

India

**Not Rated** (no change)

# IT Services

## Pause in earnings upgrade cycle?

- Russia-Ukraine conflict, sanctions may pause earnings upgrade cycle.
- Extraordinary times warrant caution. We run sensitivity on growth assumption.
- Uncertainty, rupee depreciation provides a silver lining to attrition, EBITM.

### What is priced in?

Nifty IT index underperformed Nifty by ~9% YTD before the start of conflict vs. 1% currently. The underperformance, largely attributed to a significant outperformance since Mar 2020 lows and premium valuations, likely captures the first-order impact of the ongoing Russia-Ukraine conflict. We believe that investors may also want to discount a potential second-order impact from lower global growth, decision-making delay, and client-specific issues driven by sanctions.

### Sanctions could potentially pause the earnings upgrade cycle

A quick search of “abandon or exit Russia” phrase suggests many global brands have suspended operations or written down assets. Although the exact quantum of Russia exposure is not publicly available, we feel the event could potentially pause CY22F/CY23F revenue growth and margin upgrade cycle for user industries driven by sanctions and high crude oil prices, with the impact being felt in global supply chain as well. This, in turn may impact spending ability and priorities of clients.

### This is akin to US-China trade restrictions

Although we agree that cost take-out accelerates IT outsourcing spending, we feel headwinds such as decision-making delay, client-specific challenges led by uncertainty and potential lower global growth could outweigh the positives in the near term. Anecdotally, the US-China trade restrictions paused CY19 SPX500 Index upgrade cycle, which in turn led to client-specific challenges for Indian IT vendors. Consequently, we conducted a sensitivity analysis to evaluate how our FY23F/FY24F estimates stack up for potential lower revenue growth and higher US\$/INR assumption of 77 vs. 75/76 earlier.

### Delay in BFSI vertical spending could moderate growth momentum

[Media reports](#) indicate that Citigroup warned of losing ~US\$4bn from Russia exposure while noises urging large lenders such as JP Morgan, Deutsche Bank, HSBC, and Credit Suisse to close offices are gaining ground. A key driver to FY23F/FY24F growth, in our belief, was the revival in BFSI vertical spending, and material change to this thesis could moderate growth expectations.

### Extraordinary times warrant caution; sensitivity test implies cut in TP

Although we retain Neutral rating, sensitivity test and a lower target multiple assumption to factor in a cautious outlook implies cut in target prices (Fig 5). We reiterate our underlying thesis that mid-sized (Tier-II) companies present long-term value creation opportunities driven by market share gains in the current demand cycle, but we believe that scale could help Tier-I firms absorb potential spending cut shocks better. This, coupled with relatively better valuation entry points and lack of alternatives, make them great hiding places.

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**Figure 1: Lower FY22-24F revenue growth assumption may pause EPS upgrade cycle**

Company	Current estimate CAGR		Potential estimate CAGR	
	FY22-24F US\$ revenue CAGR	FY22-24F PAT CAGR	FY22-24F US\$ revenue CAGR	FY22-24F PAT CAGR
TCS	11.0%	13.1%	9.7%	11.7%
Infosys	12.5%	15.1%	11.5%	13.7%
Wipro	10.6%	11.7%	10.1%	11.9%
HCL Technologies	10.0%	13.5%	10.0%	14.3%
Tech Mahindra	11.9%	12.5%	11.3%	13.5%
L&T Infotech	18.0%	21.2%	16.5%	19.0%
Mindtree	19.0%	17.6%	16.5%	16.3%
Mphasis	16.9%	21.0%	14.5%	19.7%
Coforge	16.5%	24.2%	16.5%	24.1%
LTTTS	18.2%	20.9%	16.5%	19.8%
Persistent Systems	22.3%	25.0%	23.3%	23.5%
Cyient Ltd	11.5%	11.6%	10.0%	13.2%
Birlasoft	14.8%	20.5%	13.5%	20.3%

