

Infosys Ltd	
CMP	1236
Rating	Hold
TP	1,247
Tata Consultancy Services	
CMP	2909
Rating	Hold
TP	2994
MindTree	
CMP	1598
Rating	Hold
TP	1517
Coforge Limited	
CMP	2653
Rating	Hold
TP	2515
Persistent Systems	
CMP	1449
Rating	Hold
TP	1252
L&T Technology Services	
CMP	2349
Rating	Hold
TP	1872

Indian IT sector at inflection point

The information technology sector has been continuously recovering from what has been a tough year earlier due to broader slowdown in technology spending by banking and financial companies and uncertainty over work visa rules in the US.

- The optimism has returned as the sector now has diversified into more lucrative digital segments such as cloud computing, Artificial Intelligence (AI) and Big Data.
- According to a report by Intel, spending on AI by Indian companies is expected to increase by 8-11 per cent over the coming 18 months, backed by rising influence of AI-based solutions across verticals.
- International Data Corporation has reported that global spending on artificial intelligence and cognitive systems will grow to \$57.6 billion by 2021.

In India, we have seen IT index in last three month rallied almost 20% on account of anticipation of pickup in discretionary spending and recent big deal wins in IT sector build up our positive stance on the IT sector.

Accenture reported strong revenue growth, in Q1FY21 order bookings and raised guidance underscoring the accelerated demand for technology transformation. ACN Consulting order book grew 9.3% YoY (+2.2% QoQ) indicating pickup in discretionary spends. **(Accenture is listed on the New York Stock Exchange)**

- As per management estimates, ACN continued to gain market share and grew ~4x faster than the market on TTM basis. ACN expects revenue growth to return to the pre-Covid trajectory in H2FY21. ~50% of revenues came from seven industries that were less impacted by the pandemic and in aggregate continued to grow in high single digits.
- The severely affected industries, namely Travel, Retail, Energy, High-Tech (including Aerospace and Defense) and Industrial (collectively ~20% of revenues), posted a low double-digit decline in Q1. Accenture signed deals worth over US\$100mn with 16 clients in Q1. The company spent ~US\$0.5bn on 10 acquisitions in Q1 and plans to invest ~US\$1.7bn on M&A in FY21 (assumes ~2% inorganic revenue contribution).

ER&D deal wins picked up aggressively since last month on account of pickup in discretionary spends. Indian IT players have won a number of large ER&D deals in last couple of months (detailed below).

Strong Deal wins by IT sector companies

Infosys : The company witnessed highest-ever large deal TCV of USD3.1bn, and attrition reduced to the lowest in its history at ~8%.

Source: Arihant Research

Jyoti Singh

jyoti.singh@arihantcapital.com

Infosys: has announced an IT infrastructure transformation deal with Daimler AG. Daimler's IT infra team in Germany, wider Europe, US and APAC region will transition to Infosys.

TCS: It has strong deal wins (including Phoenix), supported by market share gains, vendor consolidation with a high number of small and mid-sized deals enabling faster transition) and a balanced deal pipeline.

MindTree: On the demand side, MTCL reported a robust (10% YoY) increase in 2QFY21 order book, with a number of multi-year and multi-service lines annuity deals across all industries. The pipeline is strong and healthy as well.

LTTS: 3 key deal wins include 1) USD100mn plus deal in plant engineering vertical from global oil & gas company being largest ever deal for LTTS vs average large deal size of 40-50\$m for engineering services firms, 2) Schindler, Switzerland-based global leading provider of elevators & escalators selected LTTS to provide innovative digital engineering capabilities and 3) LTTS was selected as a consulting/professional services provider for Amazon to support Alexa integration in devices.

Coforge: Two large deals were signed in this quarter, one in Insurance space with deal size of 32\$ Mn with new client and second one in BFS vertical with more than 50% of new component.

HCL Tech: strong deal wins with TCV up 35% QoQ, supported by 15 transformational wins (eight in life science & healthcare vertical) and pipeline at an all-time high.

