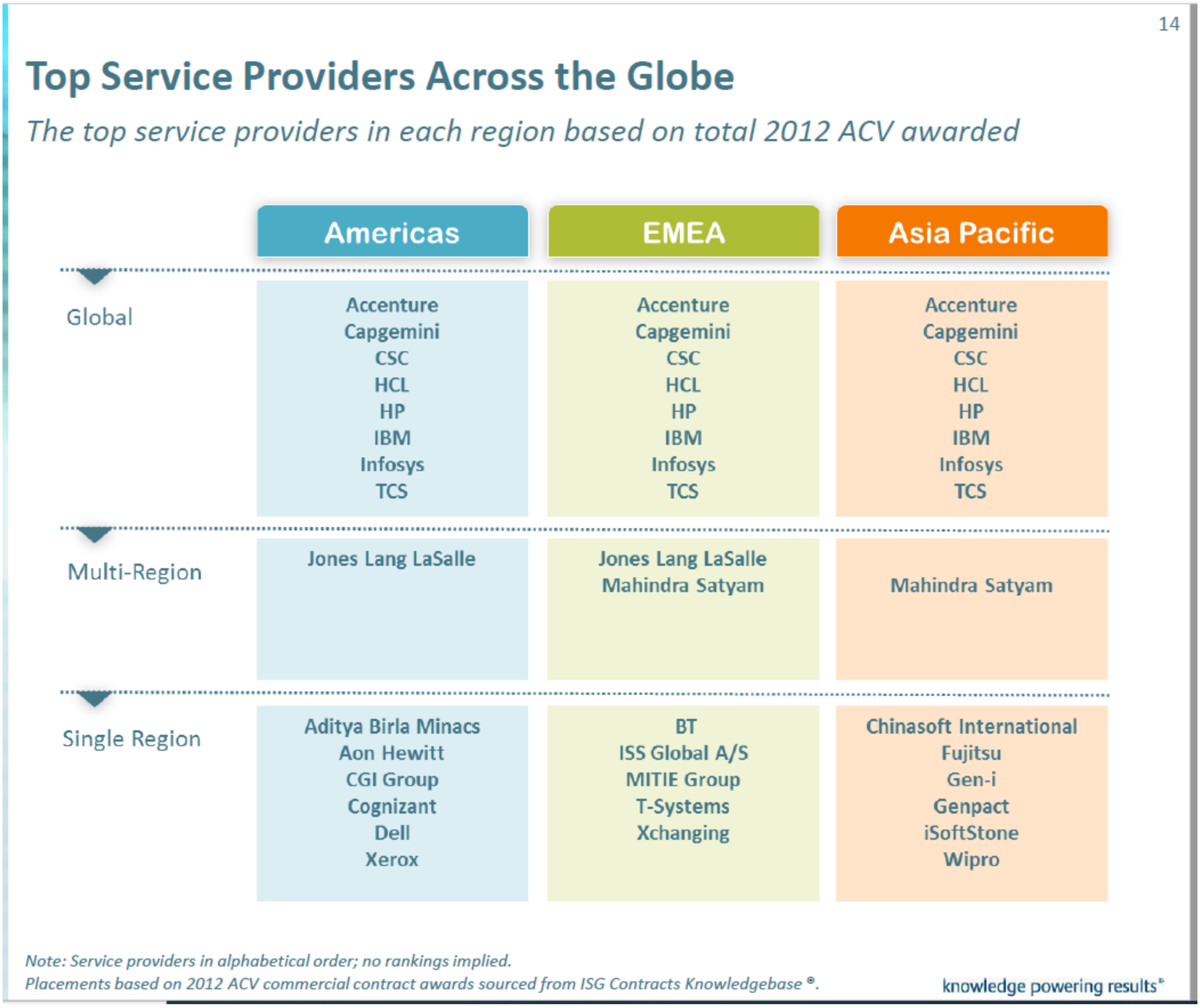
SOURCES: INFORMATION SERVICES GROUP, INC, INCRED RESEARCH

Figure 25: … in turn opening opportunities for competition, especially for Tier-I IT firms

Year	Single Source Environments[2]	Multi-Source Primary Providers[2]	Multi-Source Environments[2]
2010	IBM, HP, CSC, Accenture, All Others	IBM, HP, CSC, BT, T-Systems, All Others	IBM, HP, Accenture, CSC, BT, T-Systems, AT&T, Infosys, Mahindra Satyam, TCS, Capgemini, Wipro, Cognizant, Atos Origin, Siemens
2005	IBM, HP, CSC, Accenture, Xerox ACS, All Others	IBM, HP, Accenture, Capgemini, CSC, T-Systems, All Others	IBM, HP, CSC, Accenture, AT&T, Atos Origin, BT
2000	IBM, HP, CSC, AT&T, All Others	IBM, HP, CSC, T-Systems, All Others	IBM, HP, AT&T, CSC, Accenture

SOURCES: INFORMATION SERVICES GROUP, INC, INCRED RESEARCH

Figure 26: … with many Tier-I firms becoming preferred service providers over time



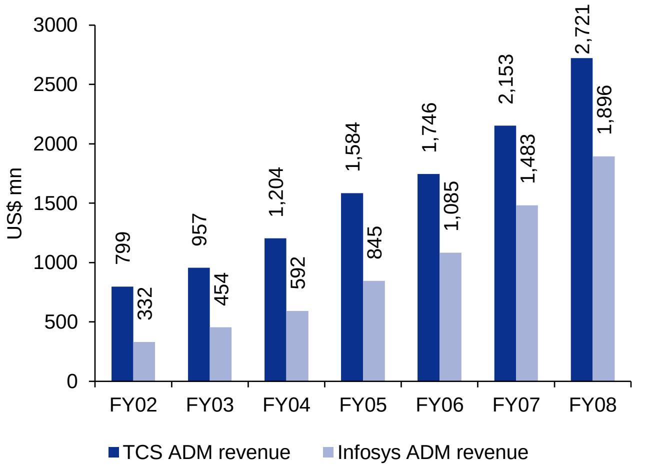
SOURCES: INFORMATION SERVICES GROUP, INC, INCRED RESEARCH

Figure 27: We believe stable leadership-led consistent strategy execution led to market share gains; TCS saw the least leadership change

TCS CEOs	**Period**
S Ramadorai	1996-2010
N Chandrasekaran	2010-2017
Rajesh Gopinathan	From 2017
Infosys CEOs	
N R N Murthy	1991-2002
Nandan Nilekani	2002-2007
S Gopalakrishnan	2007-2010
S D Shibulal	2011-2015
Vishal Sikka	2015-2017
Salil Parekh	From 2018
Wipro CEOs	
Azim Premji	1968-2007
Girish Paranjpe & Suresh Vaswani	2008-2010
TK Kurien	2011-2015
Abidali Neemuchwala	2015-2020
Thierry Delaporte	From 2020
HCLT CEOs	
Shiv Nadar	2005-2007
Vineet Nayar	2008-2012
Anant Gupta	2013-2016
C Vijaykumar	From 2017

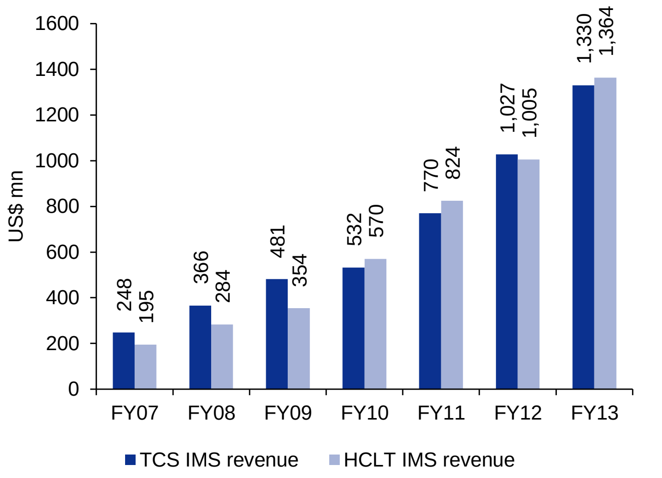
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 28: ... driving average 28% CAGR in TCS and Infosys ADM revenues over FY02-08



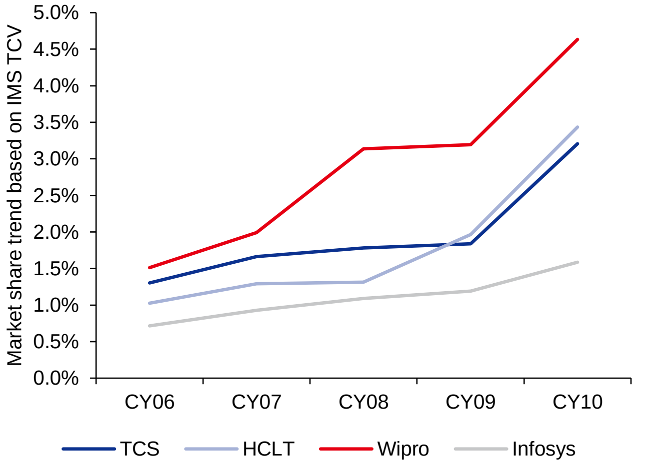
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 29: … and average 35% IMS revenue CAGR for TCS and HCLT over FY07-13



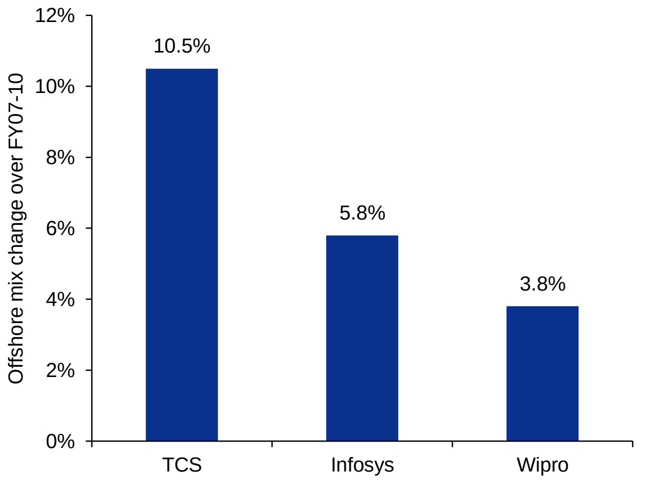
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 30: TCS and HCLT gained organic revenue market share…



TCV IS TOTAL CONTRACT VALUE, IMS IS INFRASTRUCTURE MANAGEMENT SERVICES
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 31: …as clients aggressively increased offshoring over FY07-10 to lower total costs



BAR INDICATES CHANGE IN OFFSHORING,
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Current global disruption favours mid-caps

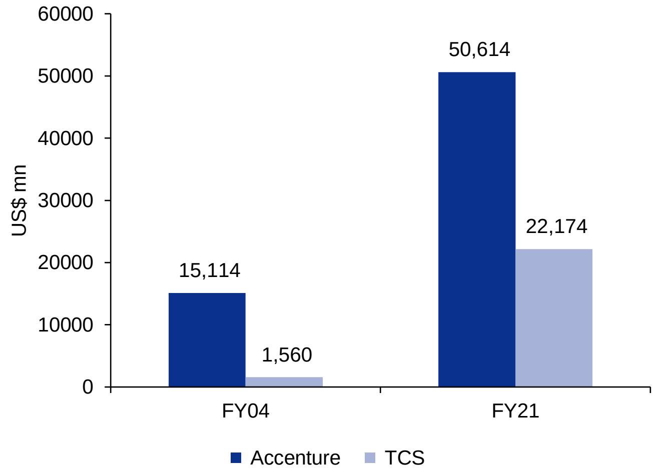
Global downturn + empowered leadership + concentrated ownership = recipe for value creation ➤

Global disruptions led to large opportunities across Global 2000 enterprises while mid-sized firms have key building blocks in place to win market share. They include 1) ideal revenue scale (Larsen & Toubro Infotech's [LTI] FY21 revenue size is at similar size to TCS's FY04 revenues) to sustain growth momentum, 2) deal/contract sizes in a sweet spot, 3) existing capacity unlikely to be an execution constraint given the work-from-home environment, 4) empowered leadership backed by strong parentage, and 5) well-capitalized balance sheets to drive investments in a) sales and delivery leaders, b) capabilities, c) partnership ecosystem, d) advisory-led deals, and M&A, and e) a better incentivization structure. These key building blocks could help mid-sized IT firms such as LTI, Mindtree, Mphasis, Persistent Systems, L&T Tech and Coforge gain mind and market share in the current cycle and sustain the current growth momentum. We believe investors should play this structural journey of mid-sized firms as scale weighs on the growth rates of large-sized firms.

Scale of mid-sized IT firms is ideal for accelerated growth; TCS is a great analogy

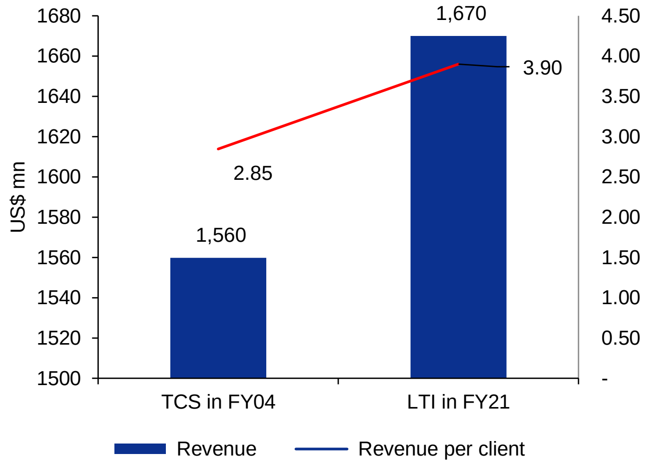
TCS's revenues of ~US$1.6bn, approximately the same as that of LTI in FY21, was a 10th of Accenture's, at US$17bn in FY04. Over 17 years (FY04-FY21), TCS's revenues grew at a 24% CAGR to become half the revenue size of Accenture (ACN US: Not Rated), despite Accenture acquiring 36+ companies in FY21 alone and over 200 since 2015) with a 150bp increase in revenue market share to 1.8% vs. 0.1% in FY04. TCS was able to achieve this due to two global disruption-led offshoring cycles, superlative execution and a self-fulfilling cycle of talent attraction, capability building and cash generation. We believe mid-sized firms such as L&T InfoTech, Mphasis, Coforge, Persistent Systems, Mindtree, L&T Technology Services, etc (discussed in detail later in the report) have all the right ingredients to participate in and win incremental market share from the current DX cycle.

Figure 32: TCS outgrew Accenture over FY04-21



SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 33: Current revenue size of mid-sized firms is ideal to mimic the trend exhibited by TCS

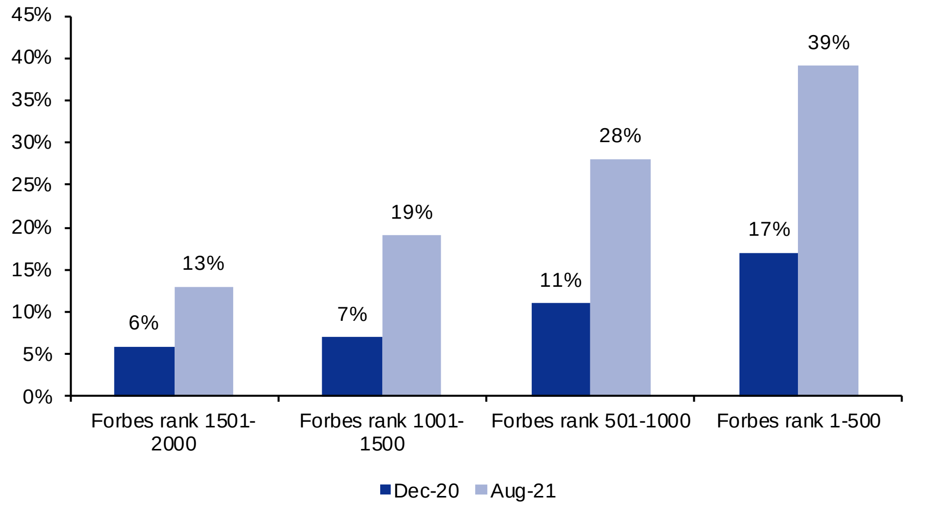


SOURCES: COMPANY REPORTS, INCRED RESEARCH

As it was a decade ago, G-2000 companies are spending and not just technology leaders

ISG's recent proprietary study indicates that the number of Forbes G-2000 companies showing increased buying intent for Cloud services has more than doubled since Dec 2020. Although, the G1 to G500 segment saw the biggest increase in buying interest, the trend is visible across G-2000 enterprises. This could help sustain growth momentum in as-a-service ACV (posted a 21.7% CAGR over FY14-20 along with a 32-percentage point (pp) increase in contribution to 55.5% vs. 23.2% in CY14), in turn creating sectoral tailwinds benefitting most of the players.

Figure 34: Large opportunity beckons, given Cloud buying intention increasing across Forbes 2000 companies

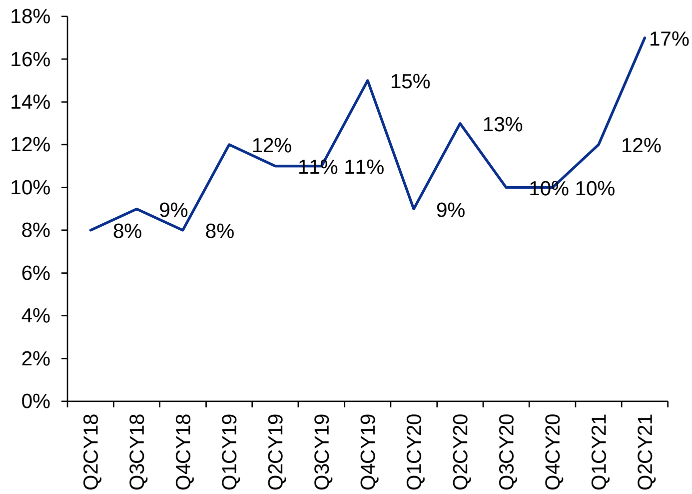


SOURCES: INFORMATION SERVICES GROUP, INC, INCRED RESEARCH,

Deal sizes are in a sweet spot for mid-sized firms and offshoring is increasing

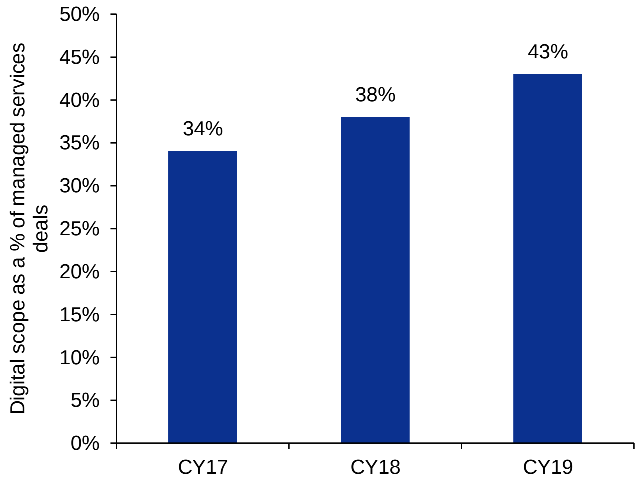
According to ISG, 17% of awards in 2Q21, the highest since 3QCY12, had an ACV of between US$20m and US$39m, a range equivalent to larger deals from a decade ago when contracts were bigger and of a longer duration. Between 2017 and 2020, mega deals made up less than 15% of total ACV vs. 20% during 2015-17 and the trend is continuing into 2021 with YTD mega-deal ACV at ~11%. This, coupled with the rise in contract award count (ISG expects 2,000+ awards in CY21F) and ACV (which is up over 2019), imply heightened activity in smaller-sized deals, a sweet spot for mid-sized firms. This, we believe, is opening the field to competition and is reflected in the deal-win participation of mid-sized firms.

Figure 35: Percentage of managed services deals in the US$20m-39m bucket…



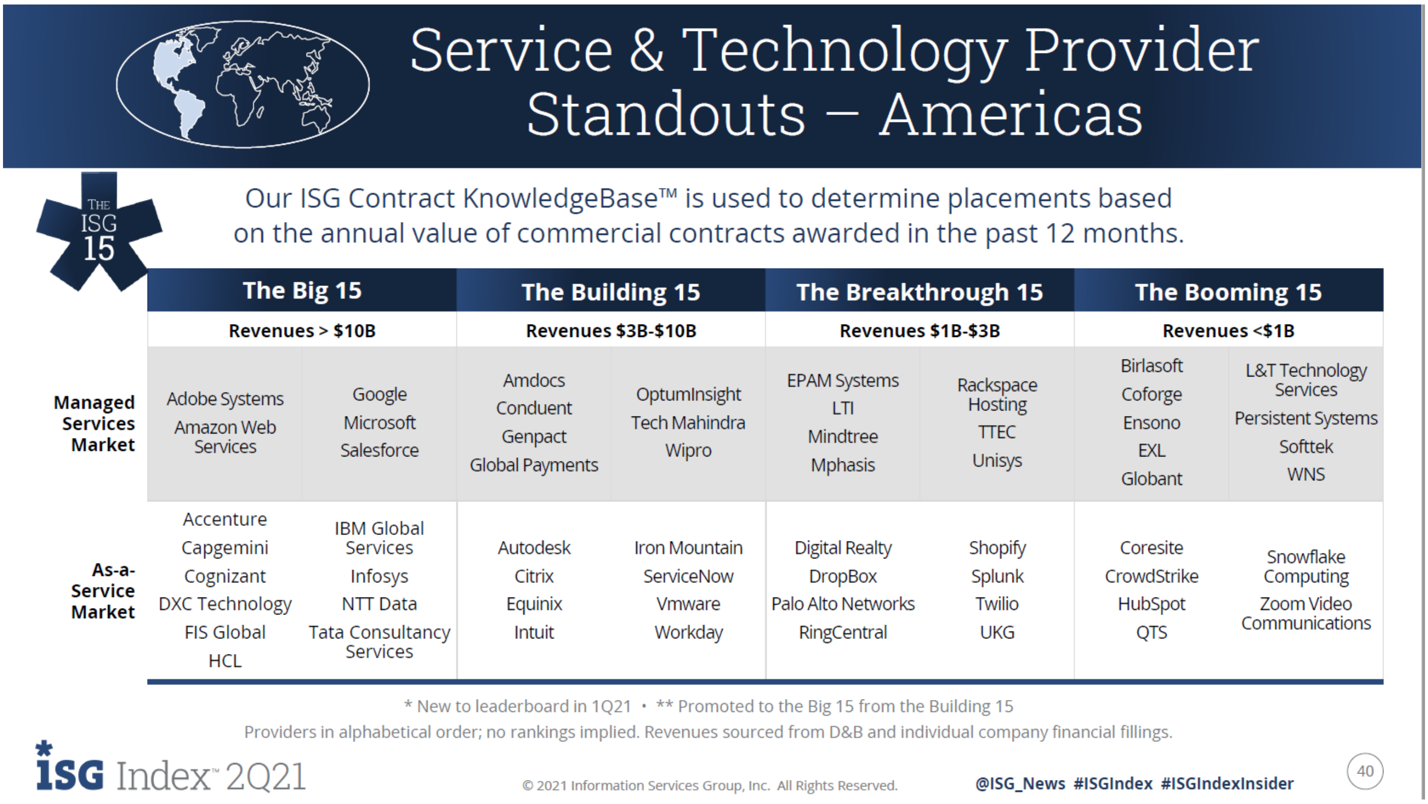
SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP (ISG)

Figure 36: … while the digital awards mix rose



SOURCES: INCRED RESEARCH, INFORMATION SERVICES GROUP (ISG)

Figure 37: As in 2009, large opportunities are opening up for competition; participation of mid-sized companies on the rise



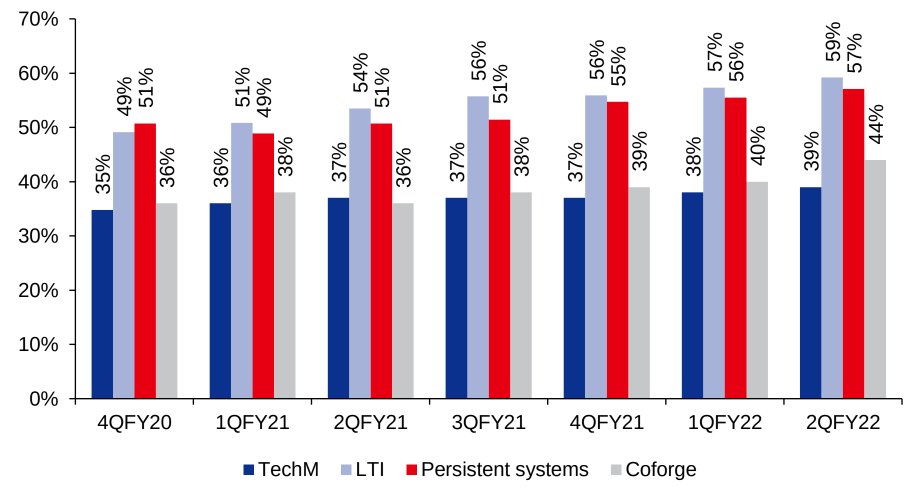
SOURCES: INCRED RESEARCH, ISG

Figure 38: Deal wins accelerated as size (>US$1bn revenues) opened the doors for mid-sized firms to advisory-led deals

Deal wins (US$ m)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22
Mindtree deal wins	307	207	393	391	303	312	375	504	360
Mphasis new deal wins	174	189	201	259	360	247	245	505	241
Coforge deal wins	176	218	180	186	200	193	201	319	285
Birlasoft new deal wins	30	278	67	89	120	56	162	94	104
Cyient deal wins	165	181	256	117	127	195	238	140	156

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 39: Like the GFC period, offshore mix improved over 4QFY20-2QFY22



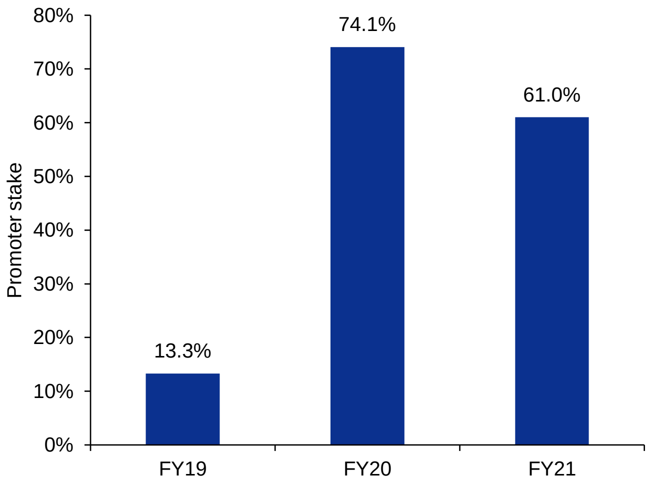
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Mid-sized firms have building blocks in place to emerge as winners

India's mid-sized IT firms have endured ownership and operating structure reorganizations in the past few years. Corporate restructuring was followed up with management transition, investments in sales (including alignment of incentives structures) and delivery senior leadership, and advisory deal ecosystems, building of niche capabilities (build or tuck-in M&A) and partnership ecosystems, and leveraging strong parentage, and a better incentivization structure (ESOPs) to attract talent. Early markers of success include 1) consistent go-to-market, 2) better operating metric (sales efficacy, order-booking, client mining & pyramid, etc.), and 3) improved financial performance (revenue, margin), and cash generation leading to higher shareholder pay-outs.

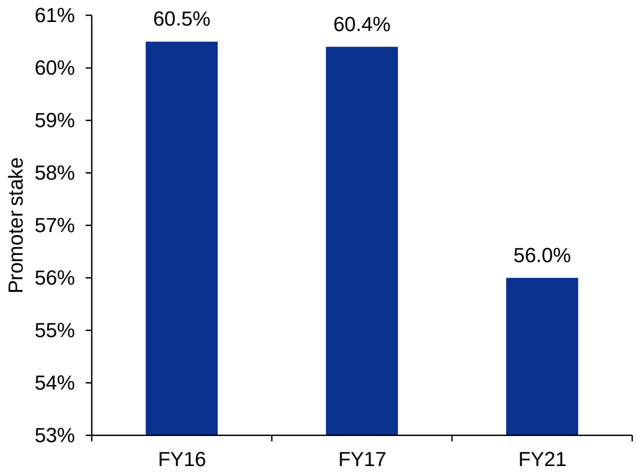
Among mid-sized firms, L&T Group acquired a 61% stake in Mindtree in 2019, Blackstone a 60.5% stake in Mphasis in 2016, and Baring PE a 70.1% stake in Coforge in 2019, while Birlasoft was demerged from KPIT Technologies in 2019. The exhibits below depict the story of mid-sized IT companies that witnessed ownership transition in the past few years.

Figure 40: Across mid-sized firms, Mindtree…



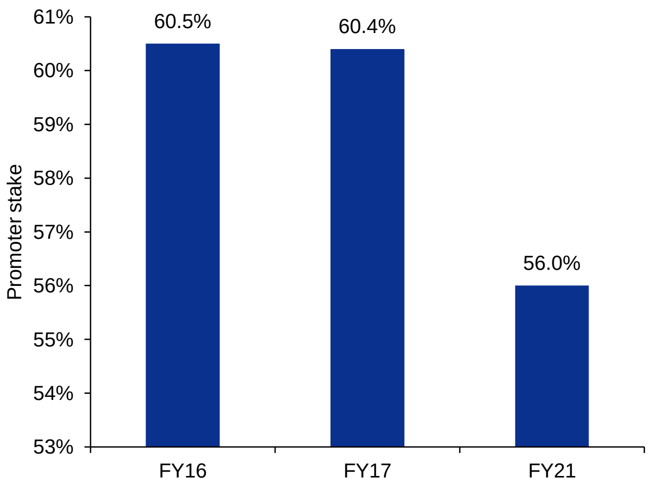
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 41: … Mphasis…



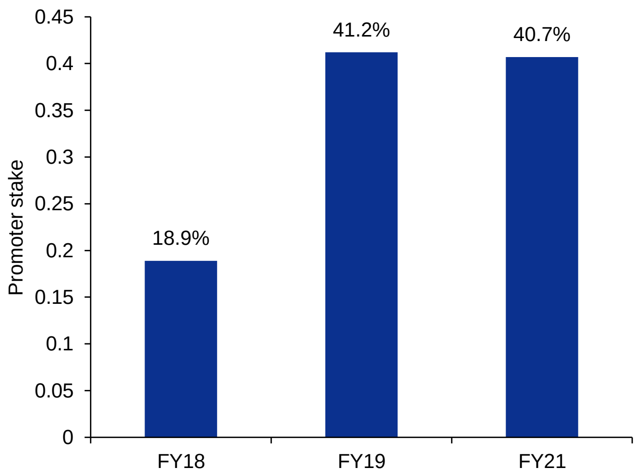
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 42: … Coforge…



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 43: … and Birlasoft witnessed ownership change



SOURCES: INCRED RESEARCH, COMPANY REPORTS

The exhibits below highlight companies such as Mindtree, Mphasis, Coforge, Persistent Systems and Birlasoft that have witnessed senior leadership transitions post ownership change. LTI and LTTS, which have witnessed stable leadership, have been detailed later in this report.