ESTIMATE REVISION ASSUMING INORGANIC CONTRIBUTION, SOURCES: INCRED RESEARCH, COMPANY REPORTS

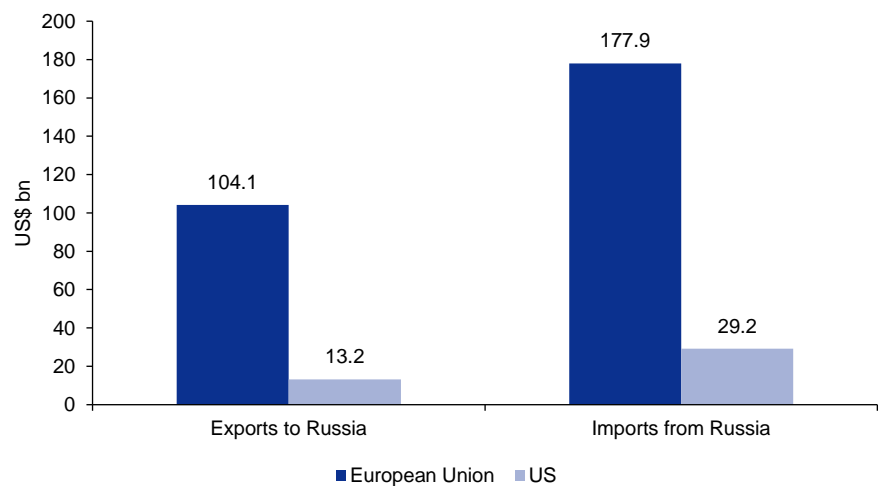
## Uncertainty could moderate attrition; rupee depreciation could aid EBITM

Key tailwinds of the current uncertain macro environment could be 1) a lower attrition rate, and 2) EBITM benefit from potential rupee depreciation. Together, they could help cushion margin pressure from lower revenue growth.

### Puts and takes for other key verticals

We agree that elevated crude oil prices could inflate profits in the near term and help start pending IT programs in the oil & gas vertical, but also feel it must be viewed in the context of write-downs taken by large majors. Conversely, high crude oil prices could drag profitability and end-consumer demand, especially in retail & manufacturing verticals, which later could alter technology budgets and spending patterns.