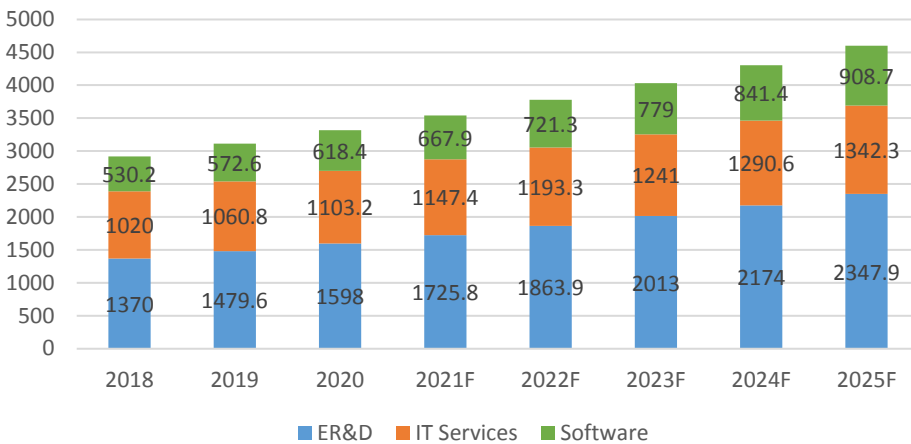
Wipro: Announces Strategic Digital & IT Deal with German wholesaler Metro AG Estimated deal value is ~\$700 million over 5 years. Deal size can be extended to \$1b with the intention to extend up to four additional years.

Engineering a core function of services led verticals will account for 20% of digital engineering spend by 2025

Digital engineering spend (USD Bn.)	FY2019	FY2025E	6-Y CAGR	Key Areas of spend
BFSI	32	86	18%	Robo Investment Advisory Payments Tech Telematics based insurance Fraud Detection Management Customer Insights & Intelligence
Retail	19	59	21%	Transformation of in store shopping experience Connected products for monitoring and feedback Omni channel experiences Robotic automation
Healthcare Payers & Providers	18	51	19%	Remote patient monitoring Diagnosis prediction Healthcare robots Patient experience platforms Physician assistance tech
Media & Technology	11	38	23%	OTT AI/ML based content recommendation and tagging Targeted advertising using intelligent platforms

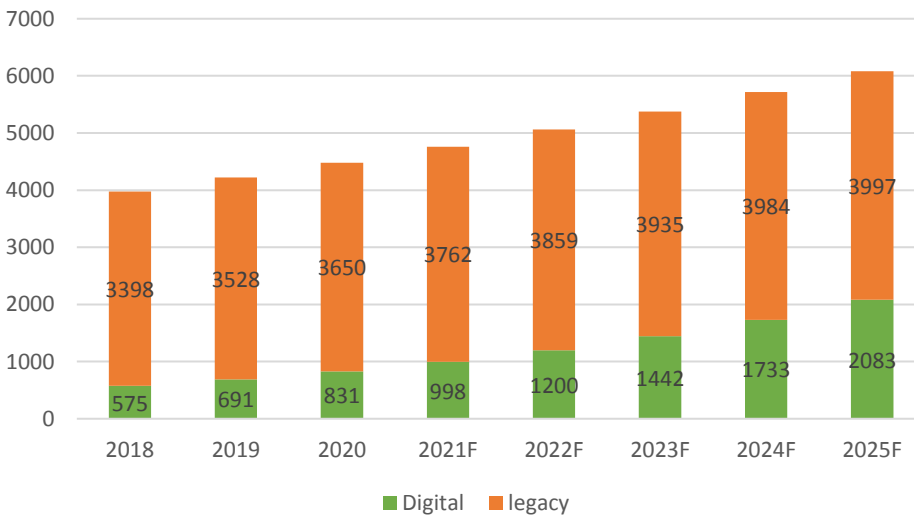
Source: Frost & Sullivan

Digital engineering spend to increase over next 5 years, 2018-2025 (USD Bn.)



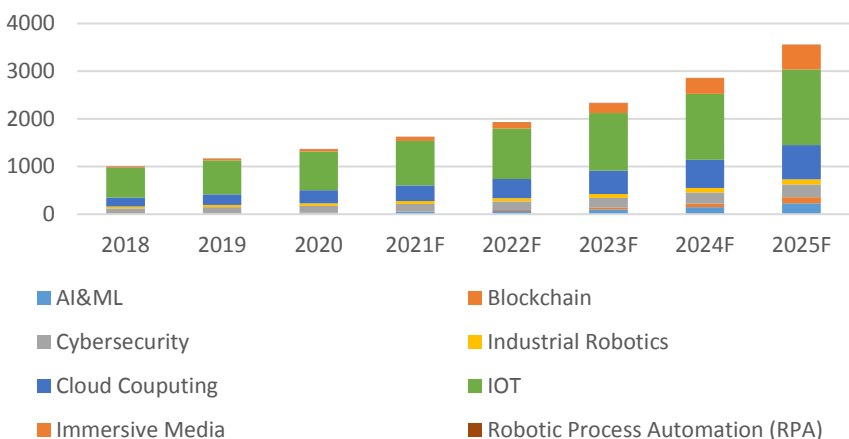
ER&D spending across verticals such as Aerospace and Transportation decreased substantially as these sectors were heavily impacted by the pandemic. However, verticals such as Semiconductor, Telecom and Healthcare have remained buoyant in the face of COVID