Figure 44: Corporate re-organisation was followed by management and senior leadership (including sales and delivery) transition at Mindtree

Name	Designation	Joined since	Earlier worked in
Debashis Chatterjee	CEO & MD	Aug-19	Cognizant
Venu Lambu	Executive Director & President - Global markets	Aug-20	Cognizant
Paneesh Rao	Chief People Officer	Sep-19	L&T Technology Services
Vinit Teredesai	CFO	Jun-20	KPIT
Radhakrishnan Rajagopalan	SVP & Global Head of Customer Success, Data & Intelligence	Jun-20	PwC, Timesberry Consulting LLP
Manikandesh Venkatachalam	Chief Business Officer, TTH vertical	Oct-19	Genpact, Cognizant
Klaus Seifert	Strategy Head Europe. CBO Germany, Austria, Switzerland	Sep-21	IBM
Erik Julius Larsen	Chief Business Officer - Nordics & Benelux	Sep-21	Cognizant
Dominic Del Giudice	Chief Business Officer - Asia Pacific	Sep-21	IBM
Sonal Basu	General Counsel	Jun-19	IBM India, Mindtree

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 45: Management and senior leadership (including sales and delivery) transition at Mphasis

Name	Designation	Joined since	Earlier worked in
Nitin Rakesh	CEO & ED	Jan-17	Syntel
Manish Dugar	CFO	Mar-20	Agnus Capital LLP, Practo & Inmobi
Srikanth Karra	Chief HRO	May-17	Syntel
Elango R	President - North America - New clients acquisiton	Sep-98	Captive unit of Bank of America, UB Group & Quality Inns India
Sundar Subramanian	President - Global Delivery	Nov-17	Cognizant
Eric Winston	Executive VP - General Counsel, Chief Ethics & Compliance Officer	Nov-17	Syntel
Veda Iyer	Global Chief Marketing Officer - Head Sales - APAC	Jun-17	Syntel
Srikumar Ramanathan	Senior VP- Head Portfolio Group	Sep-13	Citibank
Ravi Vasantraj	Senior VP and Global head- Business process services	May-19	Tech Mahindra, Syntel
Anurag Bhatia	Senior VP and Head of Europe	Jun-13	Accenture
Rohith Jayachandran	Senior VP and Head strategic accounts	May-03	Bank of New York Mellon

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 46: Management and senior leadership (including sales and delivery) transition at Coforge

Name	Designation	Joined since	Earlier worked in
Sudhir Singh	CEO & Executive Director	May-17	Genpact, Infosys, HUL
Adrian Morgan	EVP and Head of Advantage Go	Jan-17	CSC, Xchanging
Anurag Chauhan	EVP and Global Head - Insurance	Apr-18	Accenture
Kannika Sagar	Chief People Officer	Feb-20	HCL Infosystems & Aon Hewitt
Sanjeev Prasad	EVP and global head – APAC and Coforge DPA	Jul-19	Genpact, Sutherland & STG International
John Speight	Chief Delivery Officer & Head of business advisory	Jul-18	Genpact
Ajay Kalra	CFO	Nov-19	Genpact
Anuradha Sehgal	Chief Marketing Officer	May-21	HT Media
Shailendra Agrawal	EVP & Head of US	May-21	HCL Tech
Kishore Krishnan	EVP & Head of Europe	Feb-15	Capgemini
Suman Konkumalla	Head - Wishworks	Apr-21	Wishworks
Gautam Samanta	EVP and Global Head, BFS	Apr-17	Infosys
Madan Mohan	EVP and Global Head, Travel & transportation	Nov-17	Infosys, TCS
VIC Gupta	Global Business Leader – Digital & AI services	Oct-17	Microsoft

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 47: Management and senior leadership transition at Persistent Systems

Name	Designation	Joined since	Earlier worked in
Sandeep Kalra	Executive Director and CEO	May-19	Harman, HCL Tech
Sunil Sapre	Executive Director and CFO	Jun-15	L&T Infotech
Sameer Bendre	Chief People Officer	Dec-04	Nagpur Motors Pvt ltd
Tom Klein	General counsel and senior VP of corporate development	Nov-14	Greenberg Traurig LLP
Keith Landis	Chief Marketing Officer	Sep-19	Conduent, IBM
Bipin Sahni	Chief Strategy Officer	Feb-20	Wells Fargo
Charles Owen	Chief Corporate Development Officer	Dec-20	Ev2 Ventures, Harman
Apoorva Singh	Chief Delivery Officer	Dec-20	Mu Sigma

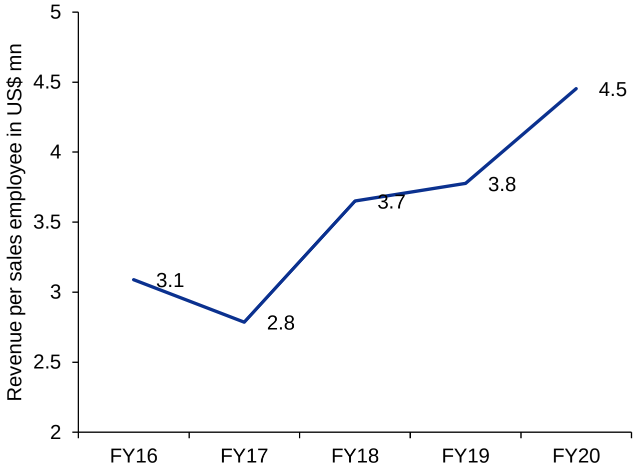
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 48: Management and senior leadership transition at Birlasoft

Name	Designation	Joined since	Earlier worked in
Dharmender Kapoor	MD & CEO	Dec-14	HCL Technologies
Shreeranganath Kulkarni	Chief Delivery Officer	May-19	Accenture, Cognizant & Infosys
Roop Singh	Chief Business Officer	Sep-19	IBM, Wipro
Arun Dinakar Rao	Chief People Officer	Apr-20	DXC, Deloitte, Applabs
Chandrasekar Thyagarajan	CFO	Sep-19	Conduent, IBM

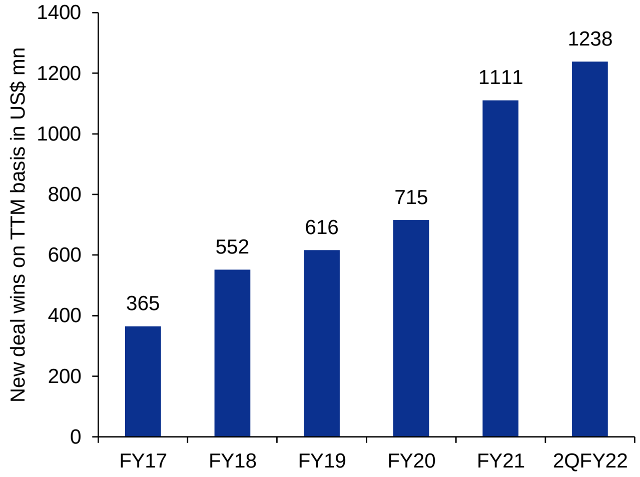
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 49: Senior management transitions drove sales productivity - improved 1.5x for Mphasis…



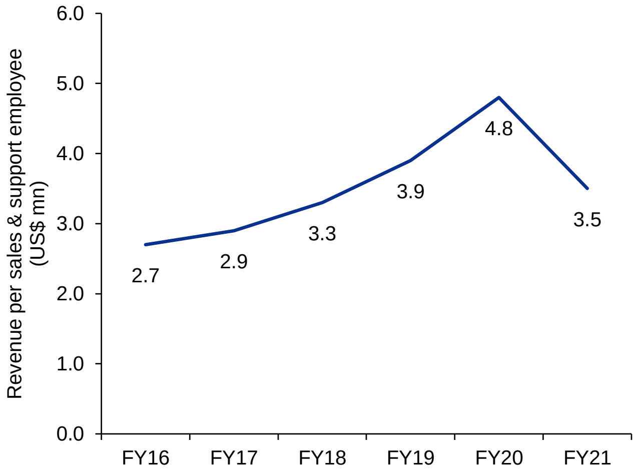
FY21 DATA IS NOT AVAILABLE
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 50: …while TTM booking improved by a 31% CAGR over FY17-2QFY22



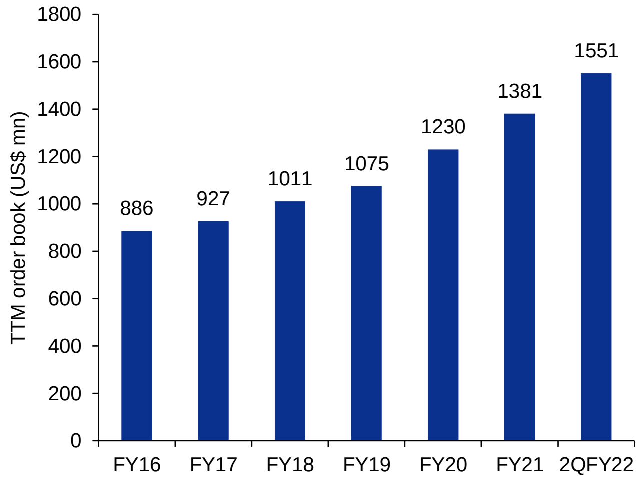
TTM IS TRAILING 12-MONTH AVERAGE
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 51: Mindtree's FY21 sales productivity impacted by Travel vertical…



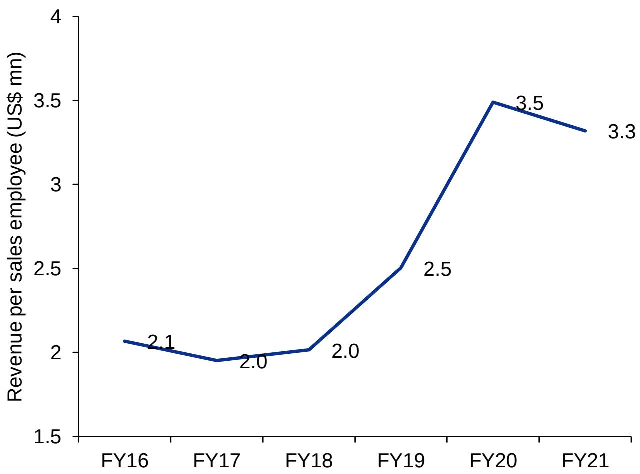
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 52: …but bookings improved 12.3% yoy in FY21



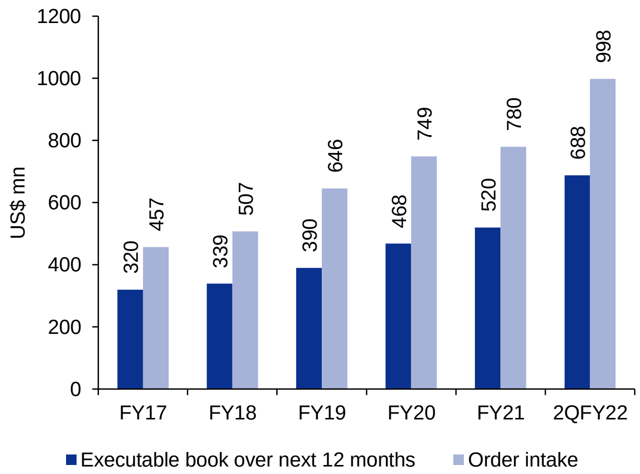
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 53: ~4x increase in incentives improved productivity…



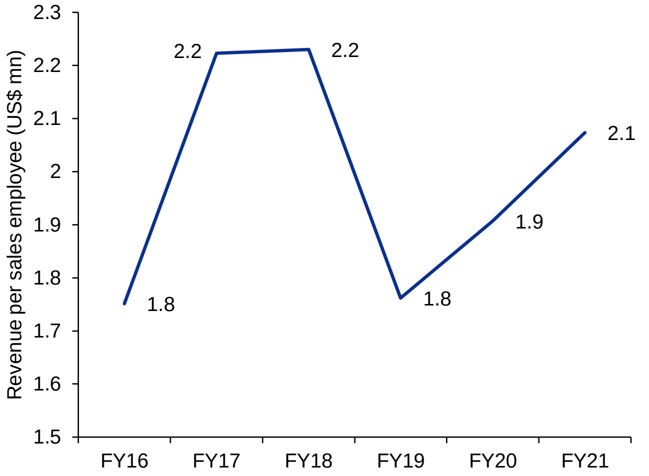
GIS BUSINESS DIVESTITURE IN 2019
OURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 54: … and ~2.15x increase in order book for Coforge



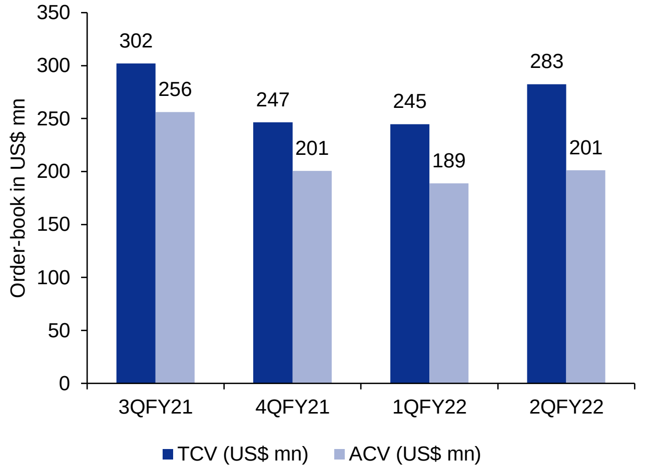
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 55: Persistent has significant potential to improve…



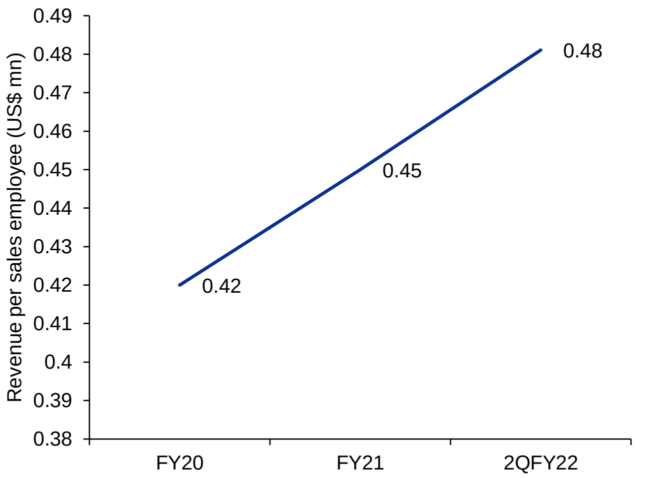
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 56: … and management's aim of sustaining US$200m-250m TCV could help accomplish the same



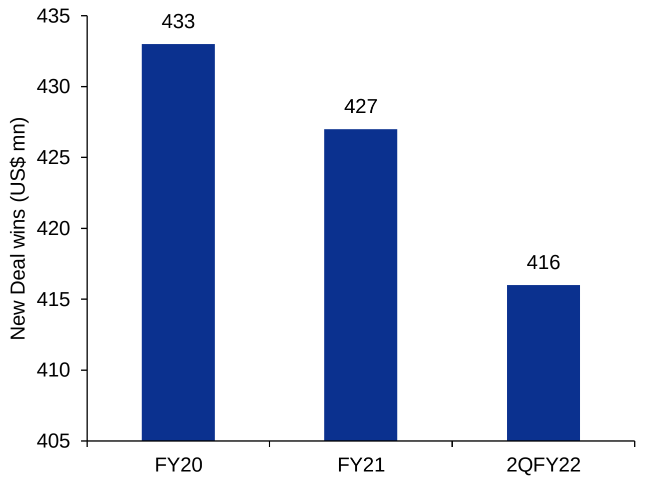
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 57: Although improved sales productivity and…



SOURCES: INCRED RESEARCH, COMPANY REPORTS, 2QFY22 DATA IS ANNUALIZED

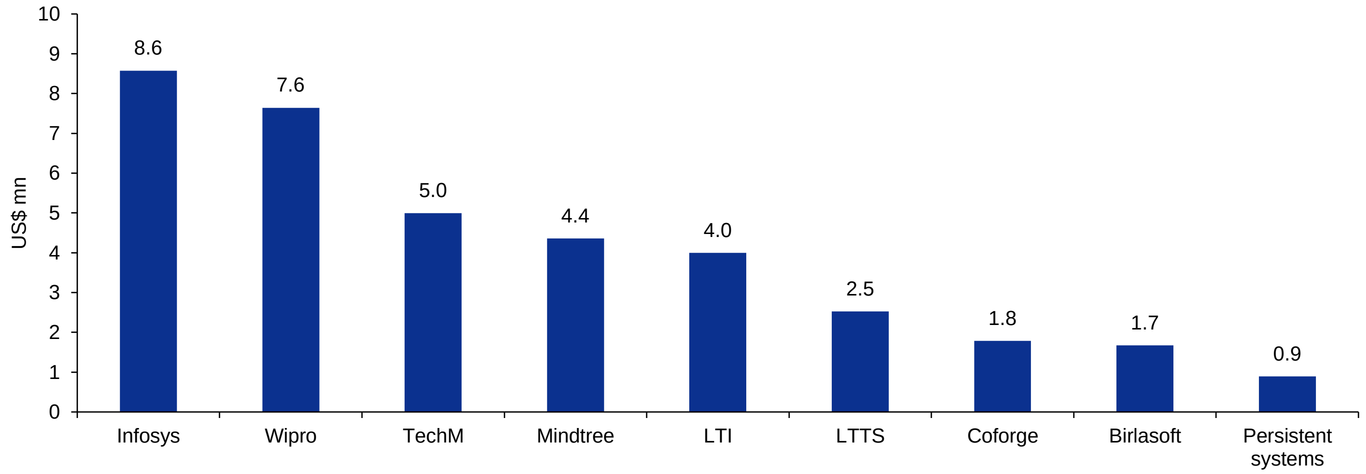
Figure 58: … TTM bookings could improve further for Birlasoft



SOURCES: INCRED RESEARCH, COMPANY REPORTS

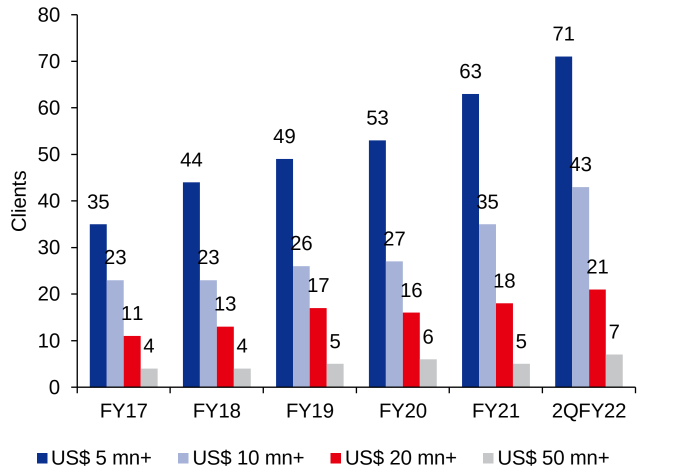
Order booking, a key monitorable, was encouraging for most firms. Mphasis's trailing 12-month (TTM) bookings improved by a 31% CAGR over FY17-2QFY22, while Mindtree's bookings improved by 12.3% yoy in FY21. Coforge's TTM order intake continues to rise with the company booking US$998m worth of orders on TTM basis as at 2QFY22-end, twice that of FY17. Persistent's management aims to sustain US$200m-250m worth of TCV, while Birlasoft is witnessing a rising proportion of new bookings.

Figure 59: Analyzing TTM revenue per active client suggests select mid-sized firms such as Mindtree and LTI are catching up TechM, while others have room for improvement



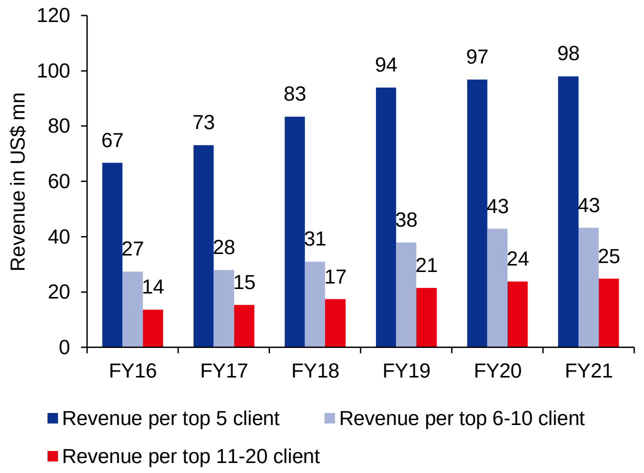
PERSISTENT SYSTEMS METRIC IS BASED ON INDEPENDENT SOFTWARE VENDOR (ISV) REVENUE AND SERVICES CLIENTS, COFORGE CLIENT BASE ASSUMED AT 400, DATA NOT AVAILABLE FOR TCS, HCLT, MPHASIS
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 60: LTI – Strong client mining led to better transition across buckets…



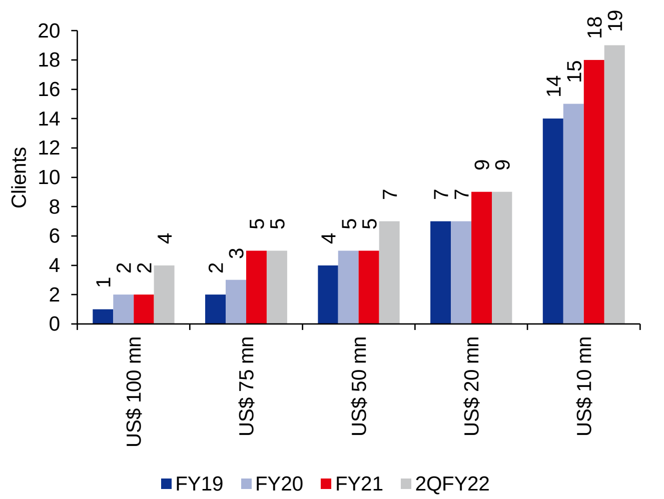
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 61: …with improvement in revenues per client metric



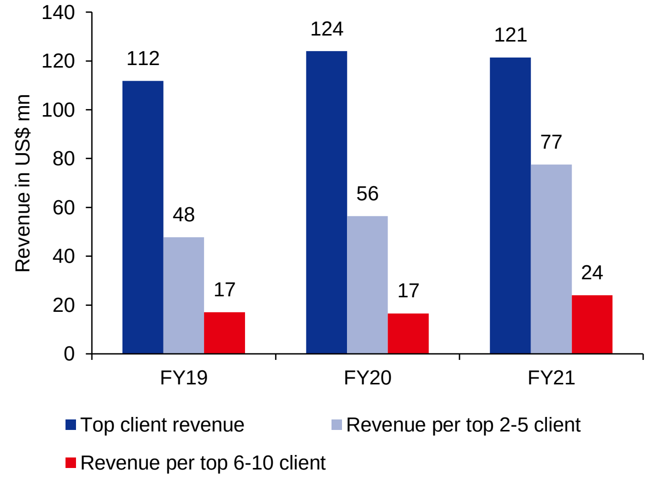
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 62: Mphasis added two clients to the US$100m bucket in 1HFY22



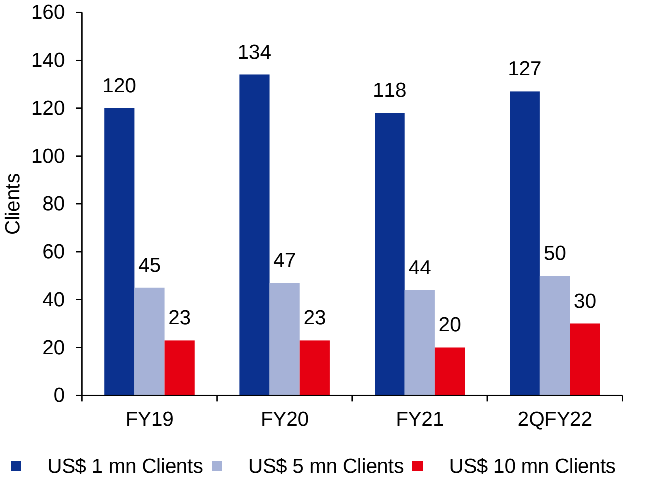
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 63: Client additions reflect improved mining across Mphasis's top 2-10 clients



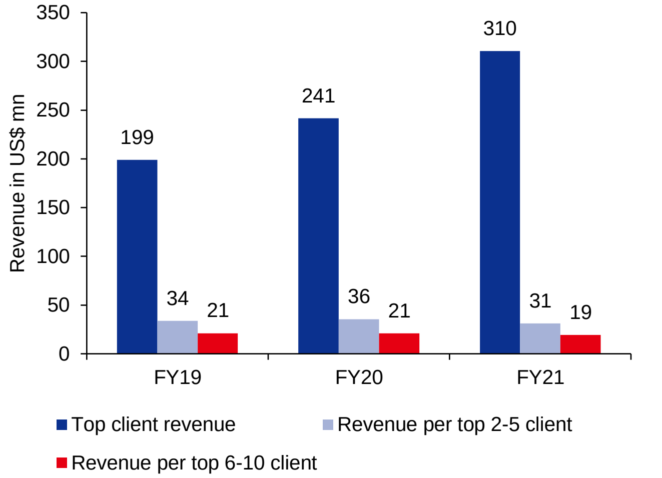
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 64: Mindtree added 10 clients to the US$10m bucket despite a negative impact of Covid on Travel portfolio



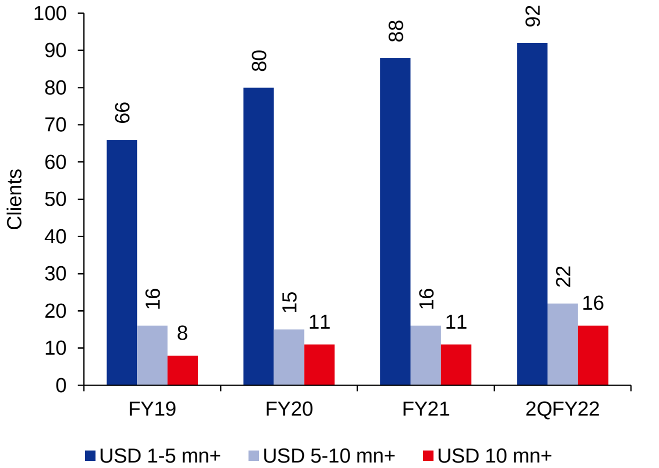
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 65: Mindtree's client additions could improve mining ex-top customer



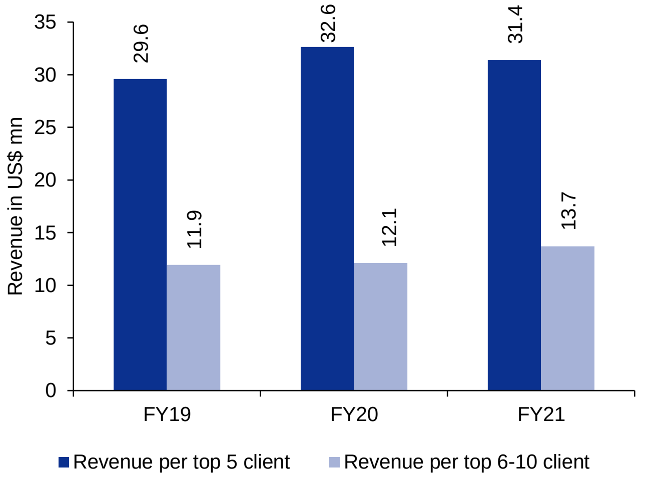
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 66: Coforge's US$10m+ accounts doubled in three years



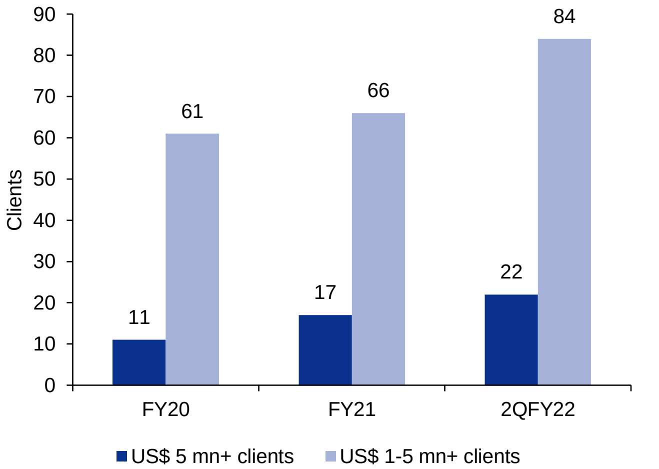
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 67: Client mining also reflects in improved revenues per client metric for Coforge



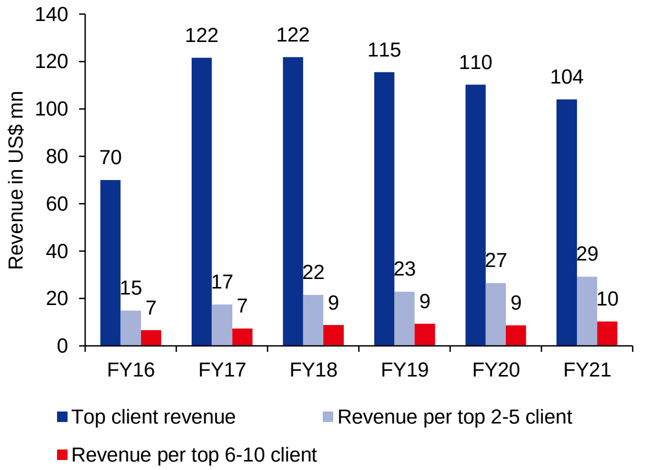
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 68: Client addition improving at Persistent Systems…



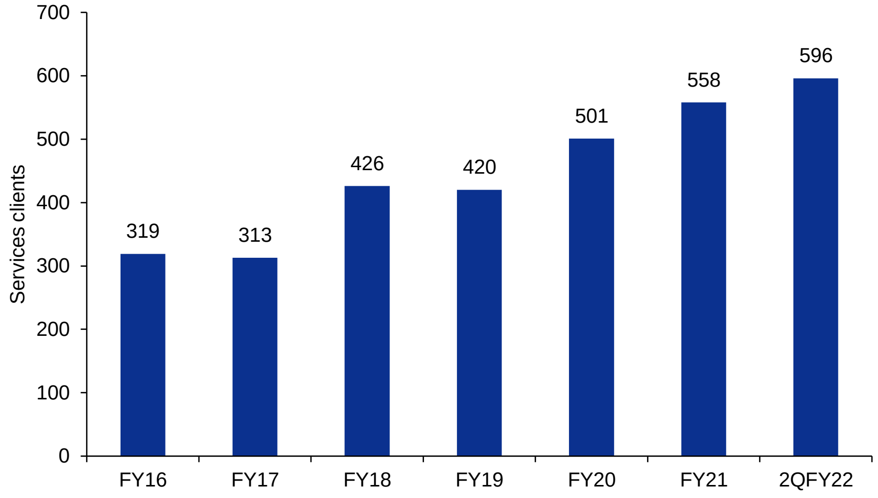
CLIENTELE DATA AVAILABLE SINCE FY20
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 69: ... which could help de-risk top client volatility



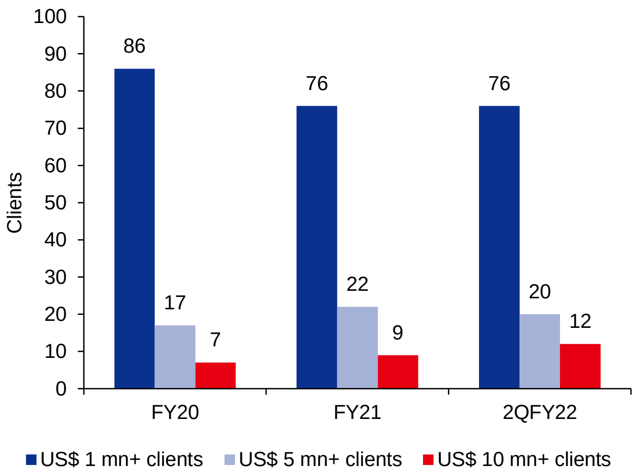
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 70: Services client trend for Persistent Systems



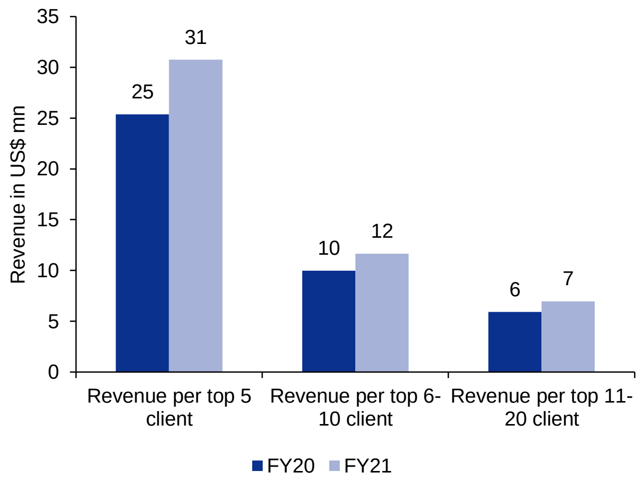
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 71: Birlasoft client mining improvement is underway…



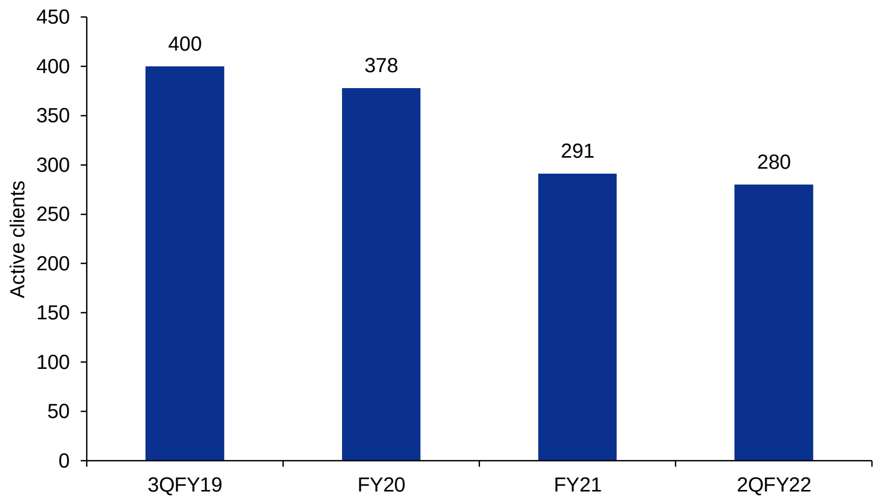
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 72: … but has a lot of headroom still



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 73: Tail account rationalized since Birlasoft's demerger



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Strengthening of go-to-market strategies, hiring of senior leadership personnel, and simplifying organisational structures have brought back the focus on multi-year annuity deals and client mining. The addition of business leaders, sales engine and delivery processes are reflected in improving revenue growth and client mining. To illustrate, LTI added 3/7/18/66 clients in the US$50m+ / US$20m+ / US$10m+ / US$1m+ buckets, respectively, during 1QFY19-2QFY22. Mphasis added 3/4/2/22 clients in the US$100m+ / US$75m+/ US$50m+/ US$1m+ buckets, respectively, during 1QFY19-2QFY22. Mindtree added 9/6/16 clients in the US$10m+ / US$5m+ / US$1m+ buckets, and Coforge 9/4/29 clients in the US$10m+ / US$5m-10m+ / US$1m-5m+ buckets, respectively, during 1QFY19-2QFY22. Persistent Systems added 12/16 clients in the US$ 5m+/ US$1m-5m buckets, respectively, during 1QFY19-2QFY22, while Birlasoft added 4/8 clients in the US$5m+ and US$10m+ buckets, respectively, during 3QFY19-2QFY22.

We believe better operating metrics is also reflected in the improved financial performances of these mid-cap IT companies, including revenue growth, operating margin, and cash generation. However, we believe a lot of headroom exists. The tables below highlight the same.