**Figure 2: Russia trade relations with the US and Europe**



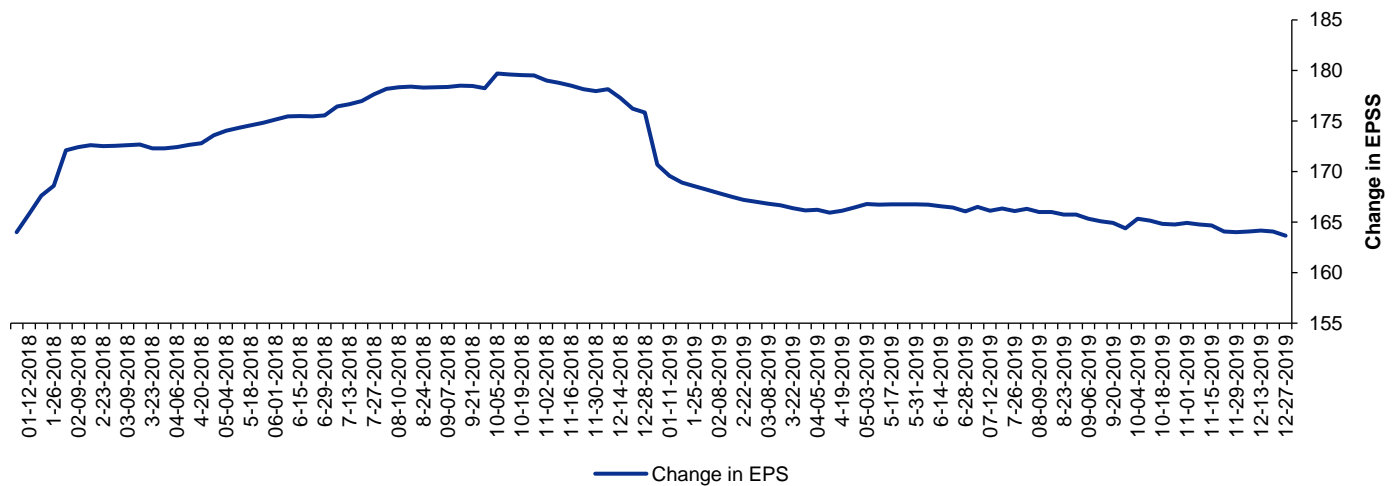
SOURCES: INCRED RESEARCH, BLOOMBERG, DATA AS ON 12 MONTH PERIOD ENDING NOV 2021

**Figure 3: Exit Russia bandwagon could potentially moderate global growth forecast**

Company	Revenue (US\$ m)		Growth, (yoy %)	Commentary
	CY21	CY22F		
Boeing	62,286	81,958	31.6%	Suspended major operations in Moscow, as well as maintenance & technical support for Russian airlines.
Airbus	52,149	59,783	14.6%	Halt supply of parts & services to Russian airlines.
Shell	2,61,504	3,37,676	29.1%	Severs ties with Gazprom. Ends ~US\$1bn financing of the Nord Stream-2 gas pipeline.
BP	1,57,739	2,01,061	27.5%	Exiting ~20% stake in Rosneft. Potential hit of US\$25bn.
Exxon Mobil	2,76,692	3,26,757	18.1%	Exit Russian oil and gas operations valued at >US\$4bn and cease new investment.
GM	1,27,004	1,53,943	21.2%	Suspend vehicle exports (sells ~3,000 cars per year) in Russia.
Ford	1,36,341	1,45,581	6.8%	Suspends operations.
BMW	1,11,236	1,21,921	9.6%	Stops production and shipment in Russia.
Daimler Truck Holdings	39,556	44,237	11.8%	Stops supply of components to its Russian JV partner.
Volvo Cars	2,82,045	3,25,891	15.5%	Halts sales and shipments.
Renault	46,213	50,791	9.9%	Stops operations & production at two assembly plants because of parts shortage.
VW	2,22,884	2,47,571	11.1%	Audi delivery paused to adjust for movement in Russian rouble.
Adidas	21,335	23,407	9.7%	Suspends partnership with the Russian Football Union.
Nike	44,538	47,177	5.9%	Ceases online sales, given delivery challenges.
FedEX	83,959	93,105	10.9%	Suspended shipments.
UPS	97,287	1,02,038	4.9%	Suspended shipments.
Apple	3,65,817	3,96,102	8.3%	Paused product sales & services (including Apple Pay). Restricts features in Apple Maps in Ukraine.
Dell	1,01,229	1,05,023	3.7%	Sales stopped.
Ericsson	2,32,314	2,47,532	6.6%	Deliveries suspended.
Walt Disney	67,418	84,860	25.9%	Paused film debuts in Russia.

SOURCES: BLOOMBERG, INCRED RESEARCH, VOLVO CARS AND ERICSSON REVENUE IS IN SEK, AIRBUS, BMW, DAIMLER TRUCK HOLDINGS, RENAULT, VW, ADIDAS REVENUE IS IN EUR

**Figure 4: Bloomberg consensus EPS forecast for S&P 500 Index during the US-China trade war**



SOURCES: INCRED RESEARCH, BLOOMBERG

**Figure 5: Revised target prices if we were to lower revenue growth and assume US\$/INR of 77 vs. 75/76 earlier for FY23F/FY24F**

Company	Current estimates				Potential estimates							Change in Target price
	FY22-24F PAT CAGR	PE/G discount to TCS	Target PE/G	Target P/E	Target Price	FY22-24F PAT CAGR	PE/G discount to TCS	Target PE/G	Target P/E	Target Price		
TCS	13.1%	0%	2.10	28	3,665	11.7%	0%	2.10	25	3,199	-12.7%	
Infosys	15.1%	10%	1.89	28	1,949	13.7%	10%	1.89	26	1,777	-8.8%	
Wipro	11.7%	10%	1.89	22	647	11.9%	15%	1.79	21	591	-8.6%	
HCL Technologies	13.5%	22%	1.64	22	1,412	14.3%	25%	1.58	23	1,434	1.6%	
Tech Mahindra	12.5%	15%	1.79	22	1,800	13.5%	25%	1.58	21	1,721	-4.4%	
L&T Infotech	21.2%	7%	1.95	41	7,671	19.0%	15%	1.79	34	6,179	-19.4%	
Mindtree	17.6%	8%	1.93	34	4,547	16.3%	15%	1.79	29	3,796	-16.5%	
Mphasis	21.0%	15%	1.79	38	4,073	19.7%	20%	1.68	33	3,517	-13.6%	
Coforge	24.2%	25%	1.58	38	6,229	24.1%	30%	1.47	35	5,734	-7.9%	
LTTS	20.9%	0%	2.10	44	5,705	19.8%	15%	1.79	35	4,573	-19.8%	
Persistent Systems	25.0%	25%	1.58	40	5,401	23.5%	30%	1.47	35	4,620	-14.5%	
Cyient Ltd	26.0%	53%	1.00	25	1,324	13.2%	35%	1.37	18	1,044	-21.1%	
Birlasoft	20.5%	45%	1.15	24	538	20.3%	50%	1.05	21	493	-8.3%	