Digital vs. legacy market size, 2018 – 2025, (USD Bn.)



Digital and next generation technologies like (cloud enablement services, cloud hosting, IoT, 5G, Robotics, blockchain) are the major growth driver of the next tech –upgrade cycle.

Global IT Spend across Emerging Technologies: Split, 2018-2025, (USD Bn.)



The global IT spend across key emerging technologies is expected to grow from USD 1160 Bn. in 2019 to USD 3558 Bn. in 2025 growing at a CAGR of 20.5%.

Source: Frost & Sullivan

Demand for IT services

The Covid-19 pandemic has had a wide ranging multi-dimensional impact on various industries. With the world moving to WFH (Work from Home), technology adoption has seen unexpected and unprecedented acceleration across enterprises and consumers. This has led to a significant reset in the demand environment for the technology industry, especially for Indian IT services vendors

Risk of US visa uncertainty has reduced with increase in localization

US H1B Visa approval rates have been declining after peaking in Sep-2017 with an increase in US protectionism policies under the Trump administration. Moreover, H1B visa approvals now have a higher proportion of a more skilled workforce (a master's degree and above), while approvals for applicants with a bachelor's degree and below have declined over past 2+ years

Margins are expected to remain stable or improve over the medium term

In the September 2020 quarter, the sector witnessed strong margin expansion (2.4% for the three companies in aggregate) benefitting from a pick-up in revenue growth, continued cost savings on travel and increasing offshore mix due to delays in wage hikes and cost savings associated with COVID-19.

Commentary by global technology companies remains positive...

Most global technology companies in the as a service and digital services spaces reported beats on US\$ revenue growth vs consensus estimates in their latest-quarter results, with several increasing FY21 revenue growth guidance.

Infosys management follows a systematic approach for M&A and focuses on three aspects: 1) (i) right strategy, (ii) identifying right targets, (iii) successfully integrating and capturing synergies. This will help Infosys to attain long term growth.

2) To attain accerated growth, Infosys management is focusing on large deals, account expansion and new client acquisition. (i) Large deals are great area of focus and company is seeing significant acceleration in large deals. Moreover, large deal pipeline is led by digital transformation and consolidation.

3) Digital traction is primarily led by investments in Cloud. As per the management ~50% of spend in digital is Cloud related and it expects ~USD 500 Cr. of enterprise Cloud spend over the next three years.

TCS has exceeded its expectation by reporting higher rupee revenue in Q2FY2021. Further, company would able to pull forward margin recovery to Q2FY2021 as against the earlier estimate of Q4FY2021. The management stated that demand recovery is slight faster than earlier expectations. It also pointed to the start of the first phase of a multi-year technology transformation cycle given emergence of new operating model, large adoption of cloud and acceleration of technology spends by customers.

Persistent System management has indicated that over next 4 years they plan to reach revenue of 100cr. dollar through i) organic & inorganic growth ii) and by harmonizing GTM across TSU, Alliance led business and geographies.

LTTS Improved guidance of 7-8% revenue decline in FY21E: With steady order bookings and a healthy pipeline across all segments management has guided 7-8% USD YoY de-growth for FY21E higher by 200bps from last quarter guidance of 9-10% which implies avg. 4.2% QoQ growth for next 2 quarters

MindTree reiterated its 4*4*4 plan, i.e. to focus on four industries (RCM, BFSI, TTH and CMT), four service lines (customer success, cloud, data and intelligence and Enterprise IT) and four geographies (North America, UK and Ireland, Continental Europe and Asia Pacific, and RoW).