Figure 74: Key financials of mid-cap IT firms

	FY18	FY19	FY20	FY21	FY22F	FY23F	FY24F
Larsen & Toubro InfoTech							
Revenue (US$ m)	1132	1349	1525	1670	2076	2490	2889
yoy growth	16.7%	19.1%	13.0%	9.5%	24.3%	20.0%	16.0%
EBIT margin	15.0%	18.4%	16.1%	19.3%	17.3%	17.6%	18.1%
Change	-1.2%	3.4%	-2.2%	3.2%	-2.0%	0.3%	0.5%
Mphasis							
Revenue (US$ m)	691	813	919	1084	1447	1737	2050
yoy growth	7.4%	17.6%	13.1%	17.9%	33.6%	20.0%	18.0%
EBIT margin	15.1%	16.1%	16.0%	16.1%	15.3%	15.6%	15.8%
Change	0.5%	1.0%	-0.1%	0.0%	-0.8%	0.3%	0.2%
Mindtree							
Revenue (US$ m)	847	1001	1089	1077	1442	1706	1979
yoy growth	8.6%	18.3%	8.7%	-1.1%	32.1%	20.0%	16.0%
EBIT margin	10.4%	12.8%	10.1%	17.5%	17.5%	17.3%	17.2%
Change	0.7%	2.4%	-2.7%	7.4%	0.0%	-0.2%	-0.1%
Coforge							
Revenue (US$ m)	464	528	593	627	867	1023	1177
yoy growth	10.9%	13.9%	12.4%	5.7%	38.3%	17.9%	15.0%
EBIT margin	12.5%	14.2%	13.1%	12.9%	13.9%	15.0%	15.0%
Change	-0.2%	1.7%	-1.1%	-0.1%	1.0%	1.1%	0.0%
Persistent Systems							
Revenue (US$ m)	471	481	502	566	751	938	1103
yoy growth	9.7%	2.2%	4.3%	12.8%	32.6%	25.0%	17.5%
EBIT margin	10.2%	12.6%	9.2%	12.1%	14.1%	14.7%	15.0%
Change	-0.4%	2.3%	-3.4%	2.9%	2.0%	0.6%	0.3%
Birlasoft							
Revenue (US$ m)	NA	NA	464	480	554	641	731
yoy growth	NA	NA	-2.2%	3.4%	15.6%	15.6%	14.0%
EBIT margin	NA	NA	9.2%	12.6%	13.4%	14.3%	14.3%
Change	NA	NA	NA	3.4%	0.8%	0.9%	0.0%
L&T Technology Services							
Revenue (US$ m)	580	723	786	737	876	1056	1225
yoy growth	19.8%	24.6%	8.7%	-6.3%	18.9%	20.5%	16.0%
EBIT margin	13.1%	16.0%	16.8%	14.5%	17.9%	18.0%	18.0%
Change	-3%	2.8%	0.9%	-2.4%	3.5%	0.1%	0.0%

MPHASIS REVENUE IS DIRECT INTERNATIONAL
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 75: Better cash generation led to better shareholder rewards at LTI…

Rs m	FY16	FY17	FY18	FY19	FY20	FY21
CFO	8,585	11,696	8,438	13,953	16,435	23,996
Capex	-1,142	-688	-982	-1,531	-2,426	-2,665
Free cash flow	7,443	11,008	7,456	12,422	14,009	21,331
Pay out	6,516	1,888	3,534	5,341	5,679	5,319
Pay out % of free cash flow	87.5%	17.2%	47.4%	43.0%	40.5%	24.9%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 76: … Mphasis …

Rs m	FY16	FY17	FY18	FY19	FY20	FY21
CFO	7,308	6,641	7,233	9,497	13,210	14,545
Capex	-1,222	-1,150	-313	-815	-1,243	-1,252
Free cash flow	6,086	5,491	6,920	8,682	11,967	13,293
Pay out	4,042	5,055	15,010	14,604	6,065	6,527
Pay out % of free cash flow	66.4%	92.1%	216.9%	168.2%	50.7%	49.1%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 77: … Coforge…

Rs m	FY16	FY17	FY18	FY19	FY20	FY21
CFO	3,601	4,723	3,824	4,527	2,969	7,623
Capex	-1,596	-855	-879	-676	-703	-757
Free cash flow	2,005	3,868	2,945	3,851	2,266	6,866
Pay out	731	738	810	1,086	1,469	4,852
Pay out % of free cash flow	36.5%	19.1%	27.5%	28.2%	64.8%	70.7%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 78: … Mindtree…

Rs m	FY16	FY17	FY18	FY19	FY20	FY21
CFO	4,214	6,535	5,644	6,305	8,251	19,960
Capex	-1,315	-846	-1,011	-1,708	-1,220	-614
Free cash flow	2,899	5,689	4,633	4,597	7,031	19,346
Pay out	2,151	1,934	4,782	2,180	5,940	2,880
Pay out % of free cash flow	74.2%	34.0%	103.2%	47.4%	84.5%	14.9%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 79: …Persistent Systems…

Rs m	FY16	FY17	FY18	FY19	FY20	FY21
CFO	2,541	2,864	4,212	4,323	3,228	7,359
Capex	-1,647	-2,169	-651	-374	-746	-1,251
Free cash flow	893	695	3,560	3,949	2,482	6,108
Pay out ~~(Rs m)~~	1,251	578	950	1,590	2,978	1,070
Pay out % of free cash flow	140.1%	83.1%	26.7%	40.3%	120.0%	17.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 80: … and Birlasoft

Rs m	FY20	FY21
CFO	3,099	5,578
OCF/EBITDA	80%	105%
Capex	-519	-246
Free cash flow	2,580	5,332
Payout (INR mn)	996	554
Payout % of free cash flow	39%	10%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

L&T twins are case studies which support our argument

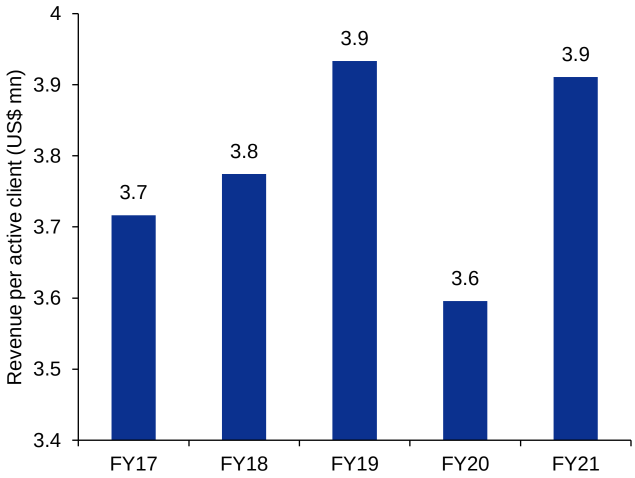
We believe both L&T InfoTech and L&T Technology Services have demonstrated better-than-peer and industry-leading growth driven by stable leadership and consistent go-to-market strategy, which supports our above-mentioned argument.

Figure 81: LTI had management and key senior leadership transition in 2015

Name	Designation	Joined since	Earlier worked in
Sanjay Jalona	MD & CEO	Aug-15	Infosys
Sudhir Chaturvedi	President - Sales	Sep-16	Coforge
Nachiket Deshpande	COO	Dec-18	Cognizant
Anil Rander	CFO	Apr-21	Tech Mahindra
Peeyush Dubey	Chief marketing officer	Sep-15	Mindtree
Ajay Tripathi	Chief HR	Jul-18	Atos
Arun Sankarnaryanan	Chief Business Officer (CBO) - Nordic region	Oct-19	Cognizant
David Althoff	CBO Insurance & Healthcare, Americas	Feb-21	Cognizant
Deepak Khosla	Emerging markets	Nov-17	Infosys
Dibyendu Halder	Media & Entertainment, Americas	Aug-00	L&T
Harsh Naidu	BFS, Americas	Jan-02	L&T
Rajesh Pandya	Lifesciences, Americas	Nov-96	L&T
Ramesh Kannan	CBO Oil & gas, Americas	Oct-20	Accenture
Rohit Kedia	CBO Manufacturing & Intelligent enterprise unit	Oct-15	Infosys
Siddharth Bohra	CBO Consumer & Retail, Hitech, & Utilities. Cloud, Data Products	Sep-15	Infosys
Srini Rao	CBO Europe and South Africa	Mar-21	Sutherland

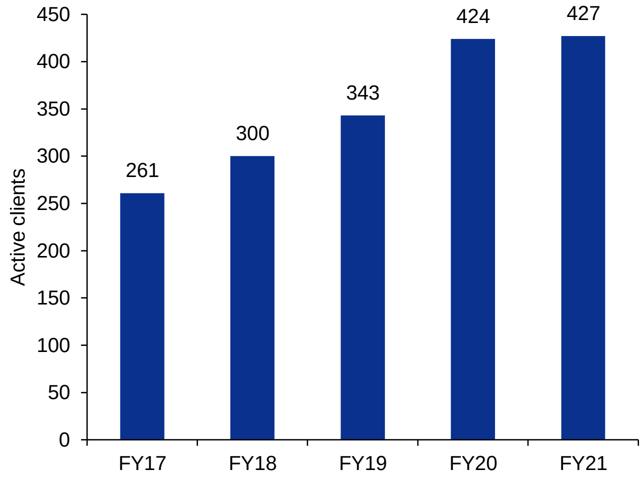
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 82: LTI's consistent strategy and a diversified portfolio improved revenue per client…



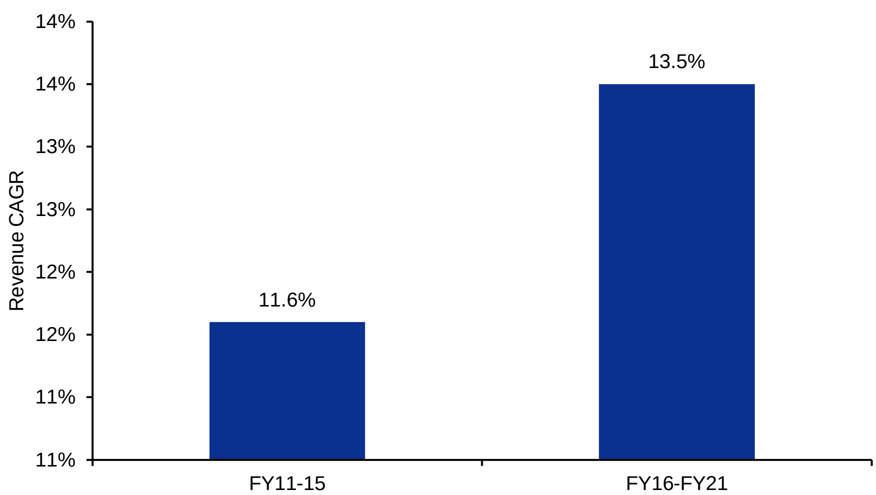
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 83: … despite adding 166 clients over FY17-21



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 84: LTI's client addition drove its industry-leading growth



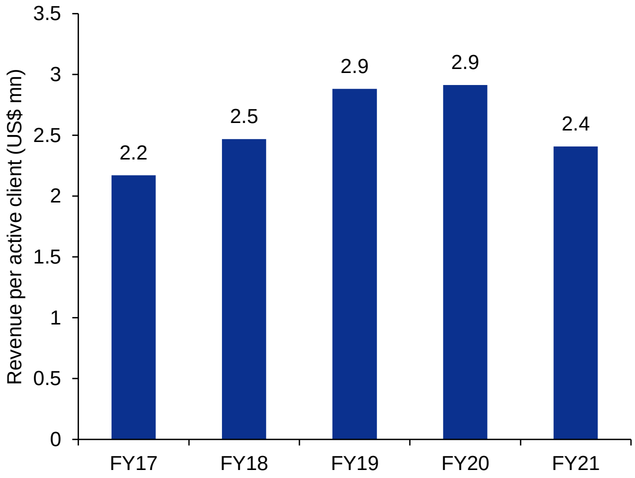
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 85: LTTS led by Dr. Panda (erstwhile MD & CEO) and Amit Chadha (current MD and CEO) since 2009

Name	**Designation**	**Joined since**	**Earlier worked in**
Dr Keshab Panda	Non-Executive Director (Earlier MD & CEO)	Jan-09	Tech Mahindra
Amit Chadha	Current MD & CEO	Jan-09	Tech Mahindra
Abhishek Sinha	COO	May-19	KPIT
Rajeev Gupta	CFO	Apr-20	Birlasoft
Alind Saxena	Chief Sales Officer - Americas & Asia	Jan-10	Tech Mahindra
Ashish Khushu	Chief Technology Officer	Nov-17	NA
Shailendra Shrivastava	Delivery head - Transportation	Jan-10	Tech Mahindra
Prabhakar Shetty	Head - Digital Manufacturing Services	May-17	ITC Infotech
Nitin Jain	Head - Digital Products & Services	Sep-20	Global logic
Seema Ghanekar	Head - Industrial Products	Apr-19	L&T Infotech

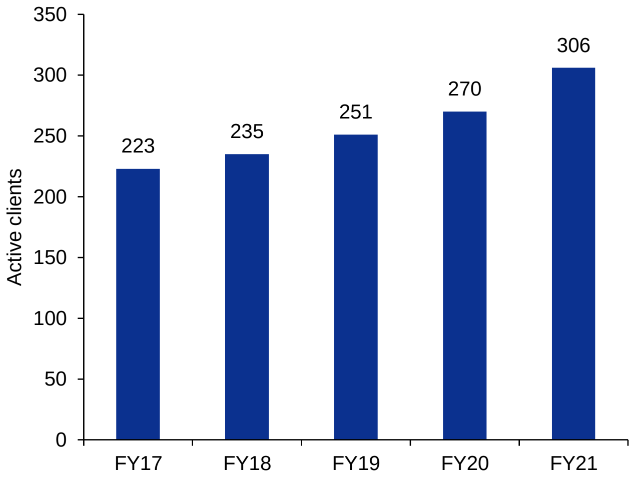
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 86: LTTS's focused approach and a diversified portfolio led to an increase in per client revenues…



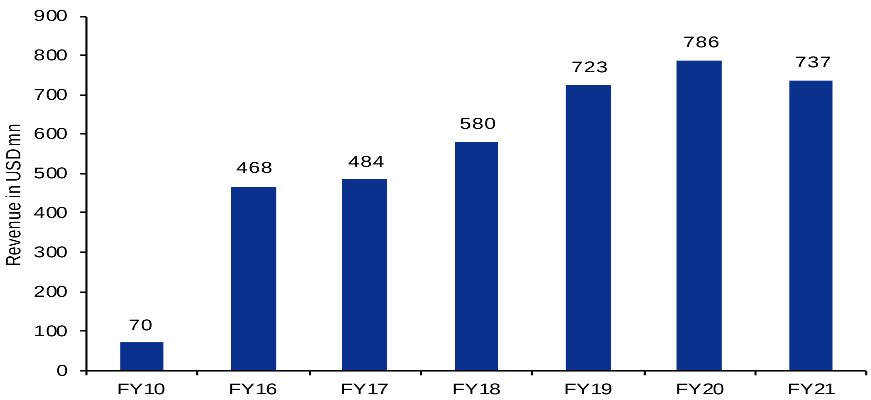
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 87: … despite addition of 83 clients…



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 88: … and drove revenue growth acceleration



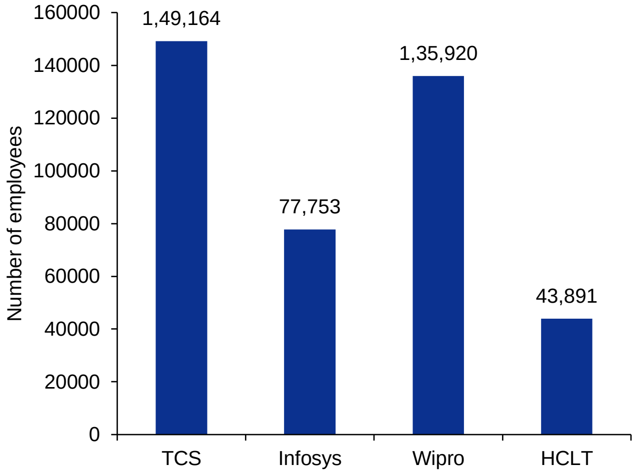
FY10 REVENUE IS APPROXIMATE
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Existing capacity unlikely to be a constraint for mid-sized firms to gain scale in current cycle

A key attribute of the industry winners that benefitted from the strong demand uptick post 2002 and 2008 (global) disruptions was their existing capacities which helped deploy talent at scale for faster project ramp-ups. Interestingly, this is unlikely to be a constraint post Covid-19 given client flexibility in staffing from work-from-home (WFH) locations for short-duration projects and large transformation engagements. Interestingly, our analysis of large and mid-sized companies suggests computer equipment accounted for ~74% and ~76% of the incremental capex in FY21. Acknowledging that the lockdown-led restrictions may have constrained physical infrastructure expenditure in FY21, management commentaries suggest that companies are unlikely to resume 100% work-from-office in the near term.

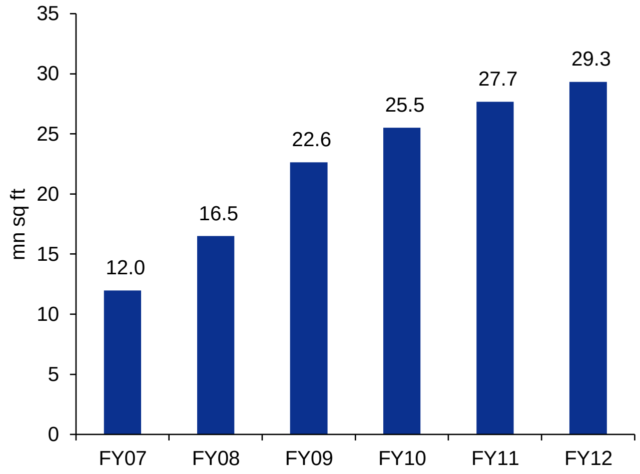
We believe the continuation of the current WFH model could likely diminish the advantages of having a large seating infrastructure to staff or deploy talent at scale in the current demand cycle. The charts below highlight the net addition of employees by Tier-I IT companies in FY07-12 and the corresponding increase in built-up area for Infosys, while in the current cycle, net employee change is faster than the change in gross tangible assets.

Figure 89: Sharp net addition over FY07-12…



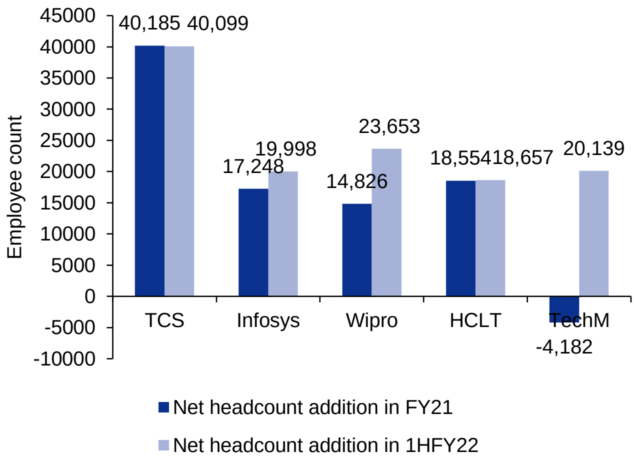
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 90: …with a corresponding increase in built-up area for Infosys



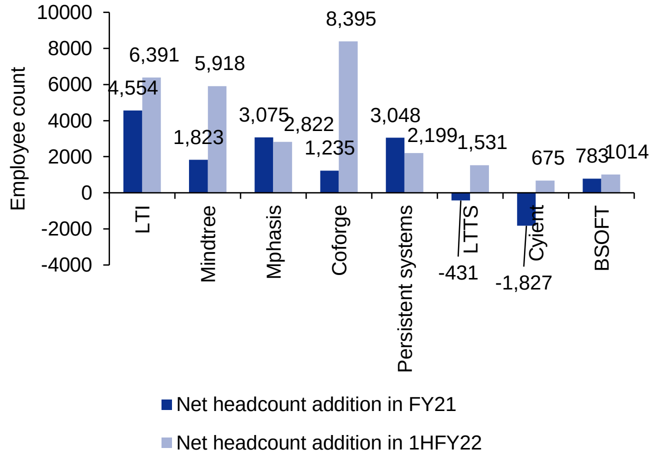
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 91: Similar net hiring trends were witnessed during Covid-19…



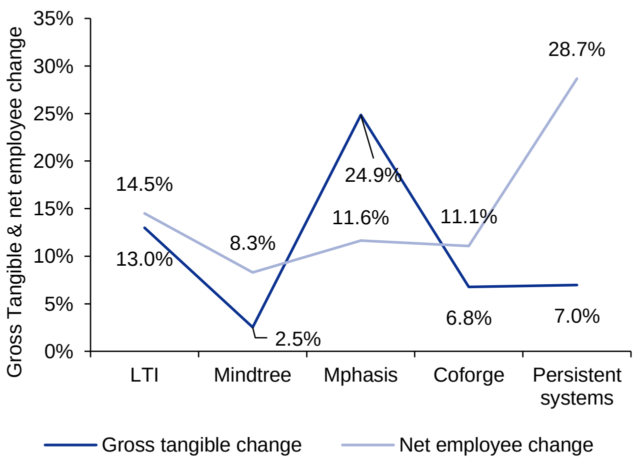
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 92: … for mid-cap firms too



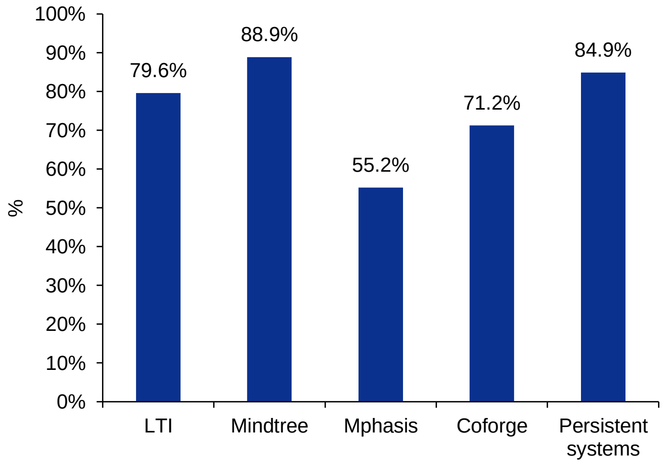
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 93: But FY21 net employee change was faster than the change in gross tangible assets



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 94: On an average, 76% of incremental capex was towards computer equipment (FY21)

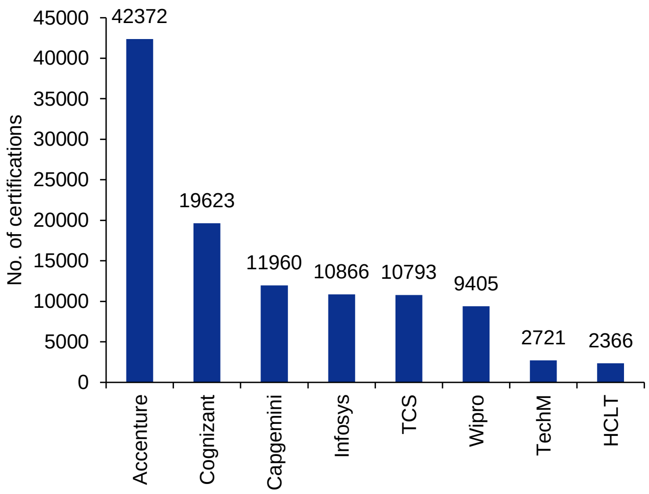


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Investments improving referenceability and could help sustain the growth momentum

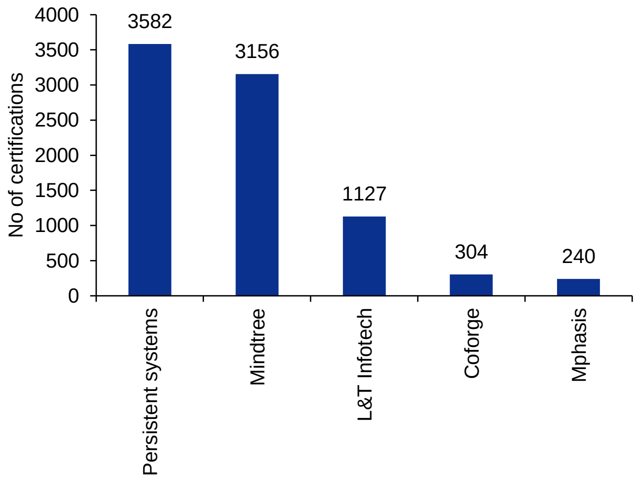
Our analysis of select partner-ecosystem data suggests mid-sized firms have created niche capabilities in select technologies and continue to do so through tuck-in acquisitions. Current acquisition strategy contrasts with adding scale of the past, which impacted margins. Finally, investments and parentage are improving referenceability in the market with a foot-in-the-door of marquee logos and access to master-services-agreements (MSA). This, in turn, could help sustain the growth momentum.

Figure 95: Salesforce certifications across large-sized firms…



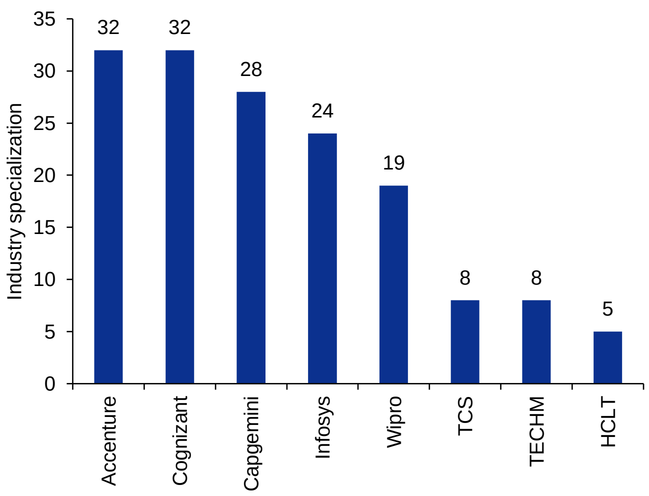
AS ON OCT 21, SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 96: …and mid-sized firms



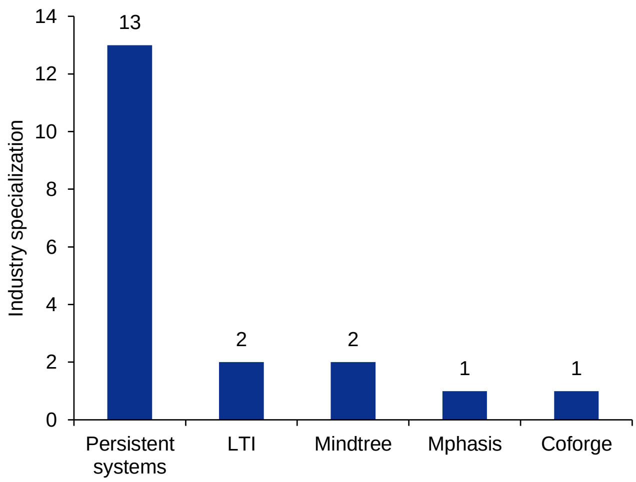
AS ON OCT 21, SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 97: Salesforce industry specialization by large-sized firms…



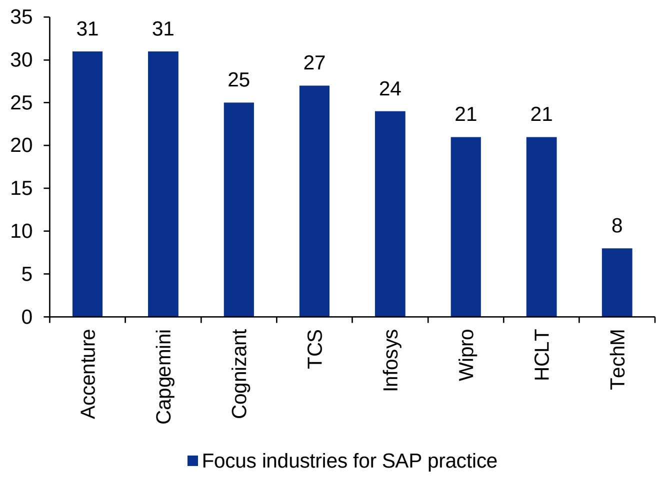
AS ON OCT 21, SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 98: …and by mid-sized firms



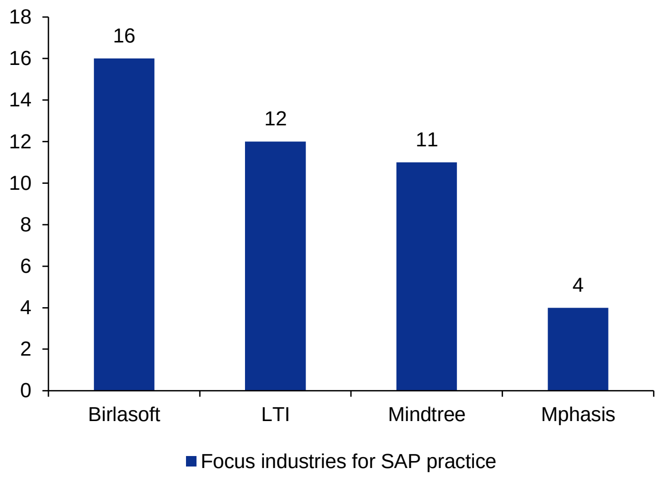
AS ON OCT 21, SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 99: SAP capabilities across large-sized firms….



AS ON OCT 21, SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 100: …and mid-sized firms



AS ON OCT 21, SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 101: AWS competencies across large and mid-sized firms

AWS practice	AWS competencies	AWS certifications	AWS Customer launches	Partner status
Accenture	19	2000+	500+	Premier consulting partner
TCS	8	2000+	200+	Premier consulting partner
Infosys	8	2000+	200+	Premier consulting partner
Wipro	8	2000+	100+	Premier consulting partner
Capgemini	7	2000+	200+	Premier consulting partner
Cognizant	7	2000+	200+	Premier consulting partner
HCLT	5	500+	50+	Premier consulting partner
TechM	2	1000+	50+	Premier consulting partner
LTI	7	400+	50+	Premier consulting partner
Mphasis	5	300+	20+	Premier consulting partner
Mindtree	2	100+	20+	Advanced consulting partner
Coforge	NA	100+	20+	Advanced consulting partner
PSYS	5	200+	20+	Advanced consulting partner
Birlasoft	NA	20+	20+	Advanced consulting partner

AS ON OCT 21, SOURCES: COMPANY REPORTS, INCRED RESEARCH

Valuation methodology

We expect mid-sized IT firms such as (LTI, MTCL, MPHL, PSYS, LTTS, and COFORGE) to report an average 18.1% US$ revenue CAGR over FY22-24F vs. 11.2% average for Tier-I companies (TCS, INFO, WPRO, HCLT, TECHM) as digital transformation priorities for G-2000 companies across industries is likely to drive spending uptick in the medium term and mid-sized firms could gain mind share in the current cycle. Further, Cloud adoption, set to account for >50% of worldwide software spending (~US$ 475bn) in 2024 vs. ~35% or ~US$210bn in 2019, implies a good growth runway. Better financial performance (revenue, margin), and cash generation could also improve shareholder returns (dividend pay-out and buyback) which, in turn, supports valuations. We believe investors should play the structural journey of mid-sized firms as scale weighs on the growth rates of large-sized firms.

Nifty IT has rallied >200% from its Mar 2020 lows while Tier-I and Tier-II IT companies trade at an average P/E of 23x and 31x, respectively, of our FY24F EPS. Although, companies are trading at +2SD to their respective five-year average P/E (refer Exhibits 106-127), mid-cap IT companies are trading at a lower PE/G metric vs. Tier-I companies. The rally was driven by a faster-than-anticipated recovery in IT services spending post Covid-19, while EBIT margin improved from its lows driven by growth leverage, and tailwinds from lower travel expenses and work-from-home execution.

We believe improved scale, growth leverage and better operating efficiency (sales efficacy, order booking, client mining and pyramid, etc) could drive an average 20.6% PAT CAGR over FY22-24F for mid-sized firms vs. 13.4% for Tier-I companies. This implies mid-sized IT companies are trading at a PE/G of 1.5x FY22-24F net profit CAGR vs. 1.7x PE/G for Tier-I companies. We arrive at the target multiples for our coverage universe after discounting the FY22-24F earnings growth of individual companies and applying a discount to TCS's multiple. TCS's multiple at 2.1x is in line with its Apr 2017-Nov 2021 average PE/G of 2.1x.

We also believe that mid-sized IT firms have key building blocks including 1) ideal revenue scale to sustain growth momentum, 2) deal sizes in a sweet spot, 3) existing capacity unlikely to be an execution constraint given the work-from-home environment,4) empowered leadership backed by strong parentage, and 5) well-capitalized balance sheets to drive investments in a) sales and delivery leaders, b) capabilities, c) partnership ecosystem, d) advisory-led deals, and M&A, and e) a better incentivization structure in place to gain mind share in the current cycle and sustain the growth momentum.

We initiate coverage on the sector with a Neutral rating and a preference for mid-sized firms over their larger peers with Persistent, LTI and Mphasis being our preferred picks. Among Tier-I IT companies, we initiate with an ADD rating on Infosys, TechM and HCLT and a HOLD on TCS and Wipro. Within Tier-II companies we initiate with an ADD on LTI, Mphasis, Coforge, Persistent Systems, and Birlasoft while we rate Mindtree and LTTS as HOLD given the limited upside potential relative to target price.

Sustainability of current valuations is a key concern and the pertinent questions in investors' minds are 1) the current P/E is above +2SD its five-year average/10-year historical average, and 2) mid-sized firms are trading at rich valuation compared to their larger peers. Although, standalone-rich P/E metric suggests that investors are paying a premium for mid-sized firms relative to the historical average, we would like to draw attention to the PE/G metric which suggests that underlying PAT growth likely to be delivered over FY22-24F is significantly higher (20.6% CAGR) vs. FY15-20 CAGR of 11.0%. Consequently, we value our coverage universe companies based on the PE/G metric, given it captures future growth expectation. Rising delivery costs and attrition pose risks to our estimates as scaled execution (unit economics) is still an advantage for large-sized firms. Material deceleration in large customer spending and normalization of IT spending cycle are other key risks to our estimates, while better-than-expected contracting activity in CY22F and sector rebalancing towards IT services driven by a possible third wave of Covid-19 pandemic amid Omicron variant scare pose upside risks to our estimates and Neutral rating, respectively.