CYIENT PAT CAGR IN CURRENT ESTIMATES IS FOR FY21-23F. SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: How earnings stack up for lower growth and rupee depreciation (US\$/INR 77 vs. 75/76 earlier)**

TCS	FY23F			FY24F			Infosys	FY23F			FY24F		
	New	Old	% change	New	Old	% change		New	Old	% change	New	Old	% change
US\$ revenue (m)	28,265	28,433	-0.6	30,942	31,418	-1.5	US\$ revenue (m)	18,288	18,210	0.4	20,294	20,286	0.0
EBIT (Rs m)	5,58,241	5,51,171	1.3	6,14,690	6,22,865	-1.3	EBIT (Rs m)	3,31,055	3,15,514	4.9	3,65,655	3,61,109	1.3
EBIT Margin (%)	25.7	25.9	(20) bp	25.8	26.1	(30) bp	EBIT Margin (%)	23.5	23.1	41 bp	23.4	23.4	(1) bp
Net PAT (Rs m)	4,37,117	4,34,679	0.6	4,81,403	4,91,581	-2.1	Net PAT (Rs m)	2,61,470	2,53,431	3.2	2,88,894	2,89,444	-0.2
EPS (Rs)	118.2	117.5	0.6	130.1	132.9	-2.1	EPS (Rs)	62.0	60.0	3.2	68.5	68.5	-0.2
Wipro	FY23F			FY24F			HCLT	FY23F			FY24F		
	New	Old	% change	New	Old	% change		New	Old	% change	New	Old	% change
US\$ revenue (m)	11,526	11,660	-1.1	12,559	12,698	-1.1	US\$ revenue (m)	12,734	12,570	1.3	13,901	13,727	1.3
EBIT (Rs m)	1,57,810	1,59,316	-0.9	1,74,615	1,79,428	-2.7	EBIT (Rs m)	1,90,964	1,89,195	0.9	2,11,931	2,12,578	-0.3
EBIT Margin (%)	17.5	17.7	(20) bp	17.8	18.1	(30) bp	EBIT Margin (%)	19.5	20.1	(60) bp	19.8	20.4	(58) bp
Net PAT (Rs m)	1,37,751	1,42,581	-3.4	1,53,020	1,60,302	-4.5	Net PAT (Rs m)	1,54,941	1,53,035	1.2	1,73,112	1,72,769	0.2
EPS (Rs)	25.1	26.0	-3.4	27.9	29.3	-4.5	EPS (Rs)	57.1	56.4	1.2	63.8	63.7	0.2
TechM	FY23F			FY24F			LTI	FY23F			FY24F		
	New	Old	% change	New	Old	% change		New	Old	% change	New	Old	% change
US\$ revenue (m)	6,659	6,694	-0.5	7,392	7,437	-0.6	US\$ revenue (m)	2,470	2,490	-0.8	2,841	2,889	-1.6
EBIT (Rs m)	76,394	76,336	0.1	86,687	86,457	0.3	EBIT (Rs m)	33,477	32,873	1.8	39,164	39,743	-1.5
EBIT Margin (%)	14.9	15.2	(30) bp	15.2	15.3	(7) bp	EBIT Margin (%)	17.6	17.6	0 bp	17.9	18.1	(20) bp
Net PAT (Rs m)	64,582	64,562	0.0	71,680	71,575	0.1	Net PAT (Rs m)	27,450	26,945	1.9	32,094	32,538	-1.4
EPS (Rs)	73.0	73.0	0.0	81.0	81.0	0.1	EPS (Rs)	156.1	153.2	1.9	182.5	185.0	-1.4
Mphasis	FY23F			FY24F			Mindtree	FY23F			FY24F		
	New	Old	% change	New	Old	% change		New	Old	% change	New	Old	% change
US\$ revenue (m)	1,832	1,853	-1.2	2,093	2,159	-3.1	US\$ revenue (m)	1,666	1,723	-3.3	1,917	1,999	-4.1
EBIT (Rs m)	22,003	21,682	1.5	25,460	25,924	-1.8	EBIT (Rs m)	23,353	23,525	-0.7	27,008	27,809	-2.9