Q3FY21 Earnings Estimates:

(Rs Cr)	Q3FY21E	Q3FY20A	Q2FY21A	Remarks
Infosys Ltd				
Net Revenue	24,955	23,092	24,570	Infy has a resilient business structure from a long term perspective and multiple long term contracts with world's leading brands. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in near term.
EBIT	4,509	5,064	6,228	
PAT	4,290	4,457	4,845	
Tata Consultancy Services				
Revenue	39,451	13,515	40,135	TCS is well positioned to capitalize on opportunities, currently visible in the more advanced markets of North America and Europe. We believe, with digital initiative moving towards core IT, TCS growth trajectory will improve gradually and will sustain longer.
EBIT	9,416	11,698	10,515	
PAT	8,374	6,345	7,504	
MindTree				
Revenue	2,429	1,965	1,926	MindTree the new strategy of expanded regional focus and planned expansion into Healthcare as potential additions to its medium-term revenue aspiration of growing above industry growth. Mindtree is optimistic about the growth momentum in Q3FY21.
EBITDA	296	306	390	
PAT	184	197	254	
Coforge Limited				
Revenue	1,207	1,073	1,154	We believe the Coforge will continue perform due to :- a) Sector leading growth profile, b) Robust order book visibility, c) Uptick in growth in top-20 accounts ,d) Robust client mining across buckets, e) Lowest client concentration among its peers.
EBITDA	225	195	205	
PAT	156	129	122	
Persistent Systems				
Revenue	997	923	1008	We believe better vertical mix will help Persistent Systems to generate long term sustainable growth. BFSI is one of the fastest growing vertical and has seen robust demand for digital transformation and cloud. Healthcare and Pharma vertical has also seen robust demand after the global pandemic.
EBITDA	174	124	166	
PAT	90	88	102	
L&T Technology Services				
Revenue	1,442	1,423	1,314	Management expects margins to further improve in Q3 & Q4 as growth in high margin verticals (verticals with margin >25% during pre-Covid times) such as Transportation, Industrial Products, Medical devices is expected to improve.
EBITDA	336	286	233	
PAT	158	204	166	

Source: Arianth Research

Peer Valuation

(Consolidated) (Rs Cr.)	TCS			INFY			*HCL Tech		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Net Sales	156949	157360	169995	90791	98145	111100	70678	74972	83528
PAT	32447	31301	35120	16639	17658	19596	13980	16174	17960
EBITDAM%	27%	27%	27%	21%	21%	21%	24%	26%	25%
ROE%	39%	27%	30%	25%	24%	24%	37%	43%	48%
PE(x)	33	34	31	29	31	29	23	20	18
EPS(Rs)	86	83	94	39	42	46	40	45	51
CMP (Rs)		2909		1236			919		
MCap		1093314		532704			252737		

(Consolidated) (Rs Cr.)	*TechM			*Larsen & Toubro Infotech			MindTree		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Net Sales	36868	37799	41459	10879	12225	14003	7764	8692	9863
PAT	5281	5638	6475	1521	2414	2799	631	835	999
EBITDAM%	16%	17%	18%	19%	21%	21%	14%	15%	15%
ROE%	24%	25%	29%	28%	45%	52%	20%	22%	22%
PE(x)	19	19	17	41	35	30	26	30	25
EPS(Rs)	49	49	56	87	103	120	38	51	61
CMP (Rs)	947			3626			1598		
MCap	92037			63613			26405		

(Consolidated) (Rs Cr.)	LTTS			Coforge Limited (NIITech)			Persistent System		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Net Sales	5619	5493	6133	4184	4624	5227	3566	3993	4325
PAT	822	598	781	468	513	589	340	371	396
EBITDAM%	20%	15%	18%	17%	18%	18%	14%	14%	14%
ROE%	30%	19%	20%	19%	18%	18%	14%	14%	14%
PE(x)	29	40	31	36	33	29	32	29	28
EPS(Rs)	78	56	72	71	78	90	44	49	50
CMP(Rs)	2349			2653			1449		
MCap	24186			15983			11118		

(Consolidated) (Rs Cr.)	*Tata Elxsi			*Birlasoft		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Net Sales	1610	1730	1941	3291	3595	3971
PAT	256	301	344	256	388	436
EBITDAM%	21%	25%	24%	12%	14%	15%
ROE%	23%	28%	32%	12%	15%	19%
PE(x)	43	37	33	31	25	20
EPS(Rs)	41	48	54	8	10	13
CMP(Rs)	1760			255		
MCap	11641			6966		

Source: Arianth Research, Company Filings, Bloomberg consensus

*Company not under our coverage , Bloomberg consensus

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880