Figure 102: Coverage universe valuation table

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	13,080	3,536	3,665	4	24	21	19	34	30	27	42	44	45
Infosys	INFO IN	ADD	7,151	1,695	1,949	15	22	19	17	33	28	25	27	29	30
Wipro	WPRO IN	HOLD	3,422	625	647	4	19	15	13	27	24	21	22	24	25
HCL Technologies	HCLT IN	ADD	3,084	1,137	1,412	24	15	13	11	23	20	18	22	23	25
Tech Mahindra	TECHM IN	ADD	1,369	1,552	1,800	16	16	13	12	24	21	19	22	22	22
Large-cap Average							19	16	14	28	25	22	27	28	29
L&T Infotech	LTI IN	ADD	1,153	6,556	7,671	17	37	29	24	52	43	35	28	29	29
Mindtree	MTCL IN	HOLD	724	4,391	4,648	6	32	26	22	48	40	34	31	30	30
Mphasis	MPHL IN	ADD	573	3,023	4,073	35	27	22	19	41	34	28	21	23	25
Coforge	COFORGE IN	ADD	318	5,125	6,229	22	28	22	19	48	36	31	26	32	34
LTTS	LTTS IN	HOLD	555	5,248	5,705	9	39	30	25	59	49	40	25	25	26
Persistent Systems	PSYS IN	ADD	324	4,241	5,300	25	32	25	20	50	39	32	29	32	34
Birlasoft	BSOFT IN	ADD	133	468	538	15	19	15	13	30	24	21	19	21	21
Cyient	CYL IN	ADD	108	986	1,324	34	11	10	9	21	19	17	22	23	24
Mid-cap Average							28	22	19	44	35	30	25	27	28

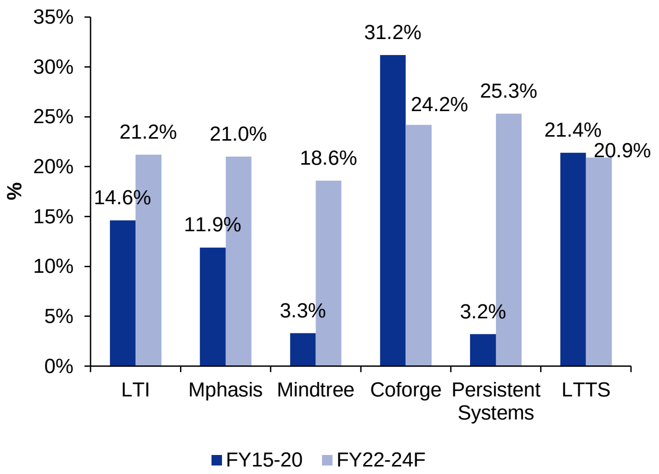
SOURCES: COMPANY REPORTS, INCRED RESEARCH ESTIMATES. PRICED AS AT 06 DEC 2021

Figure 103: Valuation methodology – target prices based on FY24F EPS

Company	FY22-24F PAT CAGR	PE/G discount to TCS	Target PE/G	Target P/E
TCS	13.1%	0%	2.10	28
Infosys	15.1%	10%	1.89	28
Wipro	11.7%	10%	1.89	22
HCL Technologies	13.5%	22%	1.64	22
Tech Mahindra	12.5%	15%	1.79	22
L&T Infotech	21.2%	7%	1.95	41
Mindtree	18.6%	8%	1.93	36
Mphasis	21.0%	15%	1.79	38
Coforge	24.2%	25%	1.58	38
LTTS	20.9%	0%	2.10	44
Persistent Systems	25.3%	25%	1.58	40
Birlasoft	20.5%	45%	1.15	24

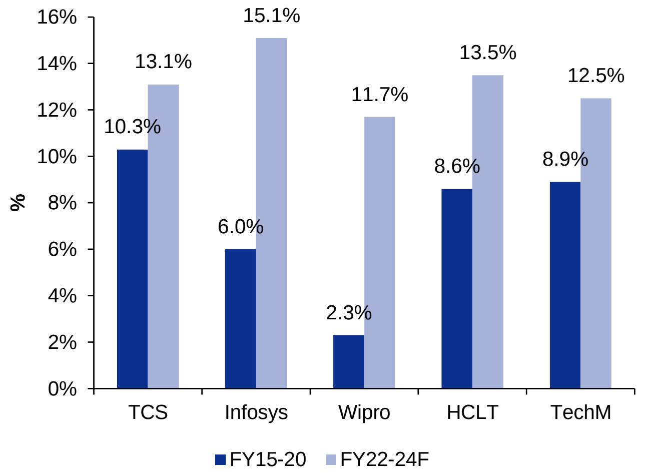
SOURCES: INCRED RESEARCH ESTIMATES

Figure 104: We estimate Tier-II firms' PAT to grow faster than…



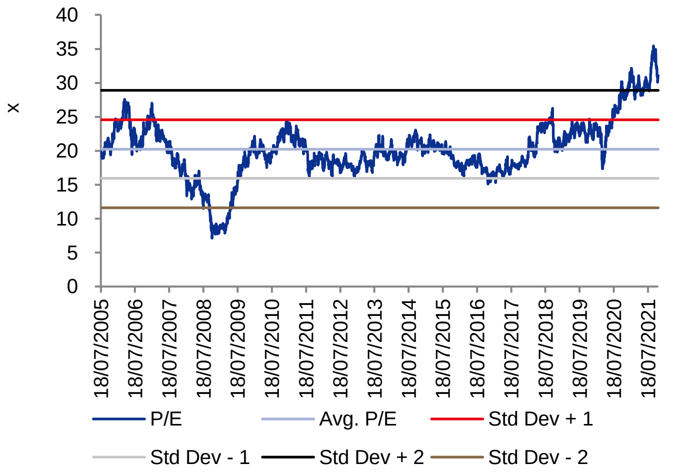
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 105: …PAT of Tier-I companies over FY22-24F



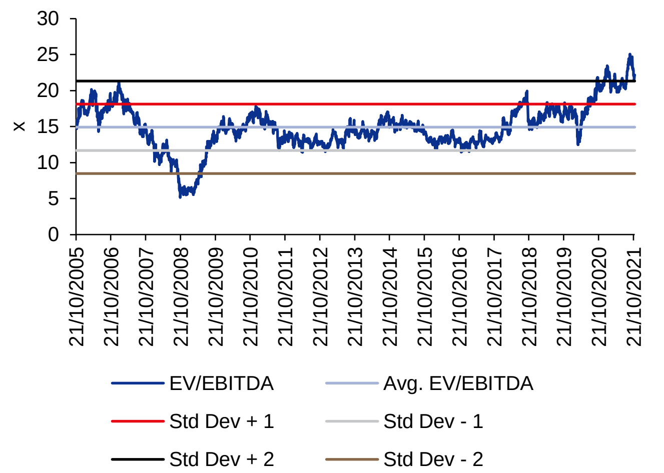
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 106: TCS trades at a one-year forward P/E of 31x…



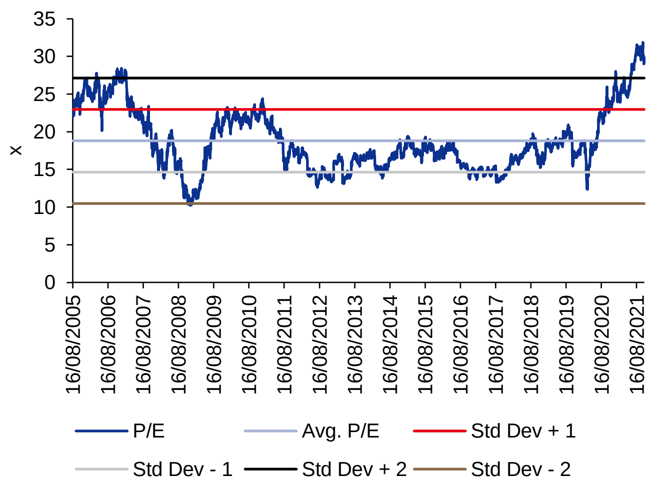
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 107: …and EV/EBITDA of 22x



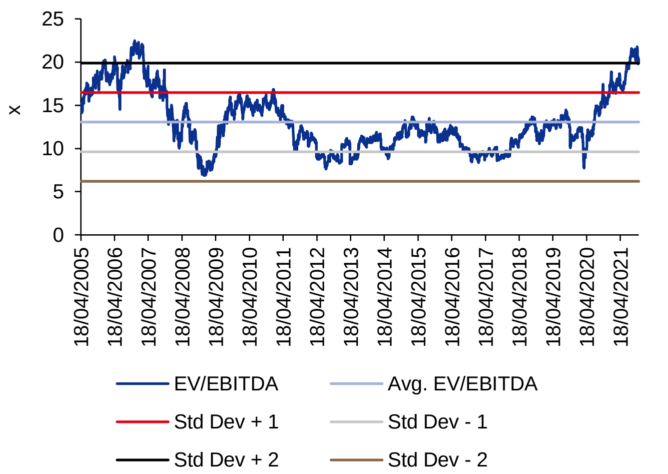
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 108: Infosys trades at a one-year forward P/E of 29.6x…



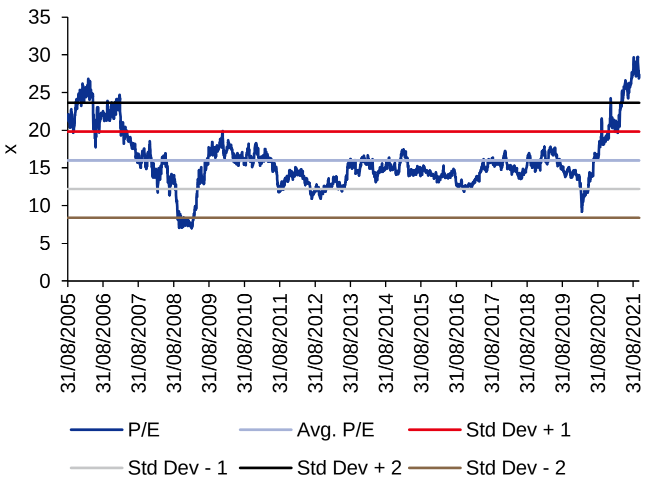
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 109: …and EV/EBITDA of 20.2x



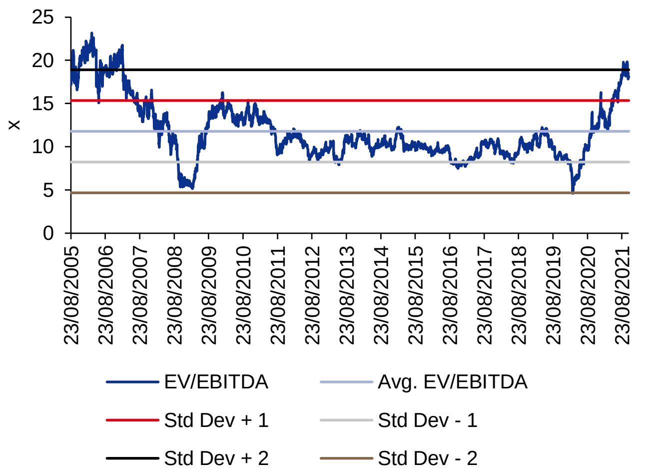
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 110: Wipro trades at a one-year forward P/E of 27.1x…



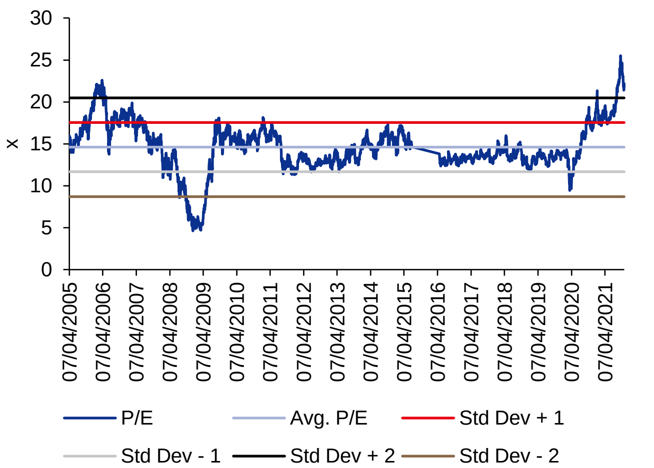
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 111: …and EV/EBITDA of 18x



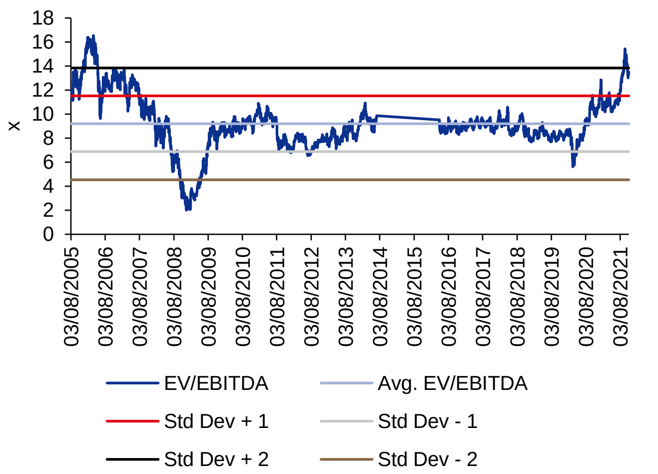
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 112: HCLT trades at a one-year forward P/E of 22x…



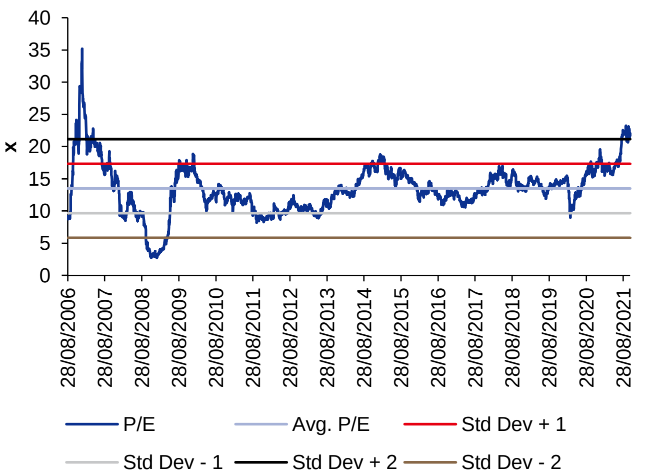
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 113: …and EV/EBITDA of 13.4x



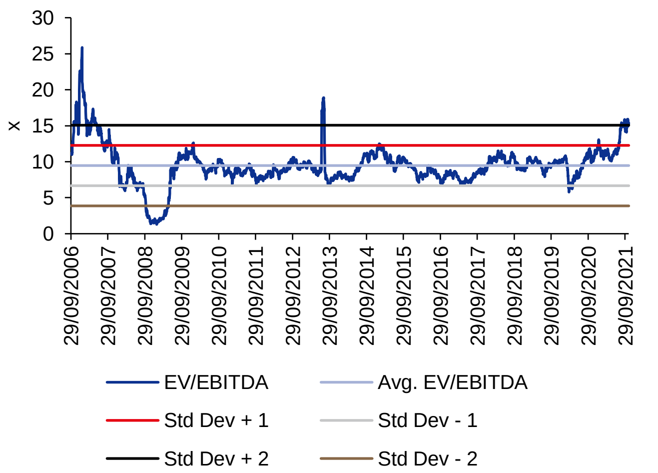
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 114: TechM trades at a one-year forward P/E of 21.7x…



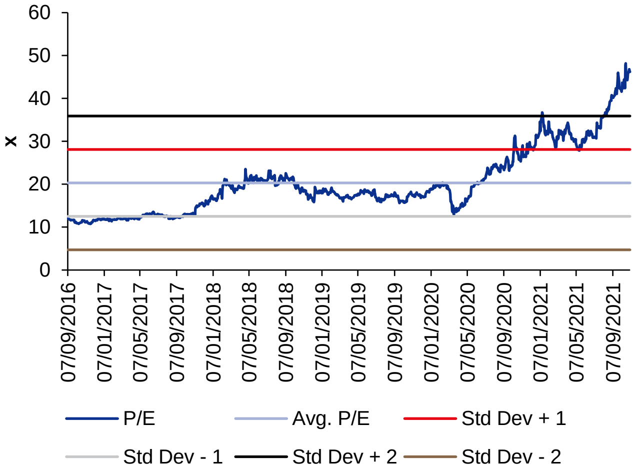
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 115: …and EV/EBITDA of 15.1x



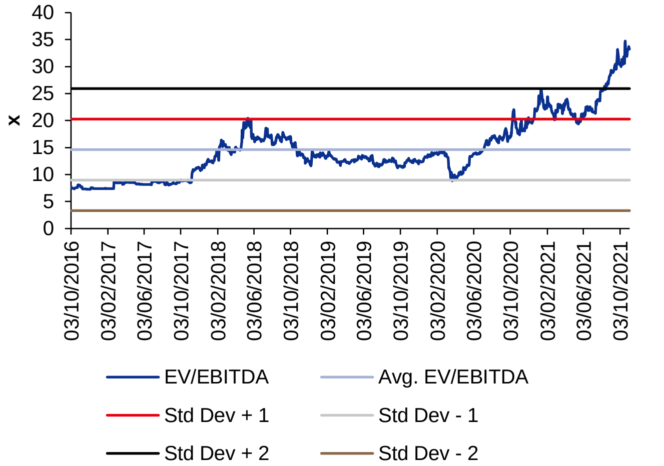
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 116: LTI trades at a one-year forward P/E of 46.3x…



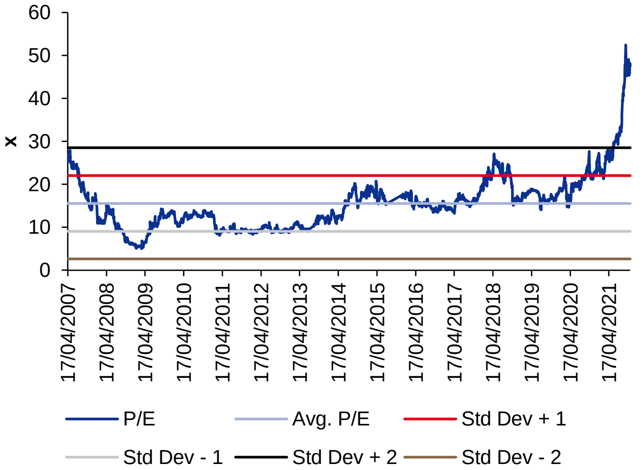
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 117: … and EV/EBITDA of 33.3x



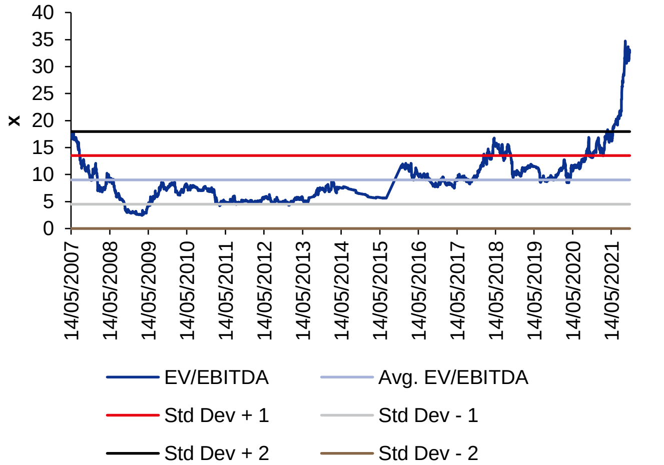
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 118: Mindtree trades at a one-year forward P/E of 47.2x



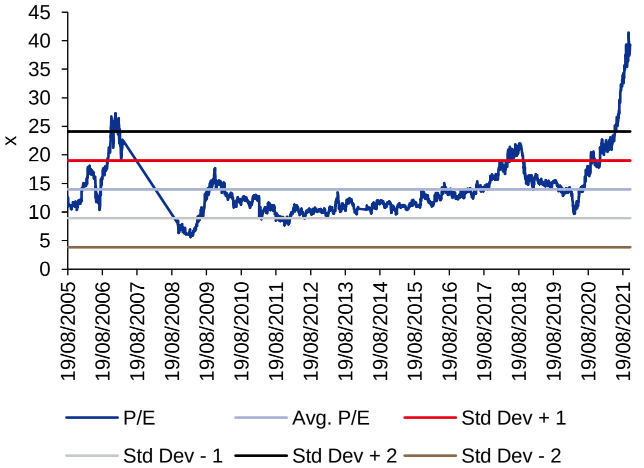
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 119: … and EV/EBITDA of 32.3x



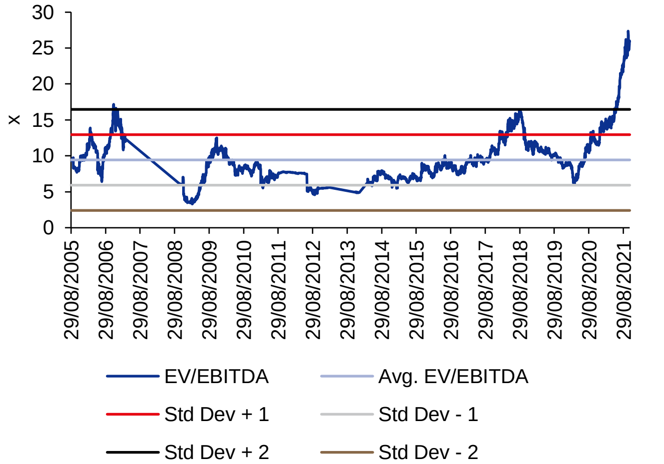
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 120: Mphasis trades at a one-year forward P/E of 38.3x…



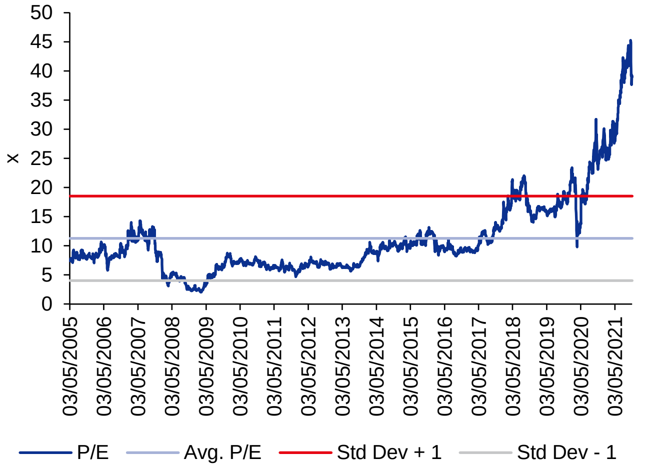
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 121: … and EV/EBITDA of 25.3x



AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 122: Coforge trades at a one-year forward P/E of 39x…

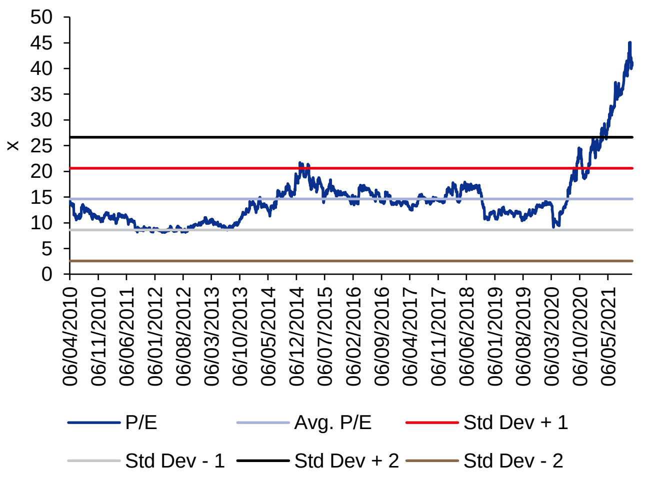


AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 123: … and EV/EBITDA of 22.9x

AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 124: Persistent trades at a 0ne-year forward P/E of 40.6x…

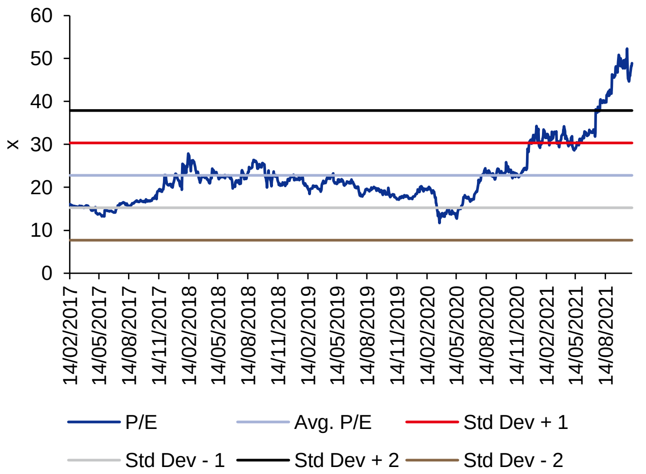


AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 125: … and EV/EBITDA of 27x

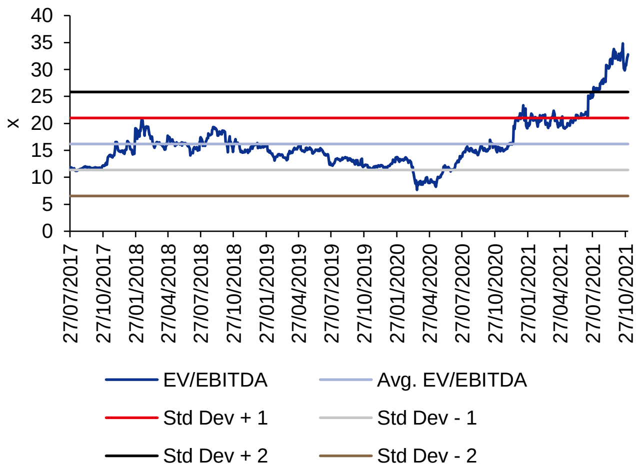
AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 126: LTTS trades at a one-year forward P/E of 48.9x…



AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Figure 127: … and EV/EBITDA of 32.8x



AS AT NOV 2021, SOURCES: BLOOMBERG, INCRED RESEARCH

Risks to our thesis

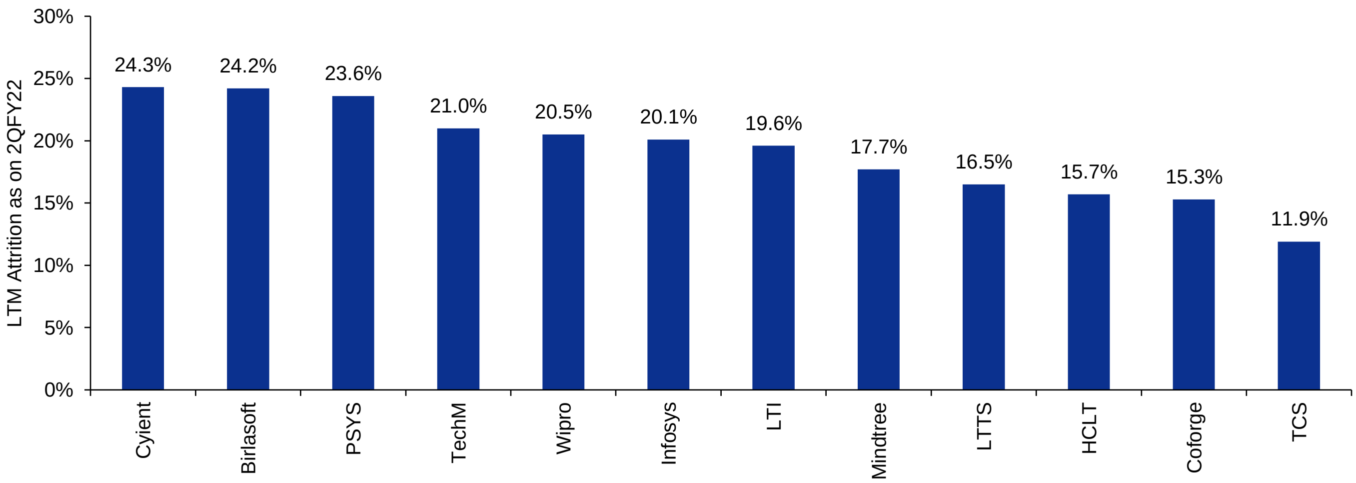
Rising delivery costs and attrition rate pose risks to our estimates
Elevated attrition rate remains a key risk to our thesis as scaled execution is still an advantage for large-sized companies. Our analysis suggests that cost per employee of mid-sized firms (average Rs1.99m in FY21) is higher than that of large-sized companies (average Rs1.91m) and employee expenses of mid-sized firms grew 22.5% yoy in 2Q, faster than the 18.8% yoy growth for Tier-I companies. Although revenue growth remains a key operating leverage, this metric remains a key monitorable given rising costs structure, increased employee retention costs, and elevated attrition rate, in our view. Consistent elevated costs pose risks to our EBIT margin and EPS estimates.

Figure 128: Cost per employee for our coverage universe companies

Rs m	FY16	FY17	FY18	FY19	FY20	FY21
TCS	11,80,441	15,91,357	16,80,920	18,44,185	19,16,586	18,78,936
Infosys	17,73,103	18,79,529	19,05,520	19,86,428	20,99,550	21,39,327
Wipro	15,65,596	16,20,011	17,02,213	17,48,718	17,85,653	16,81,087
HCLT	14,49,364	19,71,681	20,59,360	21,22,495	23,21,985	22,99,307
TechM	13,22,891	13,13,069	14,73,667	14,45,954	15,01,964	15,94,107
LTI	17,56,975	17,96,033	17,93,322	19,40,715	20,72,908	20,64,099
Mphasis	17,71,869	17,89,983	18,12,278	17,55,643	18,64,778	19,10,150
Mindtree	16,85,977	20,71,949	20,11,003	21,88,280	23,03,079	21,47,140
Coforge	16,27,163	18,65,243	18,67,876	20,98,022	22,67,659	22,72,456
PSYS	15,18,566	19,03,594	20,40,553	19,32,243	20,27,502	18,39,034
Birlasoft	NA	NA	NA	NA	19,45,404	19,14,583
LTTS	20,92,388	20,03,058	19,98,862	20,99,604	19,25,961	20,39,266
Cyient	13,81,163	14,92,353	14,81,981	16,88,478	17,87,719	17,96,127

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 129: Elevated attrition rate is a key risk to our growth assumptions



SOURCES: INCRED RESEARCH, COMPANY REPORTS, MPHASIS DATA NOT AVAILABLE

Large client concentration

Although high large client concentration remains a key risk for many mid-sized firms, we would remind investors that GE contributed ~20% of TCS's revenues in 2003; a similar percentage today for mid-sized firms in our coverage universe.

Normalisation of pent-up cycles are swift too

Analyzing previous cycles suggests that growth accelerates for around two-to-three years post economic downturns as redundancies are built but normalises as committed cost-savings generally kick in from year three onwards, while investments in redundancies taper sharply.

Company-specific risks

TCS (upside and downside)

Weakness in discretionary spending could impact growth momentum

- Although TCS has stopped reporting the revenue contributions of enterprise solutions and consulting practice (17.5% of revenues in FY17; US$3,076m revenue run-rate in FY17) and engineering & industrial services practice (4.9% of revenues in FY17; US$862m revenue run-rate in FY17), they continue to be sizeable service offerings and a material weakness in discretionary spending by clients could impact our growth forecasts.

Weakness in Product & Platforms business could impact growth momentum and margins

- The Products & Platforms business grew significantly over the past few years and is likely a US$3bn+ revenue practice. The slower adoption of products such as BaNCs, Quartz, ADD, Hobbs, etc, could impact the company's growth momentum as it helps in winning integrated deals, improves client stickiness and aids profitability, given better margin profile.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in increased sub-contracting costs for TCS, a rise in attrition level (11.9% last 12 months [LTM] attrition as at 2QFY22-end, up 330bp qoq) and concerns regarding the availability of local talent. Persisting supply-side challenges pose upside risks to wage inflation and could impact revenue execution going ahead.

Sharp recovery in travel, ER&D portfolio presents upside risk to estimate

- Sharp recovery in travel & hospitality sub-segment of retail & CPG vertical (15% of revenues as at 2QFY22-end) from COVID-led weakness, continued momentum in BFSI segment (~32% to overall revenues as at 2QFY22-end) led by large deal wins and traction in European geography, and a recovery in ER&D & enterprise solutions (TCS stopped reporting revenue contribution) business led by capex and discretionary-led spending could surprise revenue growth trajectory in FY22/FY23F.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Infosys (downside risks)

Leadership change could impact momentum

- The stable leadership team led by Mr. Salil Parekh (appointed MD and CEO in FY18) and a consistent strategy has improved Infosys's growth trajectory. Any change in the current operating structure could jeopardise its growth momentum.

Sustained large/mega deal wins could negatively impact margins

- Though mega deal wins are strategic from a growth perspective and improve visibility, transition costs impact margins in the near term. A significant number of wins in a particular year could create margin headwinds for Infosys, given rising cost structure and attrition level.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in an increase of sub-contracting costs for Infosys, a rise in attrition level (20.1% LTM attrition as at 2QFY22-end; up 620bp qoq) and concerns on availability of local talent. Persisting supply-side challenges pose upside risk to wage inflation and could impact revenue execution going ahead.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Wipro (upside and downside risks)

Management change could impact momentum

- Mr. Thierry Delaporte, appointed MD and CEO in FY21, accelerated growth momentum by simplifying the company's operating model, improving the go-to-market strategy, and focusing on the global account executive model. Changes in the company's leadership could impact Wipro's current operating model and growth momentum.

Challenges in M&A integration poses risk

- M&A has been a key driver of growth for Wipro and continues to be so under the current leadership. However, M&A integration remains a key challenge, which impacts management bandwidth, growth, and poses a risk from impairment of goodwill (goodwill is at 36.7% of net worth as at 2QFY22-end).

Supply-side concerns

- Supply-side challenges in many parts of the world have increased sub-contracting costs for Wipro, increased attrition level (20.5% LTM attrition as at 2QFY22-end; up 500bp qoq) and resulted in concerns on the availability of local talent. Persisting supply-side challenges pose upside risk to wage inflation and could impact the EBIT margin assumption.

Better-than-anticipated tailwinds from Capco could accelerate growth

- Wipro highlighted that joint go-to-market initiative with Capco is progressing well with more than 20 deals won in the first six months of acquisition, while the pipeline has more than 45 strategic deals across >20 clients. Faster synergies in terms of deal wins and cross-sell initiatives could surprise growth in BFSI vertical (34.8% of revenues as at 2QFY22-end) aid company-level margins and presents an upside risk to estimates.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

HCL Technologies (downside risks)

Portfolio-related challenges could impact growth momentum

- Material deceleration in on-premises infrastructure services business (IMS) and the Products and Platform business (management revised FY22F guidance to 1% growth vs. high single-digit previously) could impact FY22F and FY23F growth assumptions while a deviation in spending among clients could impact its ER&D revenues (15.7% of revenues as at 2Q2FY22-end).

Challenges in M&A integration pose risk

- HCL Technologies has adopted M&A deals, especially IBM deals, to fuel growth, expand service capabilities, and enhance margins. But challenges in M&A integration impacted HCL Technologies' growth and margins and pose a risk from goodwill impairment (goodwill is 28.6% of net worth as at FY21-end).