EBIT Margin (%)	15.6	15.6	(0) bp	15.8	15.8	0 bp	EBIT Margin (%)	18.2	18.2	0 bp	18.3	18.3	0 bp
Net PAT (Rs m)	17,377	17,117	1.5	20,222	20,600	-1.8	Net PAT (Rs m)	18,424	18,563	-0.7	21,502	22,002	-2.3
EPS (Rs)	91.5	90.1	1.5	106.5	108.5	-1.8	EPS (Rs)	112.0	112.9	-0.7	130.7	133.8	-2.3
Coforge	FY23F			FY24F			PSYS	FY23F			FY24F		
	New	Old	% change	New	Old	% change		New	Old	% change	New	Old	% change
US\$ revenue (m)	1,022	1,023	-0.1	1,175	1,177	-0.1	US\$ revenue (m)	990	958	3.3	1,156	1,138	1.6
EBIT (Rs m)	11,570	11,509	0.5	13,391	13,413	-0.2	EBIT (Rs m)	10,595	10,567	0.3	12,625	12,973	-2.7
EBIT Margin (%)	14.7	15.0	(30) bp	14.8	15.0	(20) bp	EBIT Margin (%)	13.9	14.7	(81) bp	14.2	15.0	(82) bp
Net PAT (Rs m)	8,705	8,722	-0.2	10,060	10,145	-0.8	Net PAT (Rs m)	8,518	8,462	0.7	10,202	10,438	-2.3
EPS (Rs)	140.3	140.5	-0.2	162.1	163.5	-0.8	EPS (Rs)	111.5	110.7	0.7	133.5	136.6	-2.3
BSOFT	FY23F			FY24F			LTTS	FY23F			FY24F		
	New	Old	% change	New	Old	% change		New	Old	% change	New	Old	% change
US\$ revenue (m)	636	641	-0.8	719	731	-1.7	US\$ revenue (m)	1,038	1,056	-1.7	1,194	1,225	-2.6
EBIT (Rs m)	6,929	6,896	0.5	8,009	7,955	0.7	EBIT (Rs m)	14,387	14,254	0.9	16,773	16,991	-1.3
EBIT Margin (%)	14.2	14.3	(19) bp	14.5	14.3	15 bp	EBIT Margin (%)	18.0	-22.4	4040 bp	18.3	-22.7	4090 bp
Net PAT (Rs m)	5,643	5,575	1.2	6,544	6,455	1.4	Net PAT (Rs m)	11,590	11,431	1.4	13,648	13,742	-0.7
EPS (Rs)	19.9	19.6	1.2	23.1	22.7	1.4	EPS (Rs)	109.7	108.2	1.4	129.2	130.0	-0.7
Cyient	FY23F			FY24F									
	New	Old	% change	New	Old	% change							
US\$ revenue (m)	672	697	-3.6	739	773	-4.5							
EBIT (Rs m)	7,095	7,122	-0.4	7,811	7,791	0.3							
EBIT Margin (%)	18.2	18.2	0 bp	18.2	17.9	30 bp							
Net PAT (Rs m)	5,792	5,820	-0.5	6,375	6,369	0.1							
EPS (Rs)	52.7	53.0	-0.5	58.0	58.0	0.1							

SOURCES: INCRED RESEARCH, COMPANY REPORTS, WIPRO US\$ REVENUE IS FOR IT SERVICES, NEW ESTIMATES ADJUSTED FOR INORGANIC CONTRIBUTION AND POTENTIAL CHANGE IN ESTIMATES POST 3QFY22

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

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

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

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Definition:

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.*

#### Sector Ratings

Definition:

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

#### Country Ratings

Definition:

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