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in an increase in sub-contracting costs for HCL Technologies, and a rise in attrition level (15.7% LTM attrition as at 2QFY22-end, up 390bp qoq) and concerns on the availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact revenue execution in some cases.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

TechM (downside risks)

Weakness in spends among telecom clients could impact growth momentum

- The Communications vertical's revenues witnessed a 0.3% decline over FY16-21. Persisting weakness in spending among telecom clients could impact TechM's overall growth given the vertical contributed ~40.1% of 2QFY22 revenues.

Challenges in M&A integration pose risks

- M&A has been integral to TechM's growth strategy (acquired ~35 companies since 2012). However, integration and execution have been uneven and pose risks to margins, while the impairment of goodwill (18.8% of net worth as at 2QFY22-end) could drag profitability.

Unfavourable outcome could impact profitability

- The company has contingent liabilities related to income-tax/service-tax/customs duty and international tax amounting to Rs49,726m (up 3.2% over FY20) and constitutes Rs52 per share. Any unfavourable outcome could impact future profitability as FY21 profit was Rs44,280m.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in an increase in TechM's sub-contracting costs, a rise in attrition level (21% LTM attrition as at 2QFY22-end, up 400bp qoq) and concerns on availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact revenue execution in some cases.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

LTI (downside risks)

Vertical concentration risk

- The BFSI segment comprises about 62% of LTI's 2QFY22 revenues. Any deviation in spending due to macro uncertainty, unfavourable regulations or in the spending patterns of top clients could impact LTI financials significantly.

Top client concentration risk

- LTI has meaningful client relationships in BFS and Energy verticals. Any deviation in spending patterns among its top five clients (~28% of 2QFY22 revenues) and top 6-10 clients (~13%) could significantly impact financials.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in increased sub-contracting costs for LTI, a rise in attrition level (19.6% LTM attrition as at 2QFY22-end, up 440bp qoq) and concerns related to availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact revenue execution in some cases.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Mindtree (upside and downside risks)

Client concentration risk

- The company's top client contributed 24.3% of its revenues as at 2QFY22-end and a deviation in spending by the top client could impact Mindtree's financials significantly. FY21 growth was driven by its top client (28.6% yoy and absolute incremental addition of US$68.9m) vs. an overall revenue decline of 1.1% yoy (absolute revenues down by US$12.3m). Over FY18-21, the top client CAGR was 30.5% with incremental revenue addition of US$171m (~74.4% of overall addition) vs. overall revenue CAGR of 8.3% and incremental addition of US$230m.

Delay in Travel vertical recovery could impact growth assumption

- Mindtree's travel and hospitality segment has witnessed a slower recovery and has not yet reached the pre-pandemic contribution level (accounted for 14% in 2QFY22 vs. ~17% in 2QFY20). Persisting weakness post-pandemic could delay the overall recovery among Mindtree's large relationship clients.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in increased sub-contracting costs for Mindtree's, a rise in attrition level (17.7% LTM attrition as at 2QFY22-end, up 400bp qoq) and concerns on the availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact revenue execution going ahead.

Sharp earnings recovery could drive earnings momentum

- Although Mindtree's earnings have been volatile over the last 10 years, led by changes in strategy, M&A-led margin compression and the short-term project nature of the business, revenue growth has accelerated since 2QFY21 (7.6% CQGR during 2QFY21-2QFY22). Sustaining the current performance could drive earnings upgrade for FY22F and FY23F, in our view.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Mphasis (downside risks)

Vertical concentration risk

- The BFSI segment contributes ~63% of Mphasis's revenues. Any deviation in spending due to macro uncertainty, unfavourable regulations or from top clients could impact Mphasis's financials significantly.

Top client concentration risk

- Deviation in spending pattern among top clients (~11% of direct international revenues) and the top 2-5 clients (~31% of direct international revenues) could impact Mphasis's financials significantly. Direct international revenues contributed ~92% to overall revenues as at 2QFY22-end.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in increased sub-contracting costs for Mphasis, a rise in attrition level and concerns on availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact revenue execution going ahead, in our view.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Coforge (downside risks)

Delay in Travel vertical recovery could impact growth assumption

- Coforge has a large exposure to the travel segment (19% in 2QFY22 vs. 28% in 2QFY20), which has seen a slower recovery in spending post-Covid (declined 5% qoq in 4QFY20 and 31.6% qoq in 1QFY21). Airlines, the most hit sub-segment, contributes ~47% to the transport vertical. Prolonged weakness could impact the overall revenue growth trajectory in the short term, in our view.

Client concentration risk

- The company's top 10 clients contributed ~34% of 2QFY22 revenues. We believe any deviation in spending by top clients could impact Coforge's financials significantly.

Vertical concentration risk

- The BFSI vertical contributed ~53% of 2QFY22 revenues. Macro uncertainty or unfavourable regulations could impact spending pattern and in turn Coforge's financials significantly, in our view.

Supply-side issues

- Supply-side challenges in many parts of the world have resulted in increased sub-contracting costs for Coforge, a rise in attrition level (15.3% LTM attrition as at 2QFY22-end up 200bp qoq) and concerns on the availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact revenue execution, in our view.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

L&T Technology Services (upside and downside risks)

Vertical concentration risk

- We believe any deviation in spending in highly cyclical verticals like Transportation (currently 31.4% of revenues; 2QFY22 absolute quarterly revenues was similar to 4QFY20) could impact overall company growth, as witnessed during the Covid period.

Client concentration risk

- We believe any deviation in top 5 clients' (~17% of FY21 revenues) spending could impact overall company growth, as witnessed over the past few years (2QFY22 absolute quarterly revenues stood at US$37m vs. US$47.8m in 1QFY19).

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in increased costs for LTTS, a rise in attrition level (16.5% LTM attrition as at 2QFY22-end, up 200bp qoq) and concerns on the availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact its revenue execution going ahead, in our view.

Sharp recovery in capex poses an upside risk to estimates

- ER&D spending is generally discretionary and cyclical in nature. Sharp recovery in capex could surprise growth on the upside, and in turn accelerate revenue growth for LTTS.

USD/INR appreciation

A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Persistent Systems (downside risks)

Management change could impact growth momentum

- Since Mr. Sanjay Kalra's appointment as CEO in Oct 2020, Persistent has been reaping synergistic benefits from go-to-market and delivery re-organization. Any change in the current execution structure could impact growth and in turn profitability, in our view.

Client concentration risk

- We believe any deviation in top client (~17% of 2QFY22 revenues) spending could impact overall company's growth, as witnessed over the past few years.

Weakness in IP business to impact margins

- The volatile performance in IP business (~13% of revenues; -11.4% revenue CAGR over FY19-21) could impact FY22F margin assumption as the IP business has higher margins than the company average.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in increased sub-contracting costs for Persistent, a rise in attrition level (23.6% LTM attrition as at 2QFY22-end, up 700bp qoq) and concerns on the availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact Persistent's revenue execution in some cases.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Birlasoft (downside risks)

Vertical concentration risk

- Any deviation in spending in highly cyclical verticals like Manufacturing (~43% of revenues) and Energy & Utilities (~14% of revenues; 2QFY22 absolute quarterly revenues were similar to 2QFY20) could impact overall company's growth, as witnessed during the Covid period.

Persisting weakness in ERP portfolio could restrict overall growth

- Cloud transformation and Covid-led disruption impacted spending in Enterprise solutions practice (41% of revenues as at 2QFY22-end; a large part being SAP and Oracle). Persisting weakness (-0.8% CQGR over 1QFY21-2QFY22) could restrict overall growth assumptions for FY22F/FY23F, in our view.

Supply-side concerns

- Supply-side challenges in many parts of the world have resulted in increased sub-contracting costs for Birlasoft, a rise in attrition level (24.2% LTM attrition as at 2QFY22-end, up 770bp qoq) and concerns on the availability of local talent. Persisting supply-side challenges pose an upside risk to wage inflation and could impact its revenue execution going ahead, in our view.

USD/INR appreciation

- A key downside risk to margins and EPS is USD/INR appreciation from the current level of ~75.

Figure 130: SWOT analysis

Strengths

1) Cost (~4-5x cheaper) and engineering graduates (>1m per year) to remain key growth drivers for Indian IT services players.

2) Outsourcing to Indian IT players gained further prominence during the pandemic. It remains a key growth driver as ~30-40% of technology spending is outsourced, as per IDC, of which ~56% was from India in CY19.

Weaknesses

1) Persisting high attrition rate (> 20%+) in India could impact deliverables from service providers.

2) Appreciation of Indian currency among key geographies like US & Europe could impact financials of Indian IT service provider.

Opportunities

1) Accelerating demand for Cloud and digital transformation services supported by an increasingly digitally-skilled workforce.

2) Outsourcing from European market towards Indian providers could be a strong growth opportunity over the next few years as Europe's outsourcing propensity is low compared to the US.

Threats

1) Adverse regulations (changes in H1-B visa or anti-outsourcing legislations) could lead to higher sub-contracting expenses for Indian IT service providers, thereby impacting margins.

2) Favourable policies from other emerging geographies, which have reasonable skilled talent supply, could impact India-based players.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 7 Hold 0 Sell 0
Current price:	Rs468
Target price:	Rs538
Previous target:	NA
Up/downside:	15.0%
EIP Research / Consensus:	3.6%
Reuters:	BIRS.NS
Bloomberg:	BSOFT IN
Market cap:	US$1,723m
	Rs129,972m
Average daily turnover:	US$17.6m
	Rs1325.2m
Current shares o/s:	284.1m
Free float:	59.0%

**Source: Bloomberg*

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.4	14.2	148.4
Relative (%)	21.1	17.3	98.9

Major shareholders	% held
L&T Emerging Businesses Fund	3.8
ICICI Prudential Long Term Equity Fund Tax Savings	3.3
Abu Dhabi Investment Authority	2.4

Birlasoft

Portfolio offering with a potential to surprise

- We model in 14.8% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast Birlasoft to generate 20.5% PAT CAGR over FY22-24F.
- We initiate coverage with an ADD rating and a target price of Rs538/share.

Growth strategy to improve operational rigour

Birlasoft's growth strategy in place post the 2019 demerger could drive sustainable 14.8% US$ revenue CAGR over FY22-24F, in our view. We believe the realigned sales structure across verticals vs. horizontals is improving go-to-market, the focus on hunting and farming teams is improving bookings and pipeline, hiring of account managers for top 40 clients is improving mining and cross-selling, and investments in senior leadership, talent and partnership ecosystem is helping build competency and driving operational efficiency. Though early days, we believe operational rigour has a long headroom to improve.

Order book supports mid-teen growth assumption

We believe the current order book (new US$416m on a 12-month trailing basis; US$728m including renewal) offers quantum revenue visibility and supports mid-teen growth for FY22F even after assuming a 50% roll-off in the project nature of the business (30%), 20% in the balance 70% and a three-year execution cycle. We believe increasing deal conversation, optimism around upgrades, new implementations, transformation deals, and advisory ecosystem could drive recovery in the Enterprise business, aiding FY23F growth.

Non-ERP growing ~20%; ERP recovery could accelerate momentum

Analysing FY21 revenue growth shows the skew across service offerings. Barring Digital Transformation (DT), which added US$25.9m yoy, absolute dollar addition in other services was weak led by ERP business (44.6% of FY21 revenues). Back-of-the-envelope calculations suggest management's guidance of mid-teen growth bakes in ~20% yoy growth in the non-ERP portfolio, assuming ERP grows 8% (~9% points higher growth than 1H annualised revenues). With the recovery in the JD Edwards portfolio and late cycle recovery in SAP, Oracle could help BSOFT sustain mid-teen growth in FY23F as well.

Operational efficiency to drive margin expansion

We model average 14% of margins over FY22-24F as growth and operating leverage could sustain the current margin profile. Cost initiatives, including lower onsite sub-contracting cost (replaced with internal people), lower travel cost, and pyramid optimisation through fresher hiring are key tailwinds, while attrition and higher retention cost are key headwinds.

Initiating coverage with ADD rating and target price of Rs538/share

We initiate coverage on Birlasoft with an ADD rating, led by order book and recovery in ERP, which could drive 14.8%/20.5% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. At 24x FY24F EPS, our target P/E is above PAT CAGR given improved execution, FCF generation, net cash of Rs37 per share (as at 2QFY22-end), and improving payout, implying PE/G of 1.15x. Staffing challenges and delayed recovery in ERP portfolio are key downside risks.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	32,910	35,557	40,931	48,078	55,540
Operating EBITDA (Rsm)	3,869	5,292	6,287	7,798	8,997
Net Profit (Rsm)	2,244	3,208	4,443	5,575	6,455
Core EPS (Rs)	8.1	11.5	15.7	19.6	22.7
Core EPS Growth	0.0%	41.7%	36.5%	25.0%	15.9%
FD Core P/E (x)	28.84	40.70	29.82	23.86	20.59
DPS (Rs)	2.0	3.5	5.0	6.5	8.0
Dividend Yield	0.43%	0.75%	1.07%	1.39%	1.71%
EV/EBITDA (x)	32.03	22.79	19.20	15.17	12.72
P/FCFE (x)	25.31	24.50	46.78	30.20	24.71
Net Gearing	(29.0%)	(45.8%)	(47.5%)	(51.8%)	(56.3%)
P/BV (x)	6.84	6.05	5.37	4.65	4.06
ROE	23.7%	15.8%	19.1%	20.9%	21.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.03	1.04	1.04

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

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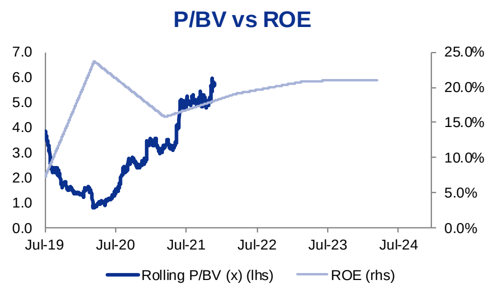
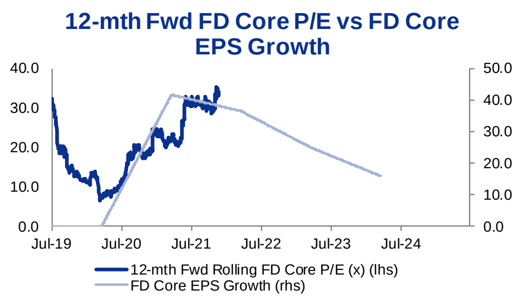
BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**32,910**	**35,557**	**40,931**	**48,078**	**55,540**
Gross Profit	**12,934**	**14,399**	**16,844**	**19,652**	**22,660**
Operating EBITDA	**3,869**	**5,292**	**6,287**	**7,798**	**8,997**
Depreciation And Amortisation	(826)	(804)	(783)	(903)	(1,043)
Operating EBIT	**3,043**	**4,489**	**5,504**	**6,896**	**7,955**
Financial Income/(Expense)	319	59	390	437	534
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	**3,362**	**4,548**	**5,894**	**7,332**	**8,489**
Exceptional Items					
Pre-tax Profit	**3,362**	**4,548**	**5,894**	**7,332**	**8,489**
Taxation	(1,119)	(1,340)	(1,451)	(1,757)	(2,034)
Exceptional Income - post-tax					
Profit After Tax	**2,244**	**3,208**	**4,443**	**5,575**	**6,455**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**2,244**	**3,208**	**4,443**	**5,575**	**6,455**
Recurring Net Profit	2,244	3,208	4,443	5,575	6,455
Fully Diluted Recurring Net Profit	**2,244**	**3,208**	**4,443**	**5,575**	**6,455**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	3,869	5,292	6,287	7,798	8,997
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(910)	845	(1,504)	(1,136)	(1,186)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	945	108			
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(805)	(667)	(1,451)	(1,757)	(2,034)
Cashflow From Operations	**3,100**	**5,579**	**3,332**	**4,905**	**5,777**
Capex	(544)	(249)	(500)	(500)	(400)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	106	(4,196)	522	574	672
Cash Flow From Investing	**(438)**	**(4,444)**	**22**	**74**	**272**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(996)	(554)	(1,424)	(1,847)	(2,273)
Preferred Dividends					
Other Financing Cashflow	(801)	(415)	(132)	(137)	(137)
Cash Flow From Financing	**(1,797)**	**(969)**	**(1,556)**	**(1,984)**	**(2,410)**
Total Cash Generated	865	165	1,799	2,995	3,639
Free Cashflow To Equity	**2,556**	**5,330**	**2,832**	**4,405**	**5,377**
Free Cashflow To Firm	**2,662**	**1,134**	**3,354**	**4,979**	**6,049**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	6,631	10,983	12,782	15,777	19,416
Total Debtors	8,140	6,318	8,410	9,879	11,412
Inventories					
Total Other Current Assets	2,114	3,752	3,752	3,752	3,752
Total Current Assets	**16,885**	**21,053**	**24,944**	**29,408**	**34,580**
Fixed Assets	2,824	2,466	2,182	1,780	1,137
Total Investments	182	353	353	353	353
Intangible Assets	4,710	4,581	4,581	4,581	4,581
Total Other Non-Current Assets	2,273	1,492	1,492	1,492	1,492
Total Non-current Assets	**9,989**	**8,892**	**8,608**	**8,206**	**7,563**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,904	1,318	1,906	2,239	2,587
Other Current Liabilities	4,210	5,026	5,026	5,026	5,026
Total Current Liabilities	**6,114**	**6,343**	**6,932**	**7,265**	**7,613**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,835	1,802	1,802	1,802	1,802
Total Non-current Liabilities	**1,835**	**1,802**	**1,802**	**1,802**	**1,802**
Total Provisions					
Total Liabilities	**7,949**	**8,145**	**8,734**	**9,067**	**9,414**
Shareholders Equity	18,924	21,799	24,819	28,547	32,729
Minority Interests					
Total Equity	**18,924**	**21,799**	**24,819**	**28,547**	**32,729**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth		8.0%	15.1%	17.5%	15.5%
Operating EBITDA Growth		36.8%	18.8%	24.0%	15.4%
Operating EBITDA Margin	11.8%	14.9%	15.4%	16.2%	16.2%
Net Cash Per Share (Rs)	19.85	35.43	41.37	52.02	64.82
BVPS (Rs)	68.40	77.36	87.14	100.48	115.20
Gross Interest Cover	18.87	34.41	41.84	50.16	57.86
Effective Tax Rate	33.3%	29.5%	24.6%	25.0%	25.0%
Net Dividend Payout Ratio	24.7%	30.7%	32.1%	33.1%	35.2%
Accounts Receivables Days	45.14	74.20	65.67	69.43	69.96
Inventory Days					
Accounts Payables Days	17.39	27.79	24.43	26.62	26.79
ROIC (%)		22.7%	33.8%	38.9%	42.5%
ROCE (%)	20.2%	14.8%	17.1%	18.9%	19.1%
Return On Average Assets	15.1%	11.1%	13.1%	14.7%	15.2%

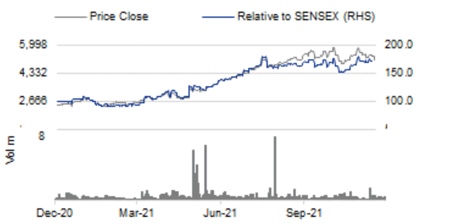
SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 17 Hold 5 Sell 4
Current price:	Rs5,125
Target price:	Rs6,229
Previous target:	NA
Up/downside:	21.5%
EIP Research / Consensus:	9.3%
Reuters:	NITT.NS
Bloomberg:	COFORGE IN
Market cap:	US$4,119m
	Rs310,642m
Average daily turnover:	US$34.9m
	Rs2628.7m
Current shares o/s:	62.1m
Free float:	50.0%

Source: Bloomberg



Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	0.9	(2.9)	109.4
Relative (%)	6.8	(0.3)	67.6

Major shareholders	% held
AXIS MUTUAL FUND	6.2
UTI FLEXI CAP FUND	2.6
SMALLCAP WORLD FUND, INC	2.1

Coforge Limited

Mind the growth

- We model 16.5% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast Coforge to generate 24.2% PAT CAGR over FY22-24F.
- Initiate coverage on Coforge with an ADD rating and a TP of Rs6,229/share.

Robust, predictable and profitable growth focus continues

We believe Coforge's strategic focus on select verticals (insurance, banking and transportation), coupled with a growth framework centered on leadership, niche capabilities, organizational structure and M&A will drive revenue growth. The key drivers of FY22F revenue growth (22% organic; 35% including SLK contribution) include 1) strengthening sub-segments such as asset management in banking, scaling up the insurance business in the US vs. Europe currently, 2) recovery in the transport vertical, 3) focus on scaling up key accounts, and 4) large deal wins (>US$20m) with a robust pipeline.

SLK Global acquisition augments BFSI practice; adds growth vector

SLK Global's acquisition (60% stake for Rs9.18bn) 1) augments the FSI practice (~50% of revenues); 2) enhances business process management (BPM) offerings under its US$100m+ automation practice, 3) adds a top 5 client in Fifth Third Bank, and 4) enhances delivery capabilities (7,000+ employees of SLK Global) in India, the Philippines and North America. We believe SLK's revenues will accelerate in FY23F given 1) its historical growth (17% CAGR over previous three years) and Coforge's historical track record of scaling acquisitions (Incessant and Ruletek), 2) cross-selling and up-selling to >35 customers, and 3) mining of Fifth Third Bank (US$100m+ outsourcing spending).

Robust order intake leads to good revenue visibility

As at 1HFY22-end, order intake was US$604m, up 56.5%, while the executable book over the next 12 months was up 40.7% yoy to US$688m. The order pipeline remains robust with Coforge winning three large deals (>US$20m+) in 2QFY22, including two US$50m+ each. This, with improving win ratio driven by the increase in sales compensation, lends good revenue visibility.

Ex-RSU EBITDA margin expected to be more than 19%

We expect Coforge to report 17.6% EBITDA margin, including restricted stock unit (RSU) charge, led by operating leverage, SG&A leverage, and higher contribution margin for SLK offset by large -deal transition costs.

Initiate coverage with ADD rating and TP of Rs6,229/share

We initiate coverage on Coforge with an ADD rating as recovery in travel, traction in FSI, and SLK contribution could drive 16.5%/24.2% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. At 38x FY24F EPS, our target P/E is above PAT CAGR. High earnings growth trajectory, stable FCF generation and average 68% payout over FY20-21 implies PE/G of 1.58x. Senior leadership attrition remains a key downside risk.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	41,839	46,628	63,974	76,729	89,418
Operating EBITDA (Rsm)	7,198	7,865	11,239	14,195	16,542
Net Profit (Rsm)	4,547	4,986	6,577	8,722	10,145
Core EPS (Rs)	71.9	77.2	106.0	140.5	163.5
Core EPS Growth	10.0%	7.5%	37.3%	32.5%	16.3%
FD Core P/E (x)	71.31	66.36	48.33	36.47	31.36
DPS (Rs)	31.0	13.0	91.0	98.4	114.4
Dividend Yield	0.64%	0.25%	1.73%	1.92%	2.23%
EV/EBITDA (x)	43.07	39.50	28.10	22.11	18.78
P/FCFE (x)	142.25	46.62	(438.74)	39.86	31.72
Net Gearing	(38.1%)	(33.4%)	(8.1%)	(14.9%)	(23.6%)
P/BV (x)	13.36	12.88	12.37	11.23	10.14
ROE	20.0%	19.8%	26.1%	32.3%	34.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.96	0.98	0.95

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

Analyst(s)

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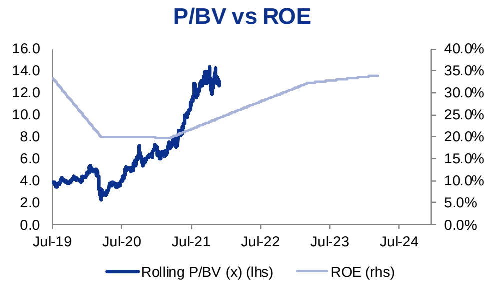
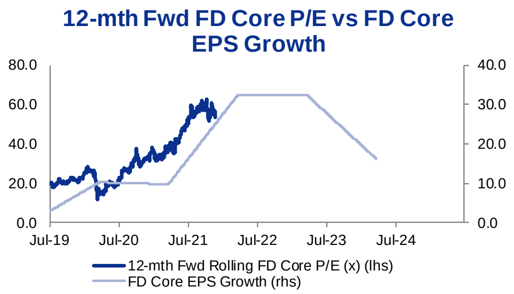
BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**41,839**	**46,628**	**63,974**	**76,729**	**89,418**
Gross Profit	**14,311**	**14,935**	**20,378**	**24,937**	**29,061**
Operating EBITDA	**7,198**	**7,865**	**11,239**	**14,195**	**16,542**
Depreciation And Amortisation	(1,730)	(1,836)	(2,328)	(2,686)	(3,130)
Operating EBIT	**5,468**	**6,029**	**8,911**	**11,509**	**13,413**
Financial Income/(Expense)	(50)	(34)	94	249	256
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	572	217			
Profit Before Tax (pre-EI)	**5,990**	**6,212**	**9,005**	**11,759**	**13,668**
Exceptional Items					
Pre-tax Profit	**5,990**	**6,212**	**9,005**	**11,759**	**13,668**
Taxation	(1,278)	(1,302)	(1,934)	(2,587)	(3,144)
Exceptional Income - post-tax	71	180			
Profit After Tax	**4,783**	**5,090**	**7,071**	**9,172**	**10,525**
Minority Interests	(236)	(104)	(494)	(450)	(380)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**4,547**	**4,986**	**6,577**	**8,722**	**10,145**
Recurring Net Profit	4,476	4,806	6,577	8,722	10,145
Fully Diluted Recurring Net Profit	**4,476**	**4,806**	**6,577**	**8,722**	**10,145**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	7,198	7,865	11,239	14,195	16,542
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,664)	502	(2,953)	(2,377)	(2,190)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	249	938	(494)	(450)	(380)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,814)	(1,682)	(1,934)	(2,587)	(3,144)
Cashflow From Operations	**2,969**	**7,623**	**5,858**	**8,781**	**10,828**
Capex	(725)	(782)	(6,583)	(800)	(800)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,848	(1,572)	94	249	256
Cash Flow From Investing	**1,123**	**(2,354)**	**(6,489)**	**(551)**	**(544)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased		(4,166)			
Dividends Paid	(1,469)	(686)	(5,518)	(6,105)	(7,101)
Preferred Dividends					
Other Financing Cashflow	142	(679)	3,400		
Cash Flow From Financing	**(1,327)**	**(5,531)**	**(2,118)**	**(6,105)**	**(7,101)**
Total Cash Generated	2,765	(262)	(2,748)	2,125	3,183
Free Cashflow To Equity	**2,244**	**6,841**	**(725)**	**7,981**	**10,028**
Free Cashflow To Firm	**4,092**	**5,269**	**(631)**	**8,231**	**10,284**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	9,171	8,246	5,498	7,623	10,806
Total Debtors	10,813	11,312	15,073	18,289	21,313
Inventories					
Total Other Current Assets	1,526	1,737	1,737	1,737	1,737
Total Current Assets	**21,510**	**21,295**	**22,308**	**27,649**	**33,856**
Fixed Assets	4,808	4,518	8,773	6,887	4,558
Total Investments	650	1,829	1,829	1,829	1,829
Intangible Assets	5,988	5,690	5,690	5,690	5,690
Total Other Non-Current Assets	1,442	1,802	1,802	1,802	1,802
Total Non-current Assets	**12,888**	**13,839**	**18,094**	**16,208**	**13,879**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,634	3,398	4,206	5,045	5,880
Other Current Liabilities	5,308	5,027	5,027	5,027	5,027
Total Current Liabilities	**7,942**	**8,425**	**9,233**	**10,072**	**10,907**
Total Long-term Debt	48	5	3,405	3,405	3,405
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,443	2,043	2,043	2,043	2,043
Total Non-current Liabilities	**2,491**	**2,048**	**5,448**	**5,448**	**5,448**
Total Provisions					
Total Liabilities	**10,433**	**10,473**	**14,681**	**15,520**	**16,355**
Shareholders Equity	23,965	24,661	25,720	28,337	31,380
Minority Interests					
Total Equity	**23,965**	**24,661**	**25,720**	**28,337**	**31,380**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	13.8%	11.4%	37.2%	19.9%	16.5%
Operating EBITDA Growth	11.6%	9.3%	42.9%	26.3%	16.5%
Operating EBITDA Margin	17.2%	16.9%	17.6%	18.5%	18.5%
Net Cash Per Share (Rs)	146.06	132.96	33.72	67.96	119.24
BVPS (Rs)	383.67	397.88	414.42	456.58	505.62
Gross Interest Cover	35.28	42.16			
Effective Tax Rate	21.3%	21.0%	21.5%	22.0%	23.0%
Net Dividend Payout Ratio	46.1%	16.4%	83.9%	70.0%	70.0%
Accounts Receivables Days	78.25	86.60	75.27	79.35	80.83
Inventory Days					
Accounts Payables Days	28.38	34.73	31.83	32.60	33.03
ROIC (%)	33.0%	28.6%	42.1%	37.7%	42.4%
ROCE (%)	19.2%	19.6%	26.0%	29.5%	31.0%
Return On Average Assets	15.1%	14.2%	18.5%	21.3%	22.6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Company Note

IT Services | India | December 07, 2021

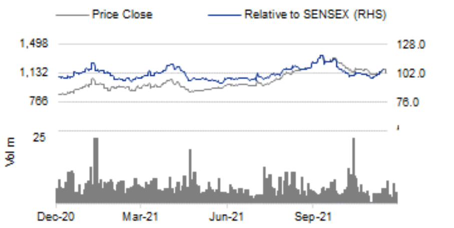
INITIATION

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 38 Hold 7 Sell 3
Current price:	Rs1,137
Target price:	Rs1,412
Previous target:	NA
Up/downside:	24.2%
EIP Research / Consensus:	1.3%
Reuters:	HCLT.NS
Bloomberg:	HCLT IN
Market cap:	US$40,892m
	Rs3,084,216m
Average daily turnover:	US$75.5m
	Rs5694.0m
Current shares o/s:	2,713.7m
Free float:	39.0%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.9)	(5.3)	33.8
Relative (%)	1.7	(2.7)	7.1

Major shareholders	% held
SBI MF	2.4
LIC	2.3
Artisan Value fund	1.8

HCL Technologies

Valuation offers upside potential

- We model in 10% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast HCLT to generate 13.5% PAT CAGR over FY22-24F.
- Initiate coverage with an ADD rating and a target price of Rs1,412/share.

HCLT focused on driving cross-selling/up-selling opportunities

HCLT will continue to drive traditional offerings under Mode 1 (~63% contribution to revenues) and the focus on newer areas like digital under Mode 2 (~24% of revenues) and products & platforms under Mode 3 (~13% of revenues) for accelerated growth. Although Modes 2 & 3-led growth (posted ~28% CAGR during FY17-21), Mode-1 growth (1.8% CAGR) was impacted by weak spending, renewal pressure in legacy portfolio (especially in IMS) and the Covid pandemic. Increasing contribution of Mode 2 & 3 service offering will enrich the existing portfolio to drive cross-selling/up-selling opportunities in the large client base across diversified geographies.

Integrated approach to drive double-digit growth

HCLT has re-aligned its delivery structure to drive multi-dimensional growth. IT & business services will follow vertical go-to-market (GTM) strategy and horizontal delivery; vertical GTM strategy and competency delivery for ER&D services, while Products & Platforms (P&P) will follow a geography-wise GTM strategy and product development-led delivery. Overall, HCLT's integrated approach of augmenting digital services capabilities and scaling P&P could aid organic double-digit revenue growth over FY22-FY24F, in our view.

Cloud-led migration opportunity to add growth vector

HCLT has invested organically and inorganically in P&P with 1,750+ R&D headcount, 60+ product managers, 400+ sales team and 600+ customer support engineers globally and major product families including Security, Marketing, Commerce, Digital Solutions and Devops. We believe the P&P business has high recurring revenues, and a diversified customer base to cross-sell IT services and potentially replicate HCLT's IMS playbook.

Product mix to help sustain EBIT margin

We expect HCLT to report 19.6% EBIT margin led by above company average in the Products & Platform business (average 27.3% in FY21) and steady margins in IT and Business (average 19.1% in FY21) and ER&D services (average 20.8% in FY21). Medium-term investments in geographic expansion, building capabilities in digital and Products & Platforms business and high wage inflation, especially for niche skills, are key headwinds

Initiate coverage with ADD rating and target price of Rs1,412/share

We initiate coverage on HCLT with an ADD rating as recovery across businesses and large deals could drive 10%/13.5% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. At 22x FY24F EPS, our target P/E is above PAT CAGR given stable cash generation, net cash of Rs39/share (as at 2QFY22-end), payout (75% of cumulative NP over FY22-26F) and implying PE/G of 1.64x. Customer attrition in P&P and staffing challenges in large deal are key risks.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	706,770	753,780	838,757	942,621	1,043,240
Operating EBITDA (Rsm)	166,920	200,550	202,770	229,057	254,551
Net Profit (Rsm)	109,660	121,910	134,066	153,035	172,769
Core EPS (Rs)	40.4	47.0	49.4	56.4	63.7
Core EPS Growth	8.7%	16.4%	5.0%	14.1%	12.9%
FD Core P/E (x)	28.13	24.16	23.01	20.15	17.85
DPS (Rs)	6.0	26.0	36.0	42.3	47.7
Dividend Yield	0.64%	2.32%	3.17%	3.72%	4.20%
EV/EBITDA (x)	18.18	14.89	14.53	12.69	11.23
P/FCFE (x)	28.72	17.32	23.69	21.01	18.78
Net Gearing	(9.9%)	(16.5%)	(21.8%)	(26.7%)	(31.5%)
P/BV (x)	6.02	5.15	4.85	4.58	4.30
ROE	23.7%	23.0%	21.7%	23.4%	24.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.00	1.00	1.01

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

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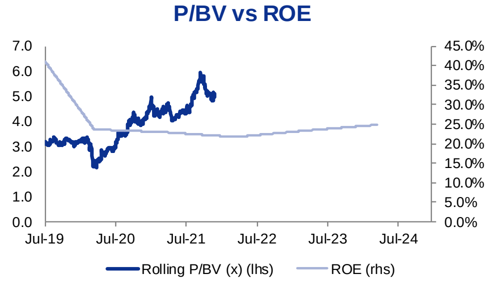
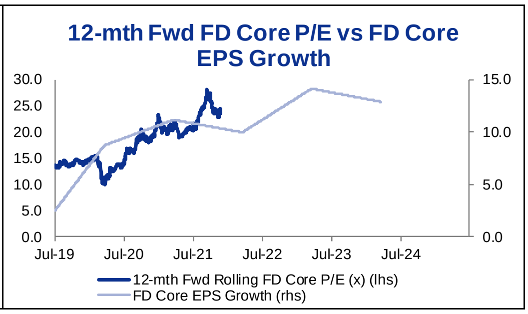




Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**706,770**	**753,780**	**838,757**	**942,621**	**1,043,240**
Gross Profit	**253,820**	**294,030**	**308,409**	**348,770**	**385,999**
Operating EBITDA	**166,920**	**200,550**	**202,770**	**229,057**	**254,551**
Depreciation And Amortisation	(28,400)	(39,850)	(38,189)	(39,862)	(41,972)
Operating EBIT	**138,520**	**160,700**	**164,582**	**189,195**	**212,578**
Financial Income/(Expense)	(390)	1,370	5,424	7,486	9,731
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,230	2,790	2,780	2,780	2,780
Profit Before Tax (pre-EI)	**139,360**	**164,860**	**172,786**	**199,461**	**225,090**
Exceptional Items					
Pre-tax Profit	**139,360**	**164,860**	**172,786**	**199,461**	**225,090**
Taxation	(29,380)	(36,630)	(38,170)	(45,876)	(51,771)
Exceptional Income - post-tax		(5,750)			
Profit After Tax	**109,980**	**122,480**	**134,616**	**153,585**	**173,319**
Minority Interests	(320)	(570)	(550)	(550)	(550)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**109,660**	**121,910**	**134,066**	**153,035**	**172,769**
Recurring Net Profit	109,660	127,660	134,066	153,035	172,769
Fully Diluted Recurring Net Profit	**109,660**	**127,660**	**134,066**	**153,035**	**172,769**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	166,920	200,550	202,770	229,057	254,551
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(15,600)	30,410	(18,953)	(21,911)	(24,085)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	320	570	550	550	550
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(25,580)	(34,450)	(38,170)	(45,876)	(51,771)
Cashflow From Operations	**126,060**	**197,080**	**146,197**	**161,820**	**179,245**
Capex	(18,660)	(19,040)	(16,000)	(15,000)	(15,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(105,080)	(38,380)	5,424	7,486	9,731
Cash Flow From Investing	**(123,740)**	**(57,420)**	**(10,576)**	**(7,514)**	**(5,269)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(16,250)	(32,560)	(97,692)	(114,776)	(129,577)
Preferred Dividends					
Other Financing Cashflow	(15,430)	(79,240)			
Cash Flow From Financing	**(31,680)**	**(111,800)**	**(97,692)**	**(114,776)**	**(129,577)**
Total Cash Generated	(29,360)	27,860	37,929	39,529	44,400
Free Cashflow To Equity	**107,400**	**178,040**	**130,197**	**146,820**	**164,245**
Free Cashflow To Firm	**2,320**	**139,660**	**135,621**	**154,306**	**173,977**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	119,650	156,610	196,219	237,428	283,508
Total Debtors	177,680	175,250	197,625	222,097	248,663
Inventories	910	940	940	940	940
Total Other Current Assets	85,960	97,710	97,710	97,710	97,710
Total Current Assets	**384,200**	**430,510**	**492,494**	**558,176**	**630,821**
Fixed Assets	85,420	83,640	61,451	36,590	9,617
Total Investments	24,500	26,580	26,580	26,580	26,580
Intangible Assets	293,480	290,930	290,930	290,930	290,930
Total Other Non-Current Assets	41,460	30,280	30,280	30,280	30,280
Total Non-current Assets	**444,860**	**431,430**	**409,241**	**384,380**	**357,407**
Short-term Debt	18,450				
Current Portion of Long-Term Debt					
Total Creditors	11,660	17,260	20,682	23,243	25,724
Other Current Liabilities	207,190	156,570	156,570	156,570	156,570
Total Current Liabilities	**237,300**	**173,830**	**177,252**	**179,813**	**182,294**
Total Long-term Debt	28,480	38,280	38,280	38,280	38,280
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	49,070	49,010	49,010	49,010	49,010
Total Non-current Liabilities	**77,550**	**87,290**	**87,290**	**87,290**	**87,290**
Total Provisions					
Total Liabilities	**314,850**	**261,120**	**264,542**	**267,103**	**269,584**
Shareholders Equity	512,670	599,130	635,504	673,763	716,955
Minority Interests	1,540	1,690	1,690	1,690	1,690
Total Equity	**514,210**	**600,820**	**637,194**	**675,453**	**718,645**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	17.0%	6.7%	11.3%	12.4%	10.7%
Operating EBITDA Growth	19.5%	20.1%	1.1%	13.0%	11.1%
Operating EBITDA Margin	23.6%	26.6%	24.2%	24.3%	24.4%
Net Cash Per Share (Rs)	18.77	36.59	51.19	66.37	83.36
BVPS (Rs)	188.92	220.78	234.19	248.29	264.20
Gross Interest Cover	27.43	31.45			
Effective Tax Rate	21.1%	22.2%	22.1%	23.0%	23.0%
Net Dividend Payout Ratio	17.9%	56.1%	72.9%	75.0%	75.0%
Accounts Receivables Days	83.60	85.45	81.13	81.26	82.35
Inventory Days	0.73	0.73	0.65	0.58	0.52
Accounts Payables Days	9.96	11.48	13.06	13.50	13.60
ROIC (%)	39.3%	34.5%	32.6%	37.7%	32.8%
ROCE (%)	26.8%	25.9%	24.3%	26.5%	21.7%
Return On Average Assets	15.6%	15.0%	14.7%	15.8%	17.2%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

CGSCIMB INITIATION InCred Equities

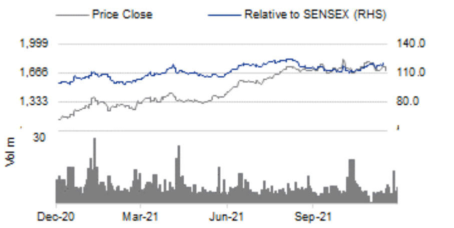
Company Note | IT Services | India | December 07, 2021

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 44 Hold 2 Sell 2
Current price:	Rs1,695
Target price:	Rs1,949
Previous target:	NA
Up/downside:	15.0%
EIP Research / Consensus:	-2.8%
Reuters:	INFY.NS
Bloomberg:	INFO IN
Market cap:	US$94,527m
	Rs7,129,603m
Average daily turnover:	US$140.2m
	Rs10575.4m
Current shares o/s:	4,227.0m
Free float:	87.0%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.8)	(2.0)	49.4
Relative (%)	5.0	0.6	19.6

Major shareholders	% held
LIC	5.6
SBI MF	3.0
ICICI Pru MF	1.2

Infosys

Going from strength to strength

- We model 12.5% revenue CAGR over FY22-24F led by new logos and mining.
- We forecast 15.1% PAT CAGR over FY22-24F.
- We initiate coverage on Infosys with an ADD rating and a TP of Rs1,949/share.

Consistent strategy execution continues

Infosys continues to execute its 2018 strategy of "Navigating client's digital journey" led by its focus on scaling digital capabilities (user experience, data analytics, cyber security, Cloud, and Internet of Things), deepen automation and Artificial Intelligence capabilities, reskilling of employees (~90% employees using LEX platform for re-skilling) and expanding localization (plans to add 12,000 employees in the US over the next two years). Disciplined execution over the last few years has accelerated revenue growth led by digital (47% of revenues and growing on an average 36% yoy over the last 10 quarters) while large-deal focus and build-up could help sustain the same, in our view.

Large-deal focus supports growth momentum

Sales transformation, titan accounts expansion and new logos led to large-deal momentum (US$8.3bn on a trailing 12-month basis) with improving mix of net new deals while strategic pursuits such as outcome-based, consolidation-led, and digital transformation deals could sustain the same. We expect pipeline conversion and large deal ramp-ups to aid growth momentum and help achieve top-end of FY22F cc revenue guidance of 16.5-17.5%.

Cloud-led migration opportunity to add growth vector

Infosys believes the Cloud ecosystem spending alone could be a US$500bn opportunity over the next three years and capability investments including 1) 35,000+ employees in Cloud practice, and 2) Infosys Cobalt (comprising Cloud services, platforms, solutions, 200+ industry templates, and 15,000 Cloud components coupled with solutions to leverage SaaS, IaaS and PaaS ecosystem) could sustain growth momentum in the digital business (accounted for ~56% of revenues in 2QFY22, 33.1% CAGR over FY18-21) and offset deceleration in the traditional business (5% CAGR decline during FY18-21).

EBIT margin sustainable; staffing in large deals may create volatility

We expect Infosys to report 23.2% EBIT margin within its FY22F guided range of 22-24% led by operational efficiency, onshore/offshore mix, pyramid correction and sub-contractor cost optimization. Although capability building and sales transformation investments are behind it, large-deal transition and attrition are key risks. Hence, our FY22F EBIT margin assumption is 40bp below Bloomberg consensus.

Initiate coverage with ADD rating and TP of Rs1,949/share

We initiate coverage on Infosys with an ADD rating as demand recovery and large deals (>US$50m) could drive 12.5%/15.1% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. At 28x FY24F EPS, our target P/E is above PAT CAGR given solid execution, FCF generation, net cash of Rs55 per share as at 2QFY22-end, and up to 85% of FCF as pay-out, implying PE/G of 1.89x. High staffing cost and attrition level are key downside risks.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	907,910	1,004,730	1,185,999	1,365,861	1,542,542
Operating EBITDA (Rsm)	222,680	278,900	309,956	356,490	406,614
Net Profit (Rsm)	165,940	193,510	218,602	253,431	289,444
Core EPS (Rs)	38.5	45.4	51.6	60.0	68.5
Core EPS Growth	3.8%	18.0%	13.6%	16.2%	14.2%
FD Core P/E (x)	44.08	37.34	32.87	28.28	24.76
DPS (Rs)	17.5	27.0	35.0	42.0	47.9
Dividend Yield	1.14%	1.59%	2.06%	2.48%	2.83%
EV/EBITDA (x)	32.00	25.12	22.33	19.25	16.71
P/FCFE (x)	53.40	34.22	43.57	37.87	29.55
Net Gearing	(29.3%)	(29.3%)	(31.9%)	(33.5%)	(37.6%)
P/BV (x)	11.07	9.44	8.58	7.87	7.18
ROE	25.5%	27.3%	27.4%	29.0%	30.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.98	0.98	0.99

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 Dec 2021

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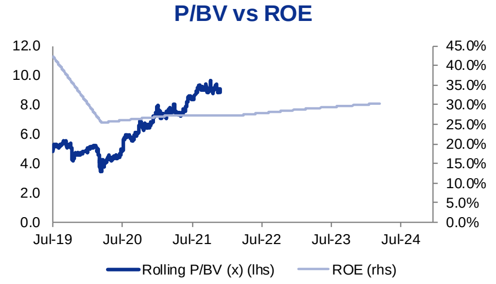
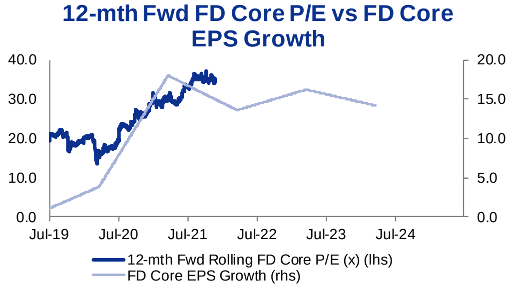
BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**907,910**	**1,004,730**	**1,185,999**	**1,365,861**	**1,542,542**
Gross Profit	**329,530**	**383,260**	**424,724**	**491,710**	**557,783**
Operating EBITDA	**222,680**	**278,900**	**309,956**	**356,490**	**406,614**
Depreciation And Amortisation	(28,940)	(32,680)	(34,354)	(40,976)	(45,505)
Operating EBIT	**193,740**	**246,220**	**275,602**	**315,514**	**361,109**
Financial Income/(Expense)	14,430	14,200	18,632	20,801	23,528
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	11,900	5,860	6,485	6,524	6,869
Profit Before Tax (pre-EI)	**220,070**	**266,280**	**300,719**	**342,839**	**391,505**
Exceptional Items					
Pre-tax Profit	**220,070**	**266,280**	**300,719**	**342,839**	**391,505**
Taxation	(53,680)	(72,050)	(81,847)	(89,138)	(101,791)
Exceptional Income - post-tax					
Profit After Tax	**166,390**	**194,230**	**218,872**	**253,701**	**289,714**
Minority Interests	(450)	(720)	(270)	(270)	(270)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**165,940**	**193,510**	**218,602**	**253,431**	**289,444**
Recurring Net Profit	165,940	193,510	218,602	253,431	289,444
Fully Diluted Recurring Net Profit	**165,940**	**193,510**	**218,602**	**253,431**	**289,444**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	222,680	278,900	309,956	356,490	406,614
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(23,670)	7,680	(40,930)	(57,840)	(44,049)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	16,520	9,550	(270)	(270)	(270)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(45,500)	(63,890)	(81,847)	(89,138)	(101,791)
Cashflow From Operations	**170,030**	**232,240**	**186,909**	**209,242**	**260,503**
Capex	(33,070)	(21,070)	(22,000)	(20,000)	(18,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	30,680	(53,490)	27,047	29,245	32,316
Cash Flow From Investing	**(2,390)**	**(74,560)**	**5,047**	**9,245**	**14,316**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	(74,780)				
Dividends Paid	(95,150)	(91,170)	(147,352)	(177,401)	(202,611)
Preferred Dividends					
Other Financing Cashflow	(5,980)	(6,690)	(1,930)	(1,920)	(1,920)
Cash Flow From Financing	**(175,910)**	**(97,860)**	**(149,282)**	**(179,321)**	**(204,531)**
Total Cash Generated	(8,270)	59,820	42,674	39,165	70,289
Free Cashflow To Equity	**136,960**	**211,170**	**164,909**	**189,242**	**242,503**
Free Cashflow To Firm	**167,640**	**157,680**	**191,956**	**218,487**	**274,820**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	233,040	270,560	313,234	352,399	422,688
Total Debtors	255,680	268,210	321,682	385,435	435,293
Inventories					
Total Other Current Assets	57,040	68,560	68,560	68,560	68,560
Total Current Assets	**545,760**	**607,330**	**703,476**	**806,394**	**926,541**
Fixed Assets	175,570	182,760	170,406	149,430	121,925
Total Investments	48,950	130,360	130,360	130,360	130,360
Intangible Assets	71,860	81,510	81,510	81,510	81,510
Total Other Non-Current Assets	85,540	81,900	81,900	81,900	81,900
Total Non-current Assets	**381,920**	**476,530**	**464,176**	**443,200**	**415,695**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	28,520	26,450	38,992	44,905	50,714
Other Current Liabilities	180,040	212,200	212,200	212,200	212,200
Total Current Liabilities	**208,560**	**238,650**	**251,192**	**257,105**	**262,914**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	60,680	77,390	77,390	77,390	77,390
Total Non-current Liabilities	**60,680**	**77,390**	**77,390**	**77,390**	**77,390**
Total Provisions					
Total Liabilities	**269,240**	**316,040**	**328,582**	**334,495**	**340,304**
Shareholders Equity	654,500	763,510	834,760	910,789	997,622
Minority Interests	3,940	4,310	4,310	4,310	4,310
Total Equity	**658,440**	**767,820**	**839,070**	**915,099**	**1,001,932**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	9.8%	10.7%	18.0%	15.2%	12.9%
Operating EBITDA Growth	6.6%	25.2%	11.1%	15.0%	14.1%
Operating EBITDA Margin	24.5%	27.8%	26.1%	26.1%	26.4%
Net Cash Per Share (Rs)	45.12	52.88	63.25	72.52	89.14
BVPS (Rs)	153.08	179.68	197.48	215.47	236.01
Gross Interest Cover	113.96	126.27	142.80	164.33	188.08
Effective Tax Rate	24.4%	27.1%	27.2%	26.0%	26.0%
Net Dividend Payout Ratio	49.9%	59.2%	67.4%	70.0%	70.0%
Accounts Receivables Days	92.00	95.16	90.77	94.48	97.10
Inventory Days					
Accounts Payables Days	14.22	16.14	15.69	17.52	17.72
ROIC (%)	41.9%	41.1%	45.1%	49.4%	52.4%
ROCE (%)	21.7%	23.8%	23.6%	25.3%	26.6%
Return On Average Assets	17.5%	18.3%	18.2%	19.7%	21.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Company Note

IT Services | India | December 07, 2021

INITIATION

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 20 Hold 9 Sell 9
Current price:	Rs6,556
Target price:	Rs7,671
Previous target:	NA
Up/downside:	17.0%
EIP Research / Consensus:	18.0%
Reuters:	LRTI.NS
Bloomberg:	LTI IN
Market cap:	US$15,228m
	Rs1,148,575m
Average daily turnover:	US$30.0m
	Rs2265.6m
Current shares o/s:	175.0m
Free float:	26.0%

**Source: Bloomberg*

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.1)	20.4	101.2
Relative (%)	2.6	23.7	61.1

Major shareholders	% held
UTI Flexi Cap Fund	1.9
St. James's Place Equity Unit Trust	1.8
Insurance companies	0.3

L&T InfoTech

Consistent compounder

- We model 18% revenue CAGR over FY22-24F led by new logos and mining.
- We forecast L&T Infotech to generate 21.2% PAT CAGR over FY22-24F.
- We initiate coverage on L&T Infotech with an ADD rating and a TP of Rs7,671.

Cloud and data products to drive next phase of growth

L&T InfoTech (LTI) has a dedicated business unit for Amazon (AWS), Google (GCP) and Microsoft (Azure) to scale up its Cloud practice from US$180m+ (serving 150 clients) to US$1bn+ in the next three years. It aims to invest in dedicated sales teams, solutioning and consulting team, delivery structure, an elite team of Cloud specialists and Cloud labs to capitalize on the Cloud opportunity. Dedicated product business unit's focus on five products – MOSAI platform for decisions, ML Logistics, AGNITO, Market-place and LENI to aid launch of Software as a Service (SaaS) versions for select products will drive growth momentum, in our view.

Outcome-based approach to create sustainable value

LTI aims to strengthen strategic focus on industry-centric solutions, service-as-a-product, people transformation and capabilities (organic and inorganic). LTI's four strategy plays: a) operate to transform (do less, do faster, do better and do more), b) data-driven organization (outcome first, industry-specific analytics solutions, dominant player in Cloud), c) experience transformation (persona-based, process re-imagination), and d) digitizing the core (platform offerings, digital reference models for target industry segments) in the past have led to industry-leading US$ revenue CAGR (13.5%) over FY16-21, while setting-up of dedicated Cloud and data products unit could help capitalize on Cloud and digital adoption. We expect LTI to report 18% US$ revenue growth CAGR over FY22-24F despite unfavourable FY21 base (8.8% constant currency revenue growth) compared to its peers.

Consistent EBIT margin execution to continue

LTI delivered consistent margin (PAT margin of ~14-15%) performance over FY16-21, led by revenue growth, operational efficiency (utilization improvement, offshore effort mix) despite continued investments in building capabilities, geographic expansion, sales, and talent. We believe consistent strategy and execution would help sustain current EBIT margin, while investments in sales and marketing for Cloud and products business, rising cost of delivery, and attrition are key near-term headwinds. Growth leverage remains a key offset.

Initiate coverage with ADD rating and target price of Rs7,671/share

We initiate coverage on LTI with an ADD rating as demand recovery, stable leadership, capability investments, geography expansion, large deals and tuck-in M&A could drive 18%/21.2% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. At 41x FY24F EPS, our target P/E is above PAT CAGR given solid execution, sustained FCF generation, net cash of Rs218 per share (2QFY22), and sustain current ~35-40% payout ratio over FY22-24F, implying PE/G of 1.95x. Rich valuation and senior leadership attrition are key downside risks.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	108,786	123,698	153,426	186,781	219,573
Operating EBITDA (Rsm)	20,292	27,251	30,036	37,543	45,232
Net Profit (Rsm)	15,203	19,382	22,139	26,945	32,538
Core EPS (Rs)	86.7	110.4	125.9	153.2	185.0
Core EPS Growth	0.3%	27.3%	14.0%	21.7%	20.8%
FD Core P/E (x)	75.60	59.39	52.08	42.79	35.44
DPS (Rs)	28.0	40.0	53.0	61.3	74.0
Dividend Yield	0.51%	0.61%	0.80%	0.93%	1.13%
EV/EBITDA (x)	55.82	40.91	37.05	29.34	24.00
P/FCFE (x)	100.85	55.24	115.64	62.50	45.83
Net Gearing	(30.8%)	(49.5%)	(46.8%)	(50.4%)	(55.5%)
P/BV (x)	21.26	15.79	13.42	11.30	9.48
ROE	29.5%	30.5%	27.9%	28.7%	29.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.97	0.98	1.01

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

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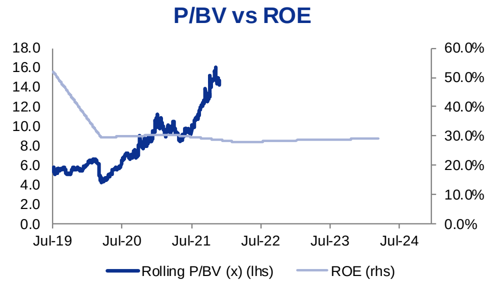
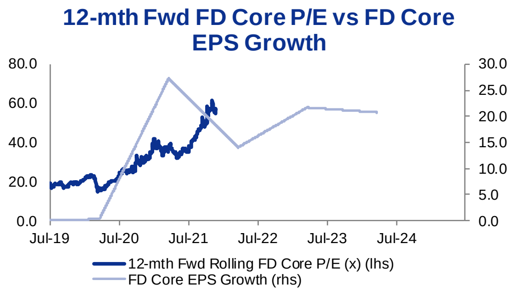
BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**108,786**	**123,698**	**153,426**	**186,781**	**219,573**
Gross Profit	**35,197**	**41,505**	**47,942**	**59,770**	**71,361**
Operating EBITDA	**20,292**	**27,251**	**30,036**	**37,543**	**45,232**
Depreciation And Amortisation	(2,730)	(3,325)	(3,476)	(4,670)	(5,489)
Operating EBIT	**17,562**	**23,926**	**26,561**	**32,873**	**39,743**
Financial Income/(Expense)	2,466	1,956	3,351	3,588	3,903
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	**20,028**	**25,882**	**29,911**	**36,461**	**43,646**
Exceptional Items					
Pre-tax Profit	**20,028**	**25,882**	**29,911**	**36,461**	**43,646**
Taxation	(4,825)	(6,500)	(7,772)	(9,516)	(11,108)
Exceptional Income - post-tax					
Profit After Tax	**15,203**	**19,382**	**22,139**	**26,945**	**32,538**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**15,203**	**19,382**	**22,139**	**26,945**	**32,538**
Recurring Net Profit	15,203	19,382	22,139	26,945	32,538
Fully Diluted Recurring Net Profit	**15,203**	**19,382**	**22,139**	**26,945**	**32,538**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	20,292	27,251	30,036	37,543	45,232
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,313)	2,704	(7,294)	(6,580)	(6,469)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(4,118)	(6,400)	(7,772)	(9,516)	(11,108)
Cashflow From Operations	**13,861**	**23,555**	**14,971**	**21,447**	**27,656**
Capex	(2,465)	(2,719)	(5,000)	(3,000)	(2,500)
Disposals Of FAs/subsidiaries	39	54			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4,094)	(13,895)	4,050	4,296	4,611
Cash Flow From Investing	**(6,520)**	**(16,560)**	**(950)**	**1,296**	**2,111**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,679)	(5,319)	(9,267)	(10,778)	(13,015)
Preferred Dividends					
Other Financing Cashflow	(3,221)	231	(699)	(708)	(708)
Cash Flow From Financing	**(8,900)**	**(5,088)**	**(9,966)**	**(11,486)**	**(13,723)**
Total Cash Generated	(1,559)	1,907	4,055	11,257	16,043
Free Cashflow To Equity	**11,396**	**20,836**	**9,971**	**18,447**	**25,156**
Free Cashflow To Firm	**7,341**	**6,995**	**14,020**	**22,743**	**29,767**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	27,438	43,876	47,931	59,187	75,231
Total Debtors	31,883	31,248	39,933	49,126	57,751
Inventories					
Total Other Current Assets	3,969	6,189	6,189	6,189	6,189
Total Current Assets	**63,290**	**81,313**	**94,052**	**114,502**	**139,171**
Fixed Assets	12,105	10,481	12,005	10,336	7,346
Total Investments	680	3,065	3,065	3,065	3,065
Intangible Assets	7,684	9,241	9,241	9,241	9,241
Total Other Non-Current Assets	4,490	2,991	2,991	2,991	2,991
Total Non-current Assets	**24,959**	**25,778**	**27,302**	**25,633**	**22,643**
Short-term Debt	320	414	414	414	414
Current Portion of Long-Term Debt					
Total Creditors	6,950	8,277	9,668	12,281	14,438
Other Current Liabilities	16,042	17,632	17,632	17,632	17,632
Total Current Liabilities	**23,312**	**26,323**	**27,714**	**30,327**	**32,484**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10,886	7,697	7,697	7,697	7,697
Total Non-current Liabilities	**10,886**	**7,697**	**7,697**	**7,697**	**7,697**
Total Provisions					
Total Liabilities	**34,198**	**34,020**	**35,411**	**38,024**	**40,181**
Shareholders Equity	54,040	73,034	85,907	102,074	121,596
Minority Interests	11	37	37	37	37
Total Equity	**54,051**	**73,071**	**85,944**	**102,111**	**121,633**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	15.2%	13.7%	24.0%	21.7%	17.6%
Operating EBITDA Growth	7.7%	34.3%	10.2%	25.0%	20.5%
Operating EBITDA Margin	18.7%	22.0%	19.6%	20.1%	20.6%
Net Cash Per Share (Rs)	95.07	205.63	228.68	292.69	383.92
BVPS (Rs)	308.32	415.28	488.48	580.40	691.41
Gross Interest Cover					
Effective Tax Rate	24.1%	25.1%	26.0%	26.1%	25.5%
Net Dividend Payout Ratio	38.6%	36.0%	41.9%	40.0%	40.0%
Accounts Receivables Days	98.68	93.14	84.67	87.02	88.83
Inventory Days					
Accounts Payables Days	28.82	33.81	31.05	31.54	32.90
ROIC (%)	50.1%	48.2%	57.4%	56.4%	61.8%
ROCE (%)	23.2%	24.6%	22.5%	23.9%	24.8%
Return On Average Assets	17.2%	18.3%	17.2%	18.6%	19.6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Company Note

IT Services | India | December 07, 2021

INITIATION

India

HOLD *(Initiating coverage)*

Consensus ratings*:	Buy 12 Hold 7 Sell 7
Current price:	Rs5,248
Target price:	Rs5,705
Previous target:	NA
Up/downside:	8.7%
EIP Research / Consensus:	23.4%
Reuters:	LTEH.NS
Bloomberg:	LTTS IN
Market cap:	US$7,336m
	Rs553,333m
Average daily turnover:	US$24.2m
	Rs1824.9m
Current shares o/s:	105.7m
Free float:	26.0%

Source: Bloomberg

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.7	21.1	191.8
Relative (%)	10.8	24.4	133.6

Major shareholders	% held
FPI	9.5
NIPPON INDIA MULTI ASSET	1.1
Employees	0.9

L&T Technology Services Ltd

Engineering at scale

- We model 18.2% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast LTTS to generate 20.9% PAT CAGR over FY22-24F.
- We initiate coverage with a HOLD rating and a target price of Rs5,705/share.

Engineering at scale

LTTS has pivoted to six strategic areas – electric autonomous connected vehicles (EACV), 5G, MedTech, Digital Manufacturing, Artificial Intelligence (AI) and Machine Learning (ML) driven by smart offerings and sustainability. We believe these could aid industry-leading growth, while repurposed sales efforts could improve client mining and win large deals and also address adjacent customer demand. Continued investments in program managers, leaders and technologies could support the evolving operating model of extreme offshoring, higher fresher intake and contractors, in our view.

Sales focus driving large deal wins across chosen strategic bets

According to L&T Technology Services Ltd (LTTS), changing market conditions and need are driving digital engineering demand. To capture the same, LTTS has expanded the scope of its T-30 strategy to super-size existing accounts and invested in 1) a large deals team, 2) advisor and analyst relationships, and 3) alliances and partnerships to win mega deals. Early markers of success include 24 large deals on an LTM (last 12-month) basis with new logos and robust pipeline across six strategic bets.

Predictability improving; budget consolidation benefitting LTTS

A key message from recent management commentary was the improved visibility, which in turn is driving the predictability of the business. Key drivers were sourcing maturity, long-term strategic engagements, and consolidation of budgets benefitting players like LTTS. It noted that decision-making improved post Covid pandemic and has reduced sales cycles.

Consistent execution could drive upgrades

Although client-specific issues and negative operating leverage are key reasons for volatile EBITM in last two years, LTTS aims to achieve 18% EBITM in the medium-term vs. 16.5% in FY20 and 14.5% in FY21. Key tailwinds are growth, SG&A leverage, fresher intake, and offshoring, while the headwinds are investments in talent, labs, and proximity centres.

Initiate coverage with HOLD rating and TP of Rs5,705/share

We initiate coverage on LTTS with a HOLD rating as its diversified portfolio offering could help capture market share in a robust demand environment and drive 18.2%/20.9% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F but current valuation leaves limited upside potential. With diversified ER&D play at 44x FY24F EPS, our target P/E is above PAT CAGR given solid execution, sustained FCF generation, net cash of Rs185/share as at 2QFY22-end and average 35% payout of FCF, implying PE/G of 2.1x. Client-specific issues, EBITM compression due to challenges in large verticals, and employee attrition are key downside risks to our estimates. Sharp recovery in capex could surprise growth on the upside, and in turn accelerate revenue growth for LTTS.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	56,191	54,497	64,767	79,188	93,103
Operating EBITDA (Rsm)	11,288	10,074	13,841	17,738	21,088
Net Profit (Rsm)	8,185	7,188	9,403	11,431	13,742
Core EPS (Rs)	79.2	68.1	89.0	108.2	130.0
Core EPS Growth	9.2%	(14.1%)	30.8%	21.5%	20.2%
FD Core P/E (x)	66.25	77.08	58.95	48.52	40.36
DPS (Rs)	21.0	22.0	28.5	37.9	48.1
Dividend Yield	0.45%	0.42%	0.54%	0.72%	0.92%
EV/EBITDA (x)	48.68	53.67	38.80	29.94	24.83
P/FCFE (x)	114.21	44.32	98.54	62.17	51.62
Net Gearing	(17.9%)	(38.6%)	(42.0%)	(48.5%)	(54.1%)
P/BV (x)	20.01	15.95	13.48	11.42	9.69
ROE	31.9%	23.0%	24.8%	25.5%	26.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.99	1.00	1.02

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

Analyst(s)

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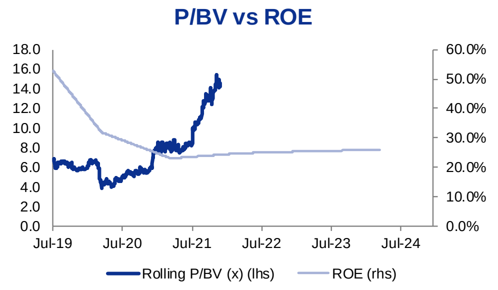
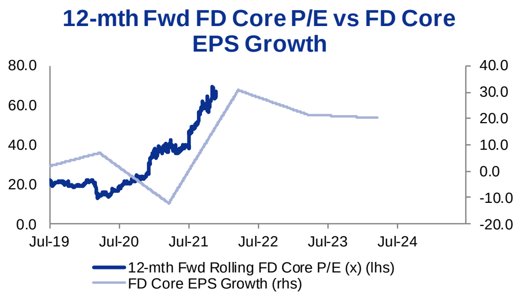




Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**56,191**	**54,497**	**64,767**	**79,188**	**93,103**
Gross Profit	**22,282**	**20,947**	**27,069**	**32,230**	**38,172**
Operating EBITDA	**11,288**	**10,074**	**13,841**	**17,738**	**21,088**
Depreciation And Amortisation	(1,829)	(2,183)	(2,221)	(3,484)	(4,097)
Operating EBIT	**9,459**	**7,891**	**11,620**	**14,254**	**16,991**
Financial Income/(Expense)	(1)	(173)	1,234	1,342	1,749
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,727	1,809			
Profit Before Tax (pre-EI)	**11,185**	**9,527**	**12,854**	**15,596**	**18,741**
Exceptional Items					
Pre-tax Profit	**11,185**	**9,527**	**12,854**	**15,596**	**18,741**
Taxation	(2,778)	(2,307)	(3,419)	(4,133)	(4,966)
Exceptional Income - post-tax	(183)				
Profit After Tax	**8,224**	**7,220**	**9,435**	**11,463**	**13,774**
Minority Interests	(39)	(32)	(32)	(32)	(32)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**8,185**	**7,188**	**9,403**	**11,431**	**13,742**
Recurring Net Profit	8,368	7,188	9,403	11,431	13,742
Fully Diluted Recurring Net Profit	**8,368**	**7,188**	**9,403**	**11,431**	**13,742**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	11,288	10,074	13,841	17,738	21,088
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,287)	4,245	(3,916)	(3,852)	(3,545)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	1,499	1,477	(32)	(32)	(32)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(2,119)	(2,523)	(3,419)	(4,133)	(4,966)
Cashflow From Operations	**6,381**	**13,273**	**6,475**	**9,721**	**12,544**
Capex	(1,527)	(771)	(850)	(800)	(1,800)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(695)	(9,283)	1,681	1,794	2,201
Cash Flow From Investing	**(2,222)**	**(10,054)**	**831**	**994**	**401**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,636)	(2,198)	(2,995)	(4,001)	(5,085)
Preferred Dividends					
Other Financing Cashflow	(1,424)	(1,429)	(447)	(452)	(452)
Cash Flow From Financing	**(4,060)**	**(3,627)**	**(3,442)**	**(4,453)**	**(5,537)**
Total Cash Generated	99	(408)	3,864	6,263	7,409
Free Cashflow To Equity	**4,854**	**12,502**	**5,625**	**8,921**	**10,744**
Free Cashflow To Firm	**4,159**	**3,219**	**7,306**	**10,715**	**12,946**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	8,549	17,476	21,340	27,603	35,012
Total Debtors	17,317	14,761	18,809	23,214	27,293
Inventories					
Total Other Current Assets	3,236	2,789	2,789	2,789	2,789
Total Current Assets	**29,102**	**35,026**	**42,938**	**53,606**	**65,094**
Fixed Assets	5,676	6,379	5,008	2,323	1,527
Total Investments	1,137	1,644	1,644	1,644	1,644
Intangible Assets	6,146	6,564	6,564	6,564	6,564
Total Other Non-Current Assets	972	1,116	1,116	1,116	1,116
Total Non-current Assets	**13,931**	**15,703**	**14,332**	**11,647**	**9,351**
Short-term Debt	303				
Current Portion of Long-Term Debt					
Total Creditors	1,975	2,352	2,484	3,037	3,571
Other Current Liabilities	8,110	8,630	8,630	8,630	8,630
Total Current Liabilities	**10,388**	**10,982**	**11,114**	**11,667**	**12,201**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,890	4,915	4,915	4,915	4,915
Total Non-current Liabilities	**4,890**	**4,915**	**4,915**	**4,915**	**4,915**
Total Provisions					
Total Liabilities	**15,278**	**15,897**	**16,029**	**16,582**	**17,116**
Shareholders Equity	27,686	34,731	41,140	48,570	57,227
Minority Interests	69	101	101	101	101
Total Equity	**27,755**	**34,832**	**41,241**	**48,671**	**57,328**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	10.7%	(3.0%)	18.8%	22.3%	17.6%
Operating EBITDA Growth	23.3%	(10.8%)	37.4%	28.2%	18.9%
Operating EBITDA Margin	20.1%	18.5%	21.4%	22.4%	22.7%
Net Cash Per Share (Rs)	47.14	127.53	163.94	223.20	293.30
BVPS (Rs)	262.20	329.03	389.28	459.59	541.51
Gross Interest Cover	25.92	17.34	25.99	31.54	37.59
Effective Tax Rate	24.8%	24.2%	26.6%	26.5%	26.5%
Net Dividend Payout Ratio	29.6%	32.1%	31.8%	35.0%	37.0%
Accounts Receivables Days	98.67	107.42	94.59	96.85	99.00
Inventory Days					
Accounts Payables Days	20.74	23.54	23.41	21.46	21.96
ROIC (%)	42.9%	25.7%	41.4%	45.2%	51.3%
ROCE (%)	25.0%	17.0%	20.3%	21.4%	21.9%
Return On Average Assets	21.9%	15.7%	15.8%	17.1%	17.9%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Mphasis

Direct business is underappreciated

- We model 16.9% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast MPHL will generate 21% PAT CAGR over FY22-24F.
- We initiate coverage with an ADD rating and a target price of Rs4,073/share.

Direct international revenues to drive growth led by new-gen services

We expect direct international US$ revenues to grow at 19% CAGR over FY22-24F led by traction in new-gen services, driven by 1) farming strategic accounts, 2) addition of new logos, 3) cross-selling to Blink UX portfolio, and 4) deal wins. We expect strong deal-win momentum to continue (34.3% CAGR over FY19-21; >80% new-gen) led by investments in sales, partner ecosystem, and new client acquisition (NCA) program for focused verticals like Logistics, Hi-Tech and Healthcare, apart from Banking and Insurance.

Sales, delivery investment reflected in bookings, deal sizes & mining

MPHL's direct business new deal wins are up 20.5% yoy to US$1.2b in 1HFY22 and 22.7% on a TTM basis vs. 2QFY21. Average deal size has improved to US$80m in 2QFY22 vs. US$27m in 2QFY19. The quality of the customer profile (working with 30 Fortune 500 customers in 2QFY22 vs. two in 1QFY20) and mining (4/5/7 US$100m+/ 75m+/ 50m+ customers vs. 1/2/4, respectively, in FY19) is improving too but has a long growth runaway.

Blink UX adds marquee logos; alleviates DXC overhang

The recent Blink acquisition will augment Mphasis's capabilities around user experience research, strategy, design and implementation and create synergistic opportunities as clients increasingly transform the front-end experience for users. Further, it creates cross-selling opportunities in Blink's marquee logos, including Amazon, Facebook, Mastercard, Nike, Microsoft, Apple, Atari, etc. This, coupled with M&A, to augment hi-tech vertical growth (~US$100m+ run-rate; grew >50% in FY21) could alleviate the DXC overhang.

EBIT margin to remain within stated guidance

We expect MPHL to report 15.3% EBITM, largely in-line its FY22F guided range of 15.5-17% and an average 15.8% reported in the previous four years, as growth leverage, pyramid optimization, automation, offshoring and improving mix of fixed-price projects (26% in 2QFY22 vs. 20% in 4QFY17) could offset headwinds from continued investments in sales, partnership ecosystem, mining strategic accounts, and strengthening capabilities.

Initiating coverage with ADD rating and TP of Rs4,073/share

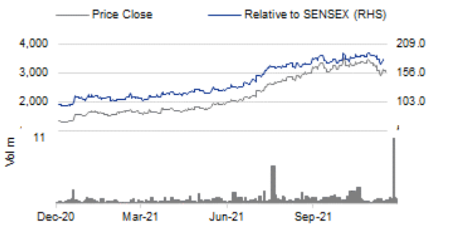
We initiate coverage on MPHL with an ADD rating as traction in core and emerging verticals, NCA program, and deal momentum could drive 16.9%/21% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. At 38x FY24F EPS, our target P/E is above PAT CAGR given cash generation (~78% OCF/EBITDA over FY19-21), net cash of Rs138/share (as at 2QFY22-end), and average 59% payout over FY22-24F, implying PE/G of 1.79x. Downside risks: Senior leadership attrition, and abrupt ramp-down in DXC business.

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 27 Hold 6 Sell 1
Current price:	Rs3,023
Target price:	Rs4,073
Previous target:	NA
Up/downside:	34.7%
EIP Research / Consensus:	14.7%
Reuters:	MBFL.NS
Bloomberg:	MPHL IN
Market cap:	US$7,510m
	Rs566,421m
Average daily turnover:	US$35.8m
	Rs2702.4m
Current shares o/s:	189.9m
Free float:	44.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.9)	0.8	128.5
Relative (%)	(3.5)	3.5	82.9

Major shareholders	% held
Mirae Asset fund	2.8
FIRST STATE ASIAN EQUITY	1.6
HDFC LIFE INSURANCE	1.4

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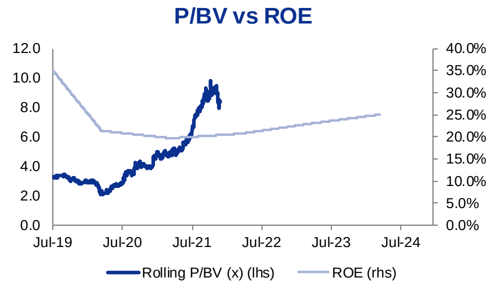
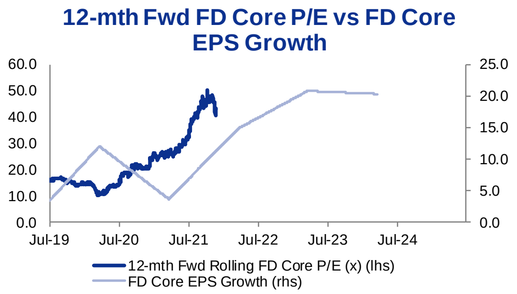
Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	88,435	97,223	116,565	138,987	164,074
Operating EBITDA (Rsm)	16,504	18,028	20,662	24,601	29,205
Net Profit (Rsm)	11,849	12,167	14,111	17,117	20,600
Core EPS (Rs)	62.7	65.0	74.6	90.1	108.5
Core EPS Growth	12.0%	3.7%	14.8%	20.8%	20.3%
FD Core P/E (x)	48.25	46.54	40.52	33.54	27.87
DPS (Rs)	35.0	65.0	45.0	52.3	65.1
Dividend Yield	1.40%	2.13%	1.47%	1.73%	2.15%
EV/EBITDA (x)	34.06	30.55	26.89	22.35	18.56
P/FCFE (x)	47.84	42.63	71.36	34.53	31.07
Net Gearing	(16.3%)	(23.7%)	(22.9%)	(31.0%)	(37.1%)
P/BV (x)	9.66	8.73	8.10	7.35	6.65
ROE	21.4%	19.7%	20.7%	23.0%	25.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.98	0.97	0.98

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**88,435**	**97,223**	**116,565**	**138,987**	**164,074**
Gross Profit	**25,484**	**29,500**	**33,164**	**39,611**	**47,089**
Operating EBITDA	**16,504**	**18,028**	**20,662**	**24,601**	**29,205**
Depreciation And Amortisation	(2,316)	(2,418)	(2,868)	(2,919)	(3,281)
Operating EBIT	**14,188**	**15,610**	**17,794**	**21,682**	**25,924**
Financial Income/(Expense)	701	493	1,126	1,294	1,727
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	266	202			
Profit Before Tax (pre-EI)	**15,154**	**16,306**	**18,920**	**22,976**	**27,651**
Exceptional Items					
Pre-tax Profit	**15,154**	**16,306**	**18,920**	**22,976**	**27,651**
Taxation	(3,305)	(4,138)	(4,809)	(5,859)	(7,051)
Exceptional Income - post-tax					
Profit After Tax	**11,849**	**12,167**	**14,111**	**17,117**	**20,600**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**11,849**	**12,167**	**14,111**	**17,117**	**20,600**
Recurring Net Profit	11,849	12,167	14,111	17,117	20,600
Fully Diluted Recurring Net Profit	**11,849**	**12,167**	**14,111**	**17,117**	**20,600**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	16,504	18,028	20,662	24,601	29,205
Cash Flow from Invt. & Assoc.					
Change In Working Capital	422	(453)	(1,191)	(1,118)	(2,681)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	244	419			
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(3,960)	(3,448)	(4,809)	(5,859)	(7,051)
Cashflow From Operations	**13,210**	**14,545**	**14,662**	**17,623**	**19,474**
Capex	(1,261)	(1,262)	(6,650)	(1,000)	(1,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	2,670	(6,957)	1,722	1,946	2,379
Cash Flow From Investing	**1,408**	**(8,219)**	**(4,928)**	**946**	**1,379**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(6,065)	(6,527)	(8,422)	(9,928)	(12,360)
Preferred Dividends					
Other Financing Cashflow	(2,182)	(2,088)	(596)	(652)	(652)
Cash Flow From Financing	**(8,247)**	**(8,615)**	**(9,018)**	**(10,580)**	**(13,012)**
Total Cash Generated	6,372	(2,288)	715	7,989	7,841
Free Cashflow To Equity	**11,949**	**13,284**	**8,012**	**16,623**	**18,474**
Free Cashflow To Firm	**14,619**	**6,327**	**9,734**	**18,569**	**20,853**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	21,035	25,968	26,726	34,715	42,556
Total Debtors	17,696	18,505	19,161	21,324	25,173
Inventories					
Total Other Current Assets	5,400	6,929	6,929	6,929	6,929
Total Current Assets	**44,131**	**51,403**	**52,817**	**62,969**	**74,659**
Fixed Assets	8,010	7,826	6,058	4,139	1,858
Total Investments	4,284	4,590	4,590	4,590	4,590
Intangible Assets	22,292	22,400	27,859	27,859	27,859
Total Other Non-Current Assets	8,818	7,770	7,770	7,770	7,770
Total Non-current Assets	**43,404**	**42,587**	**46,277**	**44,359**	**42,077**
Short-term Debt	5,713	5,135	5,135	5,135	5,135
Current Portion of Long-Term Debt					
Total Creditors	6,667	5,964	5,429	6,473	7,642
Other Current Liabilities	9,292	10,339	10,339	10,339	10,339
Total Current Liabilities	**21,672**	**21,437**	**20,902**	**21,946**	**23,115**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	7,567	7,285	7,285	7,285	7,285
Total Non-current Liabilities	**7,567**	**7,285**	**7,285**	**7,285**	**7,285**
Total Provisions					
Total Liabilities	**29,239**	**28,722**	**28,187**	**29,232**	**30,400**
Shareholders Equity	58,296	65,267	70,907	78,096	86,336
Minority Interests					
Total Equity	**58,296**	**65,267**	**70,907**	**78,096**	**86,336**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	14.4%	9.9%	19.9%	19.2%	18.1%
Operating EBITDA Growth	24.7%	9.2%	14.6%	19.1%	18.7%
Operating EBITDA Margin	18.7%	18.5%	17.7%	17.7%	17.8%
Net Cash Per Share (Rs)	50.89	82.08	85.42	127.49	168.77
BVPS (Rs)	313.00	346.45	373.38	411.23	454.62
Gross Interest Cover	17.47	24.62	29.85	33.25	39.76
Effective Tax Rate	21.8%	25.4%	25.4%	25.5%	25.5%
Net Dividend Payout Ratio	66.3%	99.8%	59.7%	58.0%	60.0%
Accounts Receivables Days	74.67	67.95	58.97	53.16	51.72
Inventory Days					
Accounts Payables Days	42.09	34.04	24.93	21.86	22.02
ROIC (%)	29.1%	25.2%	28.2%	31.1%	37.7%
ROCE (%)	17.4%	16.0%	16.9%	19.0%	20.8%
Return On Average Assets	14.0%	13.0%	13.7%	15.7%	17.2%

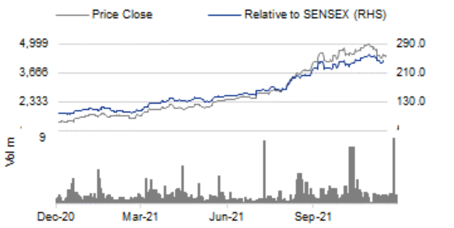
SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

HOLD *(Initiating coverage)*

Consensus ratings*:	Buy 13 Hold 15 Sell 13
Current price:	Rs4,391
Target price:	Rs4,648
Previous target:	NA
Up/downside:	5.9%
EIP Research / Consensus:	9.1%
Reuters:	MINT.NS
Bloomberg:	MTCL IN
Market cap:	US$9,595m
	Rs723,660m
Average daily turnover:	US$64.4m
	Rs4858.5m
Current shares o/s:	164.5m
Free float:	39.0%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.9)	14.9	205.4
Relative (%)	(0.4)	18.0	144.4

Major shareholders	% held
Susmita Bagchi	1.6
Uti Flexi Cap Fund	1.4
Axis Midcap Fund	1.3

Mindtree Ltd

Too far too soon

- We model 18% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast Mindtree to generate 18.6% PAT CAGR over FY22-24F.
- We initiate coverage with a HOLD rating and a target price of Rs4,648/share.

4x4x4 strategy to drive next phase of growth for Mindtree

MTCL's 4x4x4 strategy of focusing on four industry groups (FSI, retail CPG manufacturing, communication media technology, and travel transportation hospitality), four service lines (Customer Success, Data & Intelligence, Cloud and Enterprise IT) and four geographies (North America, UK and Ireland, Continental Europe and Asia-Pacific, and Rest of the World), conclusion of leadership transition, mining strategic accounts, expanding presence in Europe, focusing on annuity deals could drive 18% US$ revenue CAGR over FY22-24F.

Annuity deals to ease revenue volatility & large client concentration

Historically, revenue volatility could be attributed to the project nature of business and large client concentration. MTCL aims to address it by winning annuity deals (evident in >1-year deals signed over 2QFY20-1QFY21 though MTCL stopped reporting metrics from 2QFY21) by engaging strategic teams and increasing account coverage through specialists focused on cross-selling digital services. This, with the focus on cross-selling services to non-top clients, could reduce top client concentration (from 24.3% as at 2QFY22-end) despite average 16.1% yoy growth over last four quarters).

Healthcare, refreshed consulting practice to add growth vector

Mindtree Ltd (MTCL) is investing in healthcare vertical to address opportunities created by technology convergence. Technology players investing in wearable devices, modernization in payer segment in insurance, CPG customers moving to personal care and retail segment extension in healthcare value chain are creating synergistic opportunities given current engagements with device manufacturers and healthcare providers. MTCL also aims to strengthen consulting practice by leveraging current practices and partner clients in their transformation journey in an outcome-based model.

Growth leverage to help sustain EBITDA margin

We expect MTCL to maintain 20%+ EBITDA margin, in line with guidance, led by continuing operational efficiency initiatives, growth leverage offset by wage hikes, investments for geographical expansion, increasing account coverage and capabilities.

Initiate coverage with HOLD rating and TP of Rs4,648/share

We initiate coverage on MTCL with a HOLD rating as consistent strategy execution, recovery in travel, and strategic account mining could drive 18%/18.6% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F, but deviation in top customer spending could limit earning upgrades, in our view, given high dependence on growth (top client contributed ~74.4% of incremental revenues of US$230m over FY18-21). At 36x FY24F EPS, our target P/E is above PAT CAGR given solid execution, FCF generation, net cash of Rs169 /share as at 2QFY22-end, and an average 49% payout of FCF over FY19-21 implies PE/G of 1.93x. Top customer deceleration is a key downside risk. Sharp recovery in travel poses an upside risk.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	77,643	79,678	105,091	127,958	150,427
Operating EBITDA (Rsm)	10,623	16,567	21,469	25,975	30,236
Net Profit (Rsm)	6,117	11,105	15,121	17,854	21,276
Core EPS (Rs)	37.2	67.5	91.9	108.6	129.4
Core EPS Growth	(18.9%)	81.5%	36.2%	18.1%	19.2%
FD Core P/E (x)	118.06	65.03	47.76	40.45	33.94
DPS (Rs)	13.0	25.0	29.0	38.0	51.7
Dividend Yield	0.36%	0.57%	0.66%	0.87%	1.18%
EV/EBITDA (x)	67.24	42.24	32.20	26.24	22.14
P/FCFE (x)	103.02	37.45	62.88	51.68	41.29
Net Gearing	(24.9%)	(51.9%)	(57.8%)	(62.5%)	(67.6%)
P/BV (x)	22.88	16.72	13.49	11.09	9.27
ROE	18.9%	29.7%	31.3%	30.1%	29.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.02	1.04	1.08

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC2021

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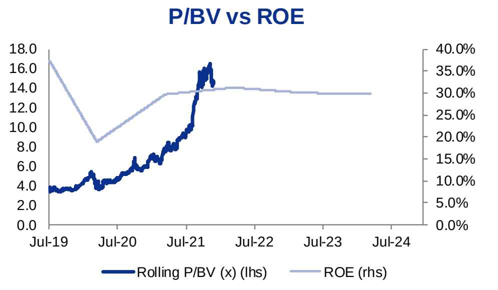
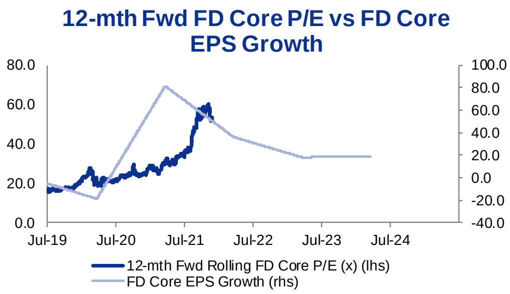
BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**77,643**	**79,678**	**105,091**	**127,958**	**150,427**
Gross Profit	**26,996**	**28,546**	**41,671**	**48,368**	**56,711**
Operating EBITDA	**10,623**	**16,567**	**21,469**	**25,975**	**30,236**
Depreciation And Amortisation	(2,754)	(2,596)	(3,037)	(3,839)	(4,362)
Operating EBIT	**7,869**	**13,971**	**18,432**	**22,137**	**25,873**
Financial Income/(Expense)	169	571	1,807	2,055	2,956
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	58	442			
Profit Before Tax (pre-EI)	**8,096**	**14,984**	**20,239**	**24,192**	**28,829**
Exceptional Items					
Pre-tax Profit	**8,096**	**14,984**	**20,239**	**24,192**	**28,829**
Taxation	(1,979)	(3,879)	(5,118)	(6,338)	(7,553)
Exceptional Income - post-tax					
Profit After Tax	**6,117**	**11,105**	**15,121**	**17,854**	**21,276**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**6,117**	**11,105**	**15,121**	**17,854**	**21,276**
Recurring Net Profit	6,117	11,105	15,121	17,854	21,276
Fully Diluted Recurring Net Profit	**6,117**	**11,105**	**15,121**	**17,854**	**21,276**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	10,623	16,567	21,469	25,975	30,236
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,541)	6,092	(3,466)	(4,464)	(4,192)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	809	469			
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,640)	(3,168)	(5,118)	(6,338)	(7,553)
Cashflow From Operations	**8,251**	**19,960**	**12,885**	**15,173**	**18,491**
Capex	(1,241)	(678)	(1,400)	(1,200)	(1,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	1,012	(11,155)	2,311	2,559	3,460
Cash Flow From Investing	**(229)**	**(11,833)**	**911**	**1,359**	**2,460**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,940)	(2,880)	(4,778)	(6,249)	(8,510)
Preferred Dividends					
Other Financing Cashflow	(1,020)	(1,345)	(504)	(504)	(504)
Cash Flow From Financing	**(6,960)**	**(4,225)**	**(5,282)**	**(6,753)**	**(9,014)**
Total Cash Generated	1,062	3,902	8,514	9,779	11,936
Free Cashflow To Equity	**7,010**	**19,282**	**11,485**	**13,973**	**17,491**
Free Cashflow To Firm	**8,022**	**8,127**	**13,796**	**16,532**	**20,950**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	12,814	26,904	35,418	45,197	57,133
Total Debtors	17,537	16,295	20,249	25,540	30,508
Inventories					
Total Other Current Assets	2,198	2,555	2,555	2,555	2,555
Total Current Assets	**32,549**	**45,754**	**58,221**	**73,292**	**90,196**
Fixed Assets	8,737	8,036	6,399	3,761	398
Total Investments	1,261	2,862	2,862	2,862	2,862
Intangible Assets	5,491	4,946	4,946	4,946	4,946
Total Other Non-Current Assets	3,528	2,016	2,016	2,016	2,016
Total Non-current Assets	**19,017**	**17,860**	**16,223**	**13,585**	**10,222**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,587	2,676	3,164	3,991	4,767
Other Current Liabilities	10,649	13,250	13,250	13,250	13,250
Total Current Liabilities	**13,236**	**15,926**	**16,414**	**17,241**	**18,017**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,762	4,498	4,498	4,498	4,498
Total Non-current Liabilities	**6,762**	**4,498**	**4,498**	**4,498**	**4,498**
Total Provisions					
Total Liabilities	**19,998**	**20,424**	**20,912**	**21,739**	**22,515**
Shareholders Equity	31,568	43,190	53,533	65,138	77,903
Minority Interests					
Total Equity	**31,568**	**43,190**	**53,533**	**65,138**	**77,903**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	10.6%	2.6%	31.9%	21.8%	17.6%
Operating EBITDA Growth	(0.2%)	56.0%	29.6%	21.0%	16.4%
Operating EBITDA Margin	13.7%	20.8%	20.4%	20.3%	20.1%
Net Cash Per Share (Rs)	47.73	136.27	188.03	247.49	320.06
BVPS (Rs)	191.94	262.60	325.49	396.05	473.66
Gross Interest Cover	14.88	27.72	36.57	43.92	51.34
Effective Tax Rate	24.4%	25.9%	25.3%	26.2%	26.2%
Net Dividend Payout Ratio	42.1%	37.1%	31.6%	35.0%	40.0%
Accounts Receivables Days	79.64	77.49	63.46	65.31	68.00
Inventory Days					
Accounts Payables Days	17.00	18.78	16.80	16.41	17.05
ROIC (%)	27.1%	42.7%	76.8%	82.7%	88.5%
ROCE (%)	17.1%	24.6%	26.1%	25.6%	25.1%
Return On Average Assets	12.8%	18.5%	19.9%	20.3%	20.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Persistent Systems Ltd

In a sweet spot

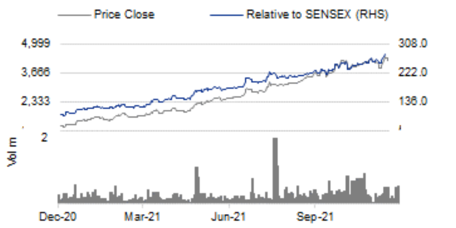
- We model 21.2% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast Persistent Systems to generate 25.3% PAT CAGR over FY22-24F.
- Initiate coverage with an ADD rating and a TP of Rs5,300/share.

India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 19 Hold 7 Sell 5
Current price:	Rs4,241
Target price:	Rs5,300
Previous target:	NA
Up/downside:	25.0%
EIP Research / Consensus:	24.2%
Reuters:	PERS.NS
Bloomberg:	PSYS IN
Market cap:	US$4,297m
	Rs324,096m
Average daily turnover:	US$13.3m
	Rs1001.7m
Current shares o/s:	76.4m
Free float:	69.0%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.7	20.1	247.9
Relative (%)	10.9	23.3	178.5

Major shareholders	% held
Hdfc Trustee Company Ltd	5.8
Kotak Emerging Equity Scheme	4.4
L And T Mutual Fund Trustee Ltd	2.3

OPD specialist with a deep-rooted product development culture

Persistent's (PSYS) focus is now back to basics post re-organization and the appointment of Mr. Sandeep Kalra as CEO. He has re-aligned the sales, delivery and positioning of PSYS to a services play with the focus on core outsourced product development (OPD) strength, fewer verticals, and improved 1) order-booking, driven by realignment and better incentive structure, and 2) mining and cross-selling. This has increased predictability of business, in our view. Synergistic benefits from go-to-market and delivery re-organization are likely to drive an earnings upgrade cycle (US$ revenue / EBIT CAGR of 21.2%/ 26.7%, respectively, over FY22-24F).

Deal momentum reflects early signs of re-organization initiatives

As part of reorganization, PSYS hired senior business and delivery leaders, simplified go-to-market strategy, and restructured sales compensation to focus on winning large multi-year deals to improve annuity mix from ~70% currently and cross-selling to improve mining. Further, leadership is focused on scaling key partnership such as Salesforce. Early signs of re-organization initiative are reflected in 1) revenue growth momentum (4.4% CQGR over 4QFY19-2QFY22), 2) EBITM (13.9% as at 2QFY22-end vs. 12.1% in FY21), and 3) pipeline and deal wins (signed deals worth US$847m ACV on LTM basis).

Focus on large annuity deals to improve client metric

Genesis of the business suggests PSYS's mining engine was detached, leading to lower revenues per client with a modest 22 customers added to its US$1m-3m bucket (52 in total) in 1QFY14-4QFY20. Although it could be attributed to start-up ecosystem clients, short-duration projects, and small deal values in the past, PSYS's focus on select verticals, annuity deals, and aligning delivery silos could improve this metric significantly, in our view.

Aims to sustain current EBITDA margin and reinvest for growth

We expect PSYS to report 17% EBITDAM in FY22F at the high end of the 16-17% band led by operating leverage. Although management expects to sustain current margin profile, and re-invest excesses for growth, we believe the margin expansion cycle is at play given that historically PSYS operated at 25% before margin eroded to a low of 13.8% in FY20.

Initiate coverage with ADD rating and TP of Rs5,300/share

We initiate coverage on PSYS with an ADD rating as order-book conversion and strong alliance ecosystem could drive 21.2%/25.3% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. At 40x FY24F EPS, our target P/E is above PAT CAGR, but below ER&D peers, given the early stage of recovery, FCF generation, net cash of Rs244/share (as at 2QFY22-end), and ~30% payout for FY22F, implying PE/G of 1.58x. Leadership attrition is key downside risk.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	35,658	41,879	55,523	70,382	83,821
Operating EBITDA (Rsm)	4,930	6,830	9,444	12,246	14,585
Net Profit (Rsm)	3,403	4,507	6,486	8,390	10,179
Core EPS (Rs)	43.4	58.8	84.9	109.8	133.2
Core EPS Growth	(1.5%)	35.3%	44.4%	29.3%	21.3%
FD Core P/E (x)	97.65	72.15	49.97	38.64	31.85
DPS (Rs)	12.0	20.0	26.0	43.9	53.3
Dividend Yield	0.34%	0.47%	0.61%	1.04%	1.26%
EV/EBITDA (x)	65.44	45.25	32.34	24.62	20.29
P/FCFE (x)	225.39	58.64	89.17	50.78	37.95
Net Gearing	(40.6%)	(57.7%)	(57.5%)	(60.3%)	(64.6%)
P/BV (x)	13.68	11.59	9.99	8.65	7.44
ROE	19.1%	23.5%	28.8%	32.2%	33.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.98	1.03	1.04

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

Analyst(s)

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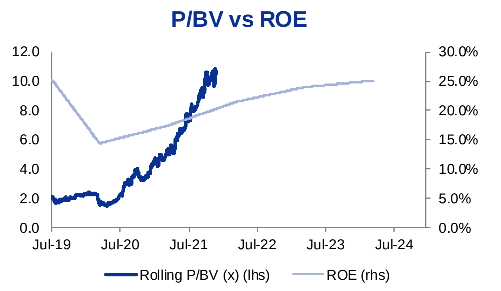
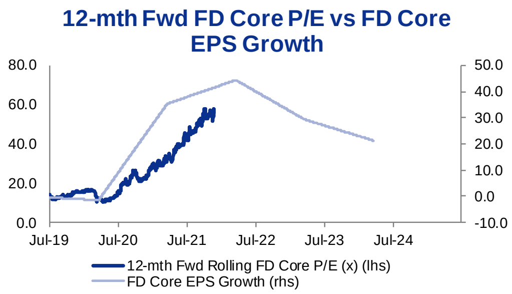




Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**35,658**	**41,879**	**55,523**	**70,382**	**83,821**
Gross Profit	**12,164**	**14,229**	**19,056**	**24,634**	**29,337**
Operating EBITDA	**4,930**	**6,830**	**9,444**	**12,246**	**14,585**
Depreciation And Amortisation	(1,660)	(1,756)	(1,606)	(1,900)	(2,012)
Operating EBIT	**3,270**	**5,075**	**7,838**	**10,346**	**12,573**
Financial Income/(Expense)	889	986	873	915	1,090
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	364	34			
Profit Before Tax (pre-EI)	**4,523**	**6,094**	**8,712**	**11,261**	**13,663**
Exceptional Items					
Pre-tax Profit	**4,523**	**6,094**	**8,712**	**11,261**	**13,663**
Taxation	(1,121)	(1,588)	(2,226)	(2,872)	(3,484)
Exceptional Income - post-tax					
Profit After Tax	**3,403**	**4,507**	**6,486**	**8,390**	**10,179**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**3,403**	**4,507**	**6,486**	**8,390**	**10,179**
Recurring Net Profit	3,403	4,507	6,486	8,390	10,179
Fully Diluted Recurring Net Profit	**3,403**	**4,507**	**6,486**	**8,390**	**10,179**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	4,930	6,830	9,444	12,246	14,585
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,369)	1,578	128	(1,729)	(1,289)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,328)	(1,582)	(2,226)	(2,872)	(3,484)
Cashflow From Operations	**2,233**	**6,826**	**7,347**	**7,646**	**9,812**
Capex	(758)	(1,281)	(3,712)	(1,263)	(1,270)
Disposals Of FAs/subsidiaries	13	30			
Acq. Of Subsidiaries/investments	(435)	(448)			
Other Investing Cashflow	1,033	(3,717)	873	915	1,090
Cash Flow From Investing	**(148)**	**(5,417)**	**(2,839)**	**(348)**	**(180)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	(1,677)				
Dividends Paid	(1,301)	(1,070)	(1,988)	(3,356)	(4,072)
Preferred Dividends					
Other Financing Cashflow	(26)	(373)			
Cash Flow From Financing	**(3,003)**	**(1,443)**	**(1,988)**	**(3,356)**	**(4,072)**
Total Cash Generated	(919)	(33)	2,521	3,942	5,560
Free Cashflow To Equity	**1,474**	**5,545**	**3,635**	**6,383**	**8,542**
Free Cashflow To Firm	**2,084**	**1,410**	**4,508**	**7,298**	**9,632**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	9,737	16,184	18,705	22,647	28,208
Total Debtors	7,991	7,882	7,758	10,220	12,171
Inventories					
Total Other Current Assets	2,128	2,637	2,637	2,637	2,637
Total Current Assets	**19,856**	**26,703**	**29,100**	**35,505**	**43,016**
Fixed Assets	2,958	3,376	5,482	4,844	4,103
Total Investments	4,621	3,621	3,621	3,621	3,621
Intangible Assets	1,661	1,315	1,315	1,315	1,315
Total Other Non-Current Assets	1,826	1,640	1,640	1,640	1,640
Total Non-current Assets	**11,066**	**9,952**	**12,058**	**11,421**	**10,679**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	2,247	2,733	2,738	3,471	4,134
Other Current Liabilities	4,227	4,964	4,964	4,964	4,964
Total Current Liabilities	**6,474**	**7,697**	**7,702**	**8,435**	**9,097**
Total Long-term Debt	46	44	44	44	44
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	361	716	716	716	716
Total Non-current Liabilities	**408**	**760**	**760**	**760**	**760**
Total Provisions	183	241	241	241	241
Total Liabilities	**7,064**	**8,699**	**8,703**	**9,436**	**10,099**
Shareholders Equity	23,858	27,957	32,455	37,489	43,596
Minority Interests					
Total Equity	**23,858**	**27,957**	**32,455**	**37,489**	**43,596**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	5.9%	17.4%	32.6%	26.8%	19.1%
Operating EBITDA Growth	(15.1%)	38.6%	38.3%	29.7%	19.1%
Operating EBITDA Margin	13.8%	16.3%	17.0%	17.4%	17.4%
Net Cash Per Share (Rs)	125.96	211.18	244.12	295.70	368.44
BVPS (Rs)	310.09	365.80	424.59	490.45	570.34
Gross Interest Cover					
Effective Tax Rate	24.8%	26.1%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	24.4%	25.1%	22.8%	29.8%	29.8%
Accounts Receivables Days	75.48	69.17	51.41	46.62	48.75
Inventory Days					
Accounts Payables Days	29.24	32.87	27.38	24.77	25.47
ROIC (%)	26.5%	37.2%	63.8%	69.2%	76.6%
ROCE (%)	10.4%	14.5%	19.3%	22.0%	23.1%
Return On Average Assets	13.0%	15.9%	20.7%	24.0%	25.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

CGSCIMB | InCred Equities

Company Note | IT Services | India | December 07, 2021

INITIATION

Tata Consultancy Services

Weighed by expectations

- We model in 11% revenue CAGR over FY22-24F, led by new logos and mining.
- We expect TCS to generate 13.1% PAT CAGR over FY22-24F.
- Initiate coverage with HOLD rating and a PE/G-based TP of Rs3,665/share..

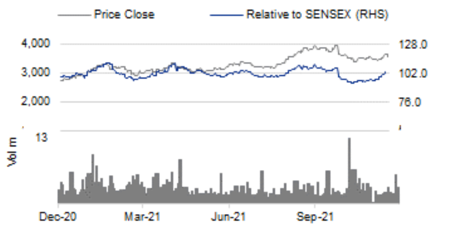
India

HOLD *(Initiating coverage)*

Consensus ratings*: Buy 28 Hold 12 Sell 8

Current price:	Rs3,536
Target price:	Rs3,665
Previous target:	NA
Up/downside:	3.6%
EIP Research / Consensus:	-9.9%
Reuters:	TCS.NS
Bloomberg:	TCS IN
Market cap:	US$173,438m
	Rs13,081,330m
Average daily turnover:	US$123.6m
	Rs9321.8m
Current shares o/s:	3,698.9m
Free float:	28.0%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.8	(8.2)	29.7
Relative (%)	6.7	(5.7)	3.8

Major shareholders	% held
FPI	15.4
LIC	3.7
Mutual Funds	3.1

Products & Platforms business emerging as a key differentiator

TCS's investment in Products and Platforms (P&P) business is yielding good traction, with 60 new wins and 78 go-lives over FY19-21 for TCS BaNCs, which, now serves ~25% of the world's population. The TCS Advanced Drug Development platform now serves nine out of top 10 pharmaceutical companies, while TCS's retail suites (Optumera & Omnistore) gained good traction with 10 new wins and seven go-lives for Optumera over the previous three years. Automation & Artificial Intelligence platform iGNIO now serves 200+ customers and 1.5m+ technology resources autonomously. The P&P business is helping scale up contextual knowledge and patents, given TCS is driving business and operating model transformation and also improving visibility as 95% of its wins are SaaS-based.

Travel, ER&D recovery could surprise; FSI strength continues

Although FSI growth has recovered post Covid-19 (4.1% CQGR during 4QFY20-2QFY22 vs. 2.6% company average) led by large deals, retail and CPG (discretionary retail, travel, transportation and hospitality sub-segments) and manufacturing (2.1%, 2.2% CQGR) are yet to witness a full recovery. However, management commentary suggests vaccination, recovery in European manufacturing, investments in supply chain, remote asset management and connected products could drive demand. This, coupled with recovery in engineering R&D (>US$1bn+ practice), could aid growth momentum, in our view.

Best-in-class mining

Client mining remains the best in industry with US$100m+ clients, up from eight in FY11 to 48 in FY21, US$50m+ up from 27 to 101, US$20m+ up from 81 to 228, and US$1m+ clients up from 458 to 1,096. We believe consistent mining could aid growth momentum.

EBIT margin to remain resilient

We expect TCS to report industry-leading EBITM of 25.8% in FY22F and in line with its 26-28% aspirational band, led by operational efficiency, recovery in key verticals, traction in P&P and reduced discretionary expenses. Elevated attrition in the three-to-seven-year band is a key downside risk to demand fulfillment and earnings, in our view.

Initiate coverage with HOLD rating and TP of Rs3,665/share

We initiate coverage on TCS with a HOLD rating as demand recovery and key verticals could drive 11%/13.1% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F, but scale continues to weigh on growth momentum and could limit EPS upgrade below Bloomberg consensus. At 28x FY24F EPS, our target P/E is above PAT CAGR, given solid execution, sustained FCF, net cash of Rs133/share (as at 2QFY22-end), 85%+ of FCF as payout, implying PE/G of 2.1x. Better-than-expected revenue growth & margin are key upside risks.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	1,569,490	1,641,770	1,885,166	2,132,188	2,386,455
Operating EBITDA (Rsm)	421,090	453,280	529,613	597,013	670,594
Net Profit (Rsm)	323,400	324,300	383,335	434,679	491,581
Core EPS (Rs)	85.7	86.6	103.1	117.5	132.9
Core EPS Growth	3.3%	1.0%	19.1%	14.0%	13.1%
FD Core P/E (x)	41.24	40.85	34.31	30.09	26.61
DPS (Rs)	73.0	38.0	81.0	94.0	106.3
Dividend Yield	2.48%	1.07%	2.29%	2.66%	3.01%
EV/EBITDA (x)	31.00	28.54	24.14	21.17	18.72
P/FCFE (x)	44.71	36.72	40.61	33.88	29.66
Net Gearing	(34.1%)	(36.7%)	(39.4%)	(43.0%)	(46.8%)
P/BV (x)	15.78	15.30	13.79	12.63	11.53
ROE	37.3%	38.0%	42.3%	43.8%	45.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			0.98	0.99	1.00

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC2021

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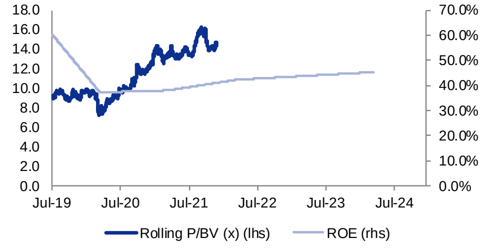
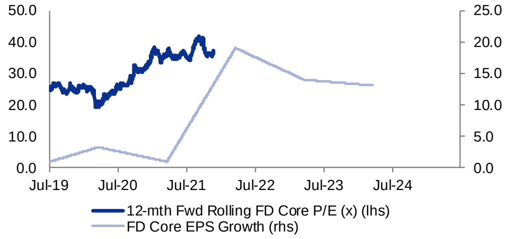
BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**1,569,490**	**1,641,770**	**1,885,166**	**2,132,188**	**2,386,455**
Gross Profit	**681,560**	**711,040**	**809,991**	**921,105**	**1,033,335**
Operating EBITDA	**421,090**	**453,280**	**529,613**	**597,013**	**670,594**
Depreciation And Amortisation	(35,290)	(40,650)	(44,045)	(45,842)	(47,729)
Operating EBIT	**385,800**	**412,630**	**485,568**	**551,171**	**622,865**
Financial Income/(Expense)	29,410	22,490	31,216	33,768	38,452
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	7,270	2,480			
Profit Before Tax (pre-EI)	**422,480**	**437,600**	**516,784**	**584,938**	**661,317**
Exceptional Items					
Pre-tax Profit	**422,480**	**437,600**	**516,784**	**584,938**	**661,317**
Taxation	(98,010)	(111,980)	(132,349)	(149,159)	(168,636)
Exceptional Income - post-tax					
Profit After Tax	**324,470**	**325,620**	**384,435**	**435,779**	**492,681**
Minority Interests	(1,070)	(1,320)	(1,100)	(1,100)	(1,100)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**323,400**	**324,300**	**383,335**	**434,679**	**491,581**
Recurring Net Profit	323,400	324,300	383,335	434,679	491,581
Fully Diluted Recurring Net Profit	**323,400**	**324,300**	**383,335**	**434,679**	**491,581**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	421,090	453,280	529,613	597,013	670,594
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(46,670)	8,630	(50,262)	(40,610)	(40,831)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	7,730	17,030	(1,100)	(1,100)	(1,100)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(58,460)	(90,920)	(132,349)	(149,159)	(168,636)
Cashflow From Operations	**323,690**	**388,020**	**345,902**	**406,143**	**460,027**
Capex	(25,380)	(27,190)	(22,000)	(20,000)	(19,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	111,030	(54,100)	37,626	39,448	44,132
Cash Flow From Investing	**85,650**	**(81,290)**	**15,626**	**19,448**	**25,132**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased		(197,570)			
Dividends Paid	(376,340)	(108,500)	(299,608)	(347,743)	(393,265)
Preferred Dividends					
Other Financing Cashflow	(22,810)	(20,270)	(6,410)	(5,680)	(5,680)
Cash Flow From Financing	**(399,150)**	**(326,340)**	**(306,018)**	**(353,423)**	**(398,945)**
Total Cash Generated	10,190	(19,610)	55,510	72,168	86,215
Free Cashflow To Equity	**298,310**	**360,830**	**323,902**	**386,143**	**441,027**
Free Cashflow To Firm	**409,340**	**306,730**	**361,528**	**425,591**	**485,159**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	358,060	384,890	441,090	513,258	599,473
Total Debtors	362,640	366,620	423,517	479,012	536,135
Inventories	50	80	80	80	80
Total Other Current Assets	181,620	241,210	241,210	241,210	241,210
Total Current Assets	**902,370**	**992,800**	**1,105,897**	**1,233,560**	**1,376,898**
Fixed Assets	198,410	196,690	174,645	148,803	120,074
Total Investments	18,270	21,430	21,430	21,430	21,430
Intangible Assets	19,930	22,780	22,780	22,780	22,780
Total Other Non-Current Assets	70,010	73,890	73,890	73,890	73,890
Total Non-current Assets	**306,620**	**314,790**	**292,745**	**266,903**	**238,174**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	67,400	78,600	87,802	99,307	111,150
Other Current Liabilities	203,200	262,950	260,383	263,763	268,213
Total Current Liabilities	**270,600**	**341,550**	**348,185**	**363,071**	**379,363**
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	90,900	94,960	94,960	94,960	94,960
Total Non-current Liabilities	**90,900**	**94,960**	**94,960**	**94,960**	**94,960**
Total Provisions					
Total Liabilities	**361,500**	**436,510**	**443,145**	**458,031**	**474,323**
Shareholders Equity	841,260	864,330	948,756	1,035,692	1,134,008
Minority Interests	6,230	6,750	6,750	6,750	6,750
Total Equity	**847,490**	**871,080**	**955,506**	**1,042,442**	**1,140,758**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	7.2%	4.6%	14.8%	13.1%	11.9%
Operating EBITDA Growth	6.6%	7.6%	16.8%	12.7%	12.3%
Operating EBITDA Margin	26.8%	27.6%	28.1%	28.0%	28.1%
Net Cash Per Share (Rs)	77.01	85.54	101.67	121.18	144.49
BVPS (Rs)	224.16	231.14	256.50	280.00	306.58
Gross Interest Cover	41.75	64.78	75.75	97.04	109.66
Effective Tax Rate	23.2%	25.6%	25.6%	25.5%	25.5%
Net Dividend Payout Ratio	102.0%	43.7%	78.2%	80.0%	80.0%
Accounts Receivables Days	79.96	81.06	76.49	77.25	77.63
Inventory Days	0.03	0.03	0.03	0.02	0.02
Accounts Payables Days	26.79	28.63	28.25	28.20	28.39
ROIC (%)	60.0%	54.6%	64.5%	69.8%	77.0%
ROCE (%)	32.6%	33.1%	36.9%	38.6%	40.1%
Return On Average Assets	25.6%	24.5%	26.7%	28.3%	29.8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Tech Mahindra

Focus shifts to execution

- We model 11.9% revenue CAGR over FY22-24F, led by new logos and mining.
- We forecast TECHM to generate 12.5% PAT CAGR over FY22-24F.
- We initiate coverage with an ADD rating and a target price of Rs1,800/share.

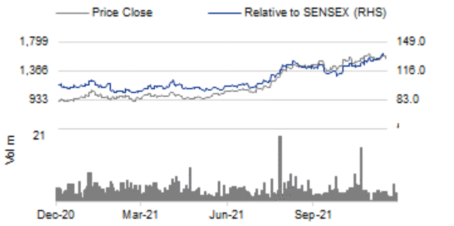
India

ADD *(Initiating coverage)*

Consensus ratings*: Buy 43 Hold 5 Sell 1

Current price:	Rs1,552
Target price:	Rs1,800
Previous target:	NA
Up/downside:	16.0%
EIP Research / Consensus:	2.9%
Reuters:	TEML.NS
Bloomberg:	TECHM IN
Market cap:	US$19,962m
	Rs1,505,611m
Average daily turnover:	US$63.2m
	Rs4768.1m
Current shares o/s:	884.0m
Free float:	64.0%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.0	7.3	72.1
Relative (%)	9.1	10.2	37.7

Major shareholders	% held
LIC	4.3
SBI-ETF Nifty 50	3.0
Stewart Investors Asia Pacific Fund	2.2

Doubling down on 3-4-3 strategy

Tech Mahindra (TechM) aims to strengthen its focus on the 3-4-3 strategy (under a new framework of NXT.NOW), which is about three mega trends (intelligent devices, power of new technologies and content), four big bets (human-centered experiences, business, platforms and Cloud) and three objectives (run better, change faster and grow greater). We expect revenue growth acceleration in FY22F driven by double-digit growth in the enterprise business (deal wins, healthiest pipeline over the last four quarters) and recovery in the communications vertical (5G opportunities).

Digital to drive enterprise business momentum

Digital, which constitutes ~50% of business; grew 15% in FY21 and accounted for 40% growth in large deals. TechM aims to focus on Cloud, data analytics and AI, cyber security and IoT. Infrastructure Cloud Services business(~US$900m) grew 15% in FY21 and TechM intends to focus on seven strategic partners and leverage its platforms (iCOPS, workspace, mPAC, TACTIX, etc) to sustain growth momentum. Data analytics & AI (~US$800m) are also witnessing good traction. Among sub-verticals, engineering services will drive growth in manufacturing, digital solutions in FSI, and online spending in retail.

Focus on annuity business; large deals to moderate volatility

Management commentary suggests the deal pipeline is the healthiest compared to the last four quarters, with a significant portion in TechM's sweet spot of >US$75m in size. However, deal closure is a key monitorable, given persisting pandemic-led uncertainty. TechM has strengthened its large deal team by 3x with the focus on three vectors: 1) advisor engagement, 2) responding to request for proposals, and 3) proactive deals (previous two mega deals were outcomes of this approach).

EBIT margin sustainable; room for improvement exists

We expect TechM to report 15.2% EBITM in FY22F, in line with its 15% target for FY22 led by sub-contractor cost optimisation, offshore mix, employee pyramid, and operational efficiency partially offset by resumption of wage hikes and a rise in travel costs. Investment in capabilities, large-deal transition cost and an elevated attrition are risks to our estimates.

Initiating coverage with ADD rating and target price of Rs1,800/share

We initiate coverage on TechM with an ADD rating as traction in enterprise and recovery in telecom could drive 11.9%/12.5% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. Better-than-expected revenue growth, stable EBITM and reasonable valuation relative to peers underpins our positive view on the stock. At 22x FY24F EPS, our target P/E is above PAT CAGR given improving outlook in telecom and momentum in enterprise segment, net cash of Rs112/share (2QFY22) and improving payout, implying PEG of 1.79x. Uneven execution, large deal transition and high attrition rate are key downside risks.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	368,677	378,551	438,675	502,210	565,077
Operating EBITDA (Rsm)	57,261	68,471	80,647	91,904	102,844
Net Profit (Rsm)	40,330	44,281	56,597	64,562	71,575
Core EPS (Rs)	48.1	51.1	64.1	73.0	81.0
Core EPS Growth	0.1%	6.2%	25.6%	13.9%	10.9%
FD Core P/E (x)	32.28	30.40	24.20	21.25	19.16
DPS (Rs)	15.0	45.0	31.8	36.5	40.5
Dividend Yield	0.96%	2.88%	2.05%	2.35%	2.61%
EV/EBITDA (x)	23.07	18.47	15.62	13.42	11.68
P/FCFE (x)	39.05	18.33	44.61	27.29	23.77
Net Gearing	(24.7%)	(39.7%)	(40.4%)	(45.4%)	(49.9%)
P/BV (x)	6.21	5.50	4.95	4.43	3.97
ROE	20.2%	19.2%	21.5%	22.0%	21.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.00	1.01	1.01

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 DEC 2021

Analyst(s)

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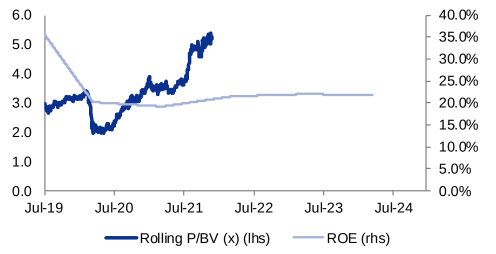
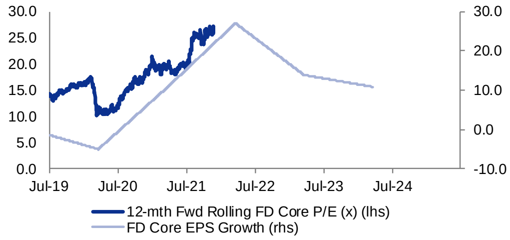
BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**368,677**	**378,551**	**438,675**	**502,210**	**565,077**
Gross Profit	**108,934**	**119,996**	**138,991**	**159,200**	**179,129**
Operating EBITDA	**57,261**	**68,471**	**80,647**	**91,904**	**102,844**
Depreciation And Amortisation	(14,458)	(14,577)	(13,924)	(15,569)	(16,387)
Operating EBIT	**42,803**	**53,894**	**66,723**	**76,336**	**86,457**
Financial Income/(Expense)	856	147	5,146	6,270	7,797
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	9,149	5,984	4,716	3,767	1,469
Profit Before Tax (pre-EI)	**52,808**	**60,025**	**76,585**	**86,372**	**95,723**
Exceptional Items					
Pre-tax Profit	**52,808**	**60,025**	**76,585**	**86,372**	**95,723**
Taxation	(11,604)	(15,999)	(19,771)	(21,593)	(23,931)
Exceptional Income - post-tax	(2,175)	(507)			
Profit After Tax	**39,029**	**43,519**	**56,814**	**64,779**	**71,792**
Minority Interests	1,301	762	(217)	(217)	(217)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**40,330**	**44,281**	**56,597**	**64,562**	**71,575**
Recurring Net Profit	42,505	44,788	56,597	64,562	71,575
Fully Diluted Recurring Net Profit	**42,505**	**44,788**	**56,597**	**64,562**	**71,575**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	57,261	68,471	80,647	91,904	102,844
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,218)	15,635	(17,252)	(13,561)	(12,229)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	8,588	12,718	434	434	434
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,919)	(1,740)	(1,443)	(1,414)	(1,414)
Tax Paid	(15,131)	(14,146)	(19,771)	(21,593)	(23,931)
Cashflow From Operations	**43,581**	**80,938**	**42,616**	**55,771**	**65,704**
Capex	(8,446)	(6,660)	(11,920)	(5,500)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	18,732	(47,841)	11,305	11,450	10,680
Cash Flow From Investing	**10,286**	**(54,501)**	**(615)**	**5,950**	**2,680**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	(17,879)				
Dividends Paid	(24,917)	(17,594)	(28,091)	(32,281)	(35,787)
Preferred Dividends					
Other Financing Cashflow	(1,859)	(12,275)	(1,443)	(1,414)	(1,414)
Cash Flow From Financing	**(44,655)**	**(29,869)**	**(29,534)**	**(33,695)**	**(37,202)**
Total Cash Generated	9,212	(3,432)	12,467	28,026	31,183
Free Cashflow To Equity	**35,135**	**74,278**	**30,696**	**50,271**	**57,704**
Free Cashflow To Firm	**55,786**	**28,177**	**43,444**	**63,135**	**69,798**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	87,606	124,971	138,230	167,019	198,965
Total Debtors	108,009	94,728	118,983	137,592	154,816
Inventories	358	242	242	242	242
Total Other Current Assets	35,750	32,612	32,612	32,612	32,612
Total Current Assets	**231,723**	**252,553**	**290,068**	**337,465**	**386,635**
Fixed Assets	38,840	35,887	33,883	23,814	15,427
Total Investments	8,167	11,464	11,464	11,464	11,464
Intangible Assets	48,937	54,590	54,590	54,590	54,590
Total Other Non-Current Assets	45,868	42,286	42,286	42,286	42,286
Total Non-current Assets	**141,812**	**144,227**	**142,223**	**132,154**	**123,767**
Short-term Debt	22,495	14,960	14,960	14,960	14,960
Current Portion of Long-Term Debt					
Total Creditors	32,566	27,850	34,854	39,902	44,897
Other Current Liabilities	66,500	72,269	72,269	72,269	72,269
Total Current Liabilities	**121,561**	**115,079**	**122,083**	**127,131**	**132,126**
Total Long-term Debt	1,787	1,658	1,658	1,658	1,658
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	28,123	27,598	27,598	27,598	27,598
Total Non-current Liabilities	**29,910**	**29,256**	**29,256**	**29,256**	**29,256**
Total Provisions					
Total Liabilities	**151,471**	**144,335**	**151,339**	**156,387**	**161,382**
Shareholders Equity	218,131	248,650	277,156	309,438	345,225
Minority Interests	3,933	3,795	3,795	3,795	3,795
Total Equity	**222,064**	**252,445**	**280,951**	**313,233**	**349,020**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	6.1%	2.7%	15.9%	14.5%	12.5%
Operating EBITDA Growth	(9.6%)	19.6%	17.8%	14.0%	11.9%
Operating EBITDA Margin	15.5%	18.1%	18.4%	18.3%	18.2%
Net Cash Per Share (Rs)	62.72	113.81	128.44	161.00	197.14
BVPS (Rs)	249.71	282.21	313.53	350.05	390.53
Gross Interest Cover	22.30	30.97	46.24	53.98	61.14
Effective Tax Rate	22.0%	26.7%	25.8%	25.0%	25.0%
Net Dividend Payout Ratio	30.8%	87.8%	49.6%	50.0%	50.0%
Accounts Receivables Days	100.10	97.74	88.91	93.24	94.44
Inventory Days	0.78	0.42	0.29	0.26	0.23
Accounts Payables Days	40.37	42.64	38.18	39.77	40.10
ROIC (%)	26.3%	22.1%	30.9%	32.6%	36.2%
ROCE (%)	14.0%	14.9%	17.0%	17.8%	18.2%
Return On Average Assets	11.5%	11.4%	12.8%	13.3%	13.5%

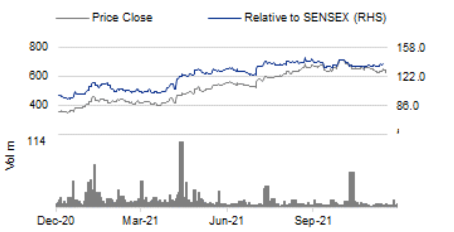
SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

HOLD *(Initiating coverage)*

Consensus ratings*:	Buy 20 Hold 14 Sell 12
Current price:	Rs625
Target price:	Rs647
Previous target:	NA
Up/downside:	3.5%
EIP Research / Consensus:	-7.5%
Reuters:	WIPR.NS
Bloomberg:	WPRO IN
Market cap:	US$45,381m
	Rs3,422,772m
Average daily turnover:	US$62.6m
	Rs4719.0m
Current shares o/s:	5,479.6m
Free float:	27.0%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.5)	(9.0)	73.1
Relative (%)	1.1	(6.6)	38.6

Major shareholders	% held
FPI	9.7
LIC	3.9
JP Morgan Chase Bank	2.6

Wipro

So far so good

- We model 10.6% revenue CAGR over FY22-24F led by new logos and mining.
- We forecast 11.7% PAT CAGR over FY22-24F.
- We initiate coverage on Wipro with a HOLD rating and a TP of Rs647/share.

Simplified operating model to aid mining

Wipro has re-organised its operating model across four strategic market units (SMU; Americas 1, Americas 2, Europe and Asia Pacific/Middle East/Africa (APMEA), and two global business lines (GBL). Americas 1 and 2 focus on specific verticals, and Europe and APMEA on all. The two GBLs will be iDEAS (integrated digital, engineering & application services), and iCORE (integrated Cloud infrastructure, digital operations and cyber security services). A decentralised operating model and a global account executive model (GAE; 25% of top 200 leaders) may aid mining and accelerate growth momentum over FY21-24F.

Likely to capture share in digital demand

Wipro aims to capture digital demand with its new operating model as ~80% of incremental spending over 2020-25 could be in digital. Wipro also expects incremental digital opportunity to be worth US$290bn by FY25F, growing at a 15-20% CAGR over 2020-25F, primarily led by Cloud, while digital strategy and transformation, consulting and IoT could be a US$100bn opportunity. Conversely, Wipro expects the traditional services market opportunity to decline US$90bn over the same period.

Capco acquisition augments BFSI, consulting offerings

Capco buyout (US$1,450m consideration for 100% stake) augments Wipro's banking, financial services and insurance (BFSI) practice (average 8.9% yoy cc growth over FY16-20) by 28% over FY21 and may help capitalise on the DX opportunity. The buyout helped Wipro 1) become an integrated consulting, IT and operations player in the BFSI segment, 2) compete aggressively for large accounts and deals, 3) enhance capabilities, consulting practice, and focus on the new operational model, 4) add 30 FSI clients, aiding wallet share gains in complementary clients, and 5) create significant cross-selling opportunities.

EBIT margin to remain in a narrow band; upside risks exist

We expect Wipro to report 17.4% EBITM by FY22F within its 17-17.5% guided range, excluding Capco integration costs of ~200bp. Headroom exists to improve margins over FY22-24F led by operating leverage, operating metric improvement and employee pyramid rationalisation post restructuring. Attrition and incremental M&A are risks to our thesis.

Initiate coverage with HOLD rating and TP of Rs647/share

We initiate coverage on Wipro with a HOLD rating as demand recovery, strategy refresh, deal/contract wins and M&A could drive 10.6%,11.7% US$ revenue/PAT (Rs) CAGR, respectively, over FY22-24F. Although we like the outcome of ongoing restructuring, valuation at current level appears full, post the 30pp outperformance over Tier-I peers since Dec 2020. At 22x FY24F EPS, our target P/E is above PAT CAGR given solid execution, cash conversion and net cash (Rs37/share), implying PE/G of 1.89x. Leadership attrition is a key downside risk, while better-than-anticipated tailwinds from Capco could accelerate growth.

Financial Summary	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	610,232	619,430	791,537	900,090	991,314
Operating EBITDA (Rsm)	122,272	147,773	170,351	208,821	232,959
Net Profit (Rsm)	97,216	107,945	128,456	142,581	160,302
Core EPS (Rs)	17.0	18.8	22.7	26.0	29.3
Core EPS Growth	8.2%	10.6%	20.7%	14.8%	12.4%
FD Core P/E (x)	36.81	33.28	27.56	24.00	21.35
DPS (Rs)	1.0	1.0	17.0	19.5	22.5
Dividend Yield	0.16%	0.16%	2.72%	3.12%	3.61%
EV/EBITDA (x)	26.79	22.55	18.69	14.70	12.93
P/FCFE (x)	45.84	28.09	33.49	24.97	22.06
Net Gearing	(47.3%)	(48.0%)	(51.1%)	(56.9%)	(62.6%)
P/BV (x)	6.60	6.45	5.86	5.52	5.21
ROE	17.2%	19.6%	22.3%	23.7%	25.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.01	1.03	1.03

SOURCES: INCRED RESEARCH, COMPANY REPORTS, PRICED AS AT 06 Dec 2021

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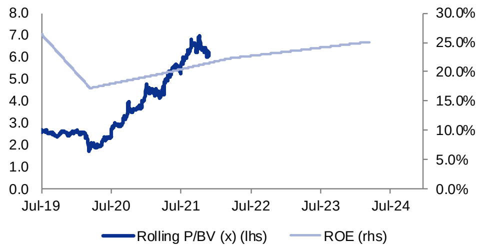
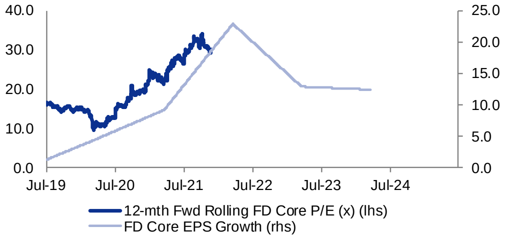
BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	**610,232**	**619,430**	**791,537**	**900,090**	**991,314**
Gross Profit	**195,002**	**223,859**	**270,371**	**315,931**	**350,925**
Operating EBITDA	**122,272**	**147,773**	**170,351**	**208,821**	**232,959**
Depreciation And Amortisation	(20,855)	(27,634)	(32,810)	(49,505)	(53,531)
Operating EBIT	**101,417**	**120,139**	**137,541**	**159,316**	**179,428**
Financial Income/(Expense)	14,803	13,358	14,818	17,295	20,071
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,119	5,461	7,332	6,751	6,642
Profit Before Tax (pre-EI)	**121,339**	**138,958**	**159,691**	**183,362**	**206,140**
Exceptional Items					
Pre-tax Profit	**121,339**	**138,958**	**159,691**	**183,362**	**206,140**
Taxation	(24,801)	(30,346)	(33,326)	(40,706)	(45,763)
Exceptional Income - post-tax	1,144	(81)	2,165		(1)
Profit After Tax	**97,682**	**108,531**	**128,530**	**142,655**	**160,376**
Minority Interests	(466)	(586)	(74)	(74)	(74)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**97,216**	**107,945**	**128,456**	**142,581**	**160,302**
Recurring Net Profit	96,072	108,026	126,291	142,581	160,303
Fully Diluted Recurring Net Profit	**96,072**	**108,026**	**126,291**	**142,581**	**160,303**

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	122,272	147,773	170,351	208,821	232,959
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(23,856)	22,922	(12,990)	(11,004)	(11,963)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	8,611	1,770	(74)	(74)	(74)
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(6,384)	(24,915)	(33,326)	(40,706)	(45,763)
Cashflow From Operations	**100,643**	**147,550**	**123,961**	**157,037**	**175,158**
Capex	(23,497)	(19,577)	(20,000)	(20,000)	(20,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	57,509	27,316	27,273	29,882	32,549
Cash Flow From Investing	**34,012**	**7,739**	**7,273**	**9,882**	**12,549**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased	(105,311)	(116,644)			
Dividends Paid	(6,863)	(5,459)	(93,168)	(106,936)	(123,433)
Preferred Dividends					
Other Financing Cashflow	(38,824)	(6,737)	50,377	(5,836)	(5,835)
Cash Flow From Financing	**(150,998)**	**(128,840)**	**(42,791)**	**(112,772)**	**(129,268)**
Total Cash Generated	(16,343)	26,449	88,443	54,146	58,439
Free Cashflow To Equity	**77,146**	**127,973**	**103,961**	**137,037**	**155,158**
Free Cashflow To Firm	**134,655**	**155,289**	**131,234**	**166,918**	**187,707**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	334,134	345,500	436,108	490,254	548,692
Total Debtors	129,683	121,422	156,139	177,552	198,263
Inventories	1,865	1,064	1,064	1,064	1,064
Total Other Current Assets	54,169	55,200	55,200	55,200	55,200
Total Current Assets	**519,851**	**523,186**	**648,510**	**724,070**	**803,219**
Fixed Assets	96,176	100,703	87,893	58,389	24,858
Total Investments	22,615	22,502	22,502	22,502	22,502
Intangible Assets	143,256	148,232	148,232	148,232	148,232
Total Other Non-Current Assets	30,891	32,699	32,699	32,699	32,699
Total Non-current Assets	**292,938**	**304,136**	**291,326**	**261,822**	**228,291**
Short-term Debt	54,020	60,363	60,363	60,363	60,363
Current Portion of Long-Term Debt					
Total Creditors	58,400	54,174	75,901	86,310	95,058
Other Current Liabilities	103,973	115,503	115,503	115,503	115,503
Total Current Liabilities	**216,393**	**230,040**	**251,767**	**262,176**	**270,924**
Total Long-term Debt	4,840	7,458	62,958	62,958	62,958
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	36,464	39,316	39,316	39,316	39,316
Total Non-current Liabilities	**41,304**	**46,774**	**102,274**	**102,274**	**102,274**
Total Provisions					
Total Liabilities	**257,697**	**276,814**	**354,041**	**364,450**	**373,198**
Shareholders Equity	553,217	549,010	584,298	619,943	656,813
Minority Interests	1,875	1,498	1,498	1,498	1,498
Total Equity	**555,092**	**550,508**	**585,796**	**621,441**	**658,311**

Key Ratios

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	4.1%	1.5%	27.8%	13.7%	10.1%
Operating EBITDA Growth	9.1%	20.9%	15.3%	22.6%	11.6%
Operating EBITDA Margin	20.0%	23.9%	21.5%	23.2%	23.5%
Net Cash Per Share (Rs)	44.93	46.60	54.62	64.50	75.16
BVPS (Rs)	94.65	96.84	106.63	113.14	119.86
Gross Interest Cover	13.84	23.61	26.85	27.30	30.75
Effective Tax Rate	20.4%	21.8%	20.9%	22.2%	22.2%
Net Dividend Payout Ratio	5.9%	5.3%	73.8%	75.0%	77.0%
Accounts Receivables Days	75.68	73.98	64.00	67.66	69.19
Inventory Days	2.56	1.35	0.75	0.66	0.61
Accounts Payables Days	53.21	51.94	45.55	50.68	51.69
ROIC (%)	28.2%	32.0%	37.6%	42.8%	51.4%
ROCE (%)	12.5%	14.9%	16.1%	16.7%	18.0%
Return On Average Assets	10.3%	12.0%	13.0%	13.4%	14.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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been engaged in market making activity for the subject company	NO	NO

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Description:	Excellent	Very Good	Good	N/A	N/A

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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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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.

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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.