

Infosys Ltd	
Rating	Accumulate
TP	1,543
PE	28x
Tata Consultancy Services	
Rating	Hold
TP	3,337
PE	33x
MindTree	
Rating	Hold
TP	1,806
PE	22x
Coforge Limited	
Rating	Accumulate
TP	2,778
PE	24x
Persistent Systems	
Rating	Accumulate
TP	1,768
PE	21x
L&T Technology Services	
Rating	Hold
TP	2736
PE	27x
AxisCades Engg. Tech	
Rating	Accumulate
TP	57
PE	8X

Source: Arihant Research

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#### 4QFY21 Preview- Expect a robust Quarter

We expect another robust quarter of growth for IT services companies in a seasonally weak quarter backed by large deal ramp ups and continued spend on digital programs. Deal signings will be robust, and the pipeline will stay healthy. Wage revisions and attrition will be the key factors to watch. **Preferred picks are Infosys, TCS, Coforge and Persistent Systems.**

Accenture reported strong second quarter earnings on 18<sup>th</sup> March fueled by continued growth in new bookings. The tech services firm said its Q2 net income was \$1.46 billion, with non-GAAP earnings of \$2.03 a share on revenue of \$12.1 billion. **(Accenture is listed on the New York Stock Exchange)**

- Meanwhile, the company said consulting revenues for the quarter were up 4% to \$6.44 billion. Outsourcing revenues came to \$5.65 billion, an increase of 14%. Accenture said new bookings for the quarter were \$16 billion, up 13% from a year ago.
- In prepared remarks, Accenture CEO Julie Sweet said the company has returned to overall pre-pandemic growth faster than expected.
- Outlook, Accenture is predicting Q3 revenue of \$12.55 billion to \$12.95 billion. Accenture is raising its guidance for fiscal 2021, and now expects diluted EPS to be in the range of \$8.32 to \$8.50.

**Deal wins:** We have seen large deal announcement like Daimler from Infosys and acquisitions of Postabank / Pramerica units by TCS and Metro AG by Wipro with Postabank / Pramerica contributing in 4Q, first sign of profitability impacts of these deals would be visible. Similarly impact on growth/margins at Infosys from Daimler Deal (~USD 3.2bn based on news flow) should be visible in growth margin guidance.

Resent large deals/acquisitions are mostly onsite –centric and this trend needs to be closely monitored.

**Attrition rate and wage:** We expect attrition rates to move back to pre-Covid levels over the next 9-12 months. IT hiring has picked up considerably and Digital talent supply is constrained Which , leads to a shortage supply of talent in niche digital skills. Wage inflation and higher attrition rates can pose a downside risk to margins in 2HFY22E for selected companies. Large companies will be able to cope-up with this situation better.

**EBIT margin:**

There are no meaningful headwinds in the quarter barring wage revision and a nominal decline in utilization rates. Infosys, LTI and Mindtree have announced wage revisions and will accordingly report EBIT margin decline of 115-180 bps qoq. TCS has already absorbed wage revision in the previous quarter and will accordingly report EBIT margin increase. EBIT margin of Tech Mahindra, LTTS and Mphasis will be stable or increase marginally. All companies will end up with higher EBIT margin on yoy comparison.

**Some Important points to highlight....**

**TCS:** We believe that TCV of deals will be robust aided by core transformation and digital deals. While TCS does not guide, management may express confidence on achieving comfortable double digit growth in FY2022E and sustained profitability. We expect investor focus on FY2022 revenue outlook and outcome of the annual budgeting exercise of clients and its implications for TCS. Longevity and magnitude of opportunity from the aggressive cloud shift by clients. On the other hand decision making time on large deals and supply side strength, magnitude of wage revision and its implications for margins. While longer term impact from changes in delivery model, contractual structures, composition of IT spending to name a few

**Infosys:** We are focusing on (a) deal structure, revenues and profitability dynamics of the Daimler deal, (b) composition of guidance i.e. whether it is front-ended or back-ended, (c) outcome of the annual budgeting cycle and its implications for Infosys, (d) the company's view on IT spending trend in the medium term, (e) long-term sustainable revenue growth. (f) impact on margins from war for talent and the timing of next round of wage revision, and attrition rates.

**MindTree:** Broad based growth across top clients, except a few clients in the Travel vertical and Expect accelerated hiring activity. Outlook on top client performance and deal wins a key monitorable.

**LTTS:** We are expecting strong sequential growth led by traction in ER&D and expect margin to increase on account of strong revenue growth. Commentary around a recovery in ER&D across stressed sectors will be keenly observed and Commentary around deal pipeline and wins remains a key monitorable

**Coforge:** Revenue growth to be driven by BFSI and large deal wins in Healthcare and Margin to remain flattish, company to offer a one-time bonus to employees. Wage hikes to be dispersed in Apr'21. Despite that, the company aims to increase margin in FY22.

**Persistence System:** We are expecting some correction in margin led by one-month wage hike impact and Deal pipeline is healthy and order book is strong for the next couple of quarters.

**HCL Tech:** We expect investor focus on large deal wins. HCLT has disappointed with marginal growth in bookings for 9MFY21 as compared to the corresponding prior period. Capital allocation will be an area of focus. HCLT has disappointed with non-committed pay-out policy. The company did increase quarterly dividend to INR 4/ share from INR 2 earlier though the overall ratio materially lags peers.

We expect investor focus on--large deal wins and win rates especially in light of weak bookings in 9MFY21. Outlook on products business the company has done well in the past six months with reasonable new signings and product growth.

**Tech Mahindra:** We expect to focus on pipeline of large deals and deal wins have been weaker than peers; reasons for the same and corrective measures taken, 5G opportunity and the likely timeframe when it will flow in enabling factors required to bring consistency to performance, attrition rates noting that the company has been harsher than peers in cutting variable compensation and margin performance relative to the band communicated by the management team. Other key things to watch out for, 1) performance of the BPO business; 2) FY22 revenue growth and margin outlook; and 3) Deal intake during the quarter, deal pipeline and deal closure momentum.

## Q4FY21 Earnings Estimates:

INR (Cr.)	Q4FY21E	Q4FY20A	Q3FY21A	YoY	QoQ	Remarks
<b>Tata Consultancy Services</b>						
Net Revenue	46,365	39,946	42,015	16%	10%	We expect strong revenue growth of 10% to be driven by ramp up of Postbank and Prudential Financial deals. These deals will likely contribute ~2% to March 2021 quarter revenues. Outlook on BFSI / Europe where TCS has a higher dependence is another monitorable.
EBIT	10,962	10,025	11,184	9%	-2%	
EBIT Margin	24%	25%	27%	-150bps	-300bps	
PAT	11,796	8,093	8,727	46%	35%	
<b>Infosys</b>						
Net Revenue	31,002	23,267	25,927	33%	20%	We expect Infosys to deliver a top quartile growth backed by strong deal wins (USD12b in 9MFY21, up 63% YoY), justifying its premium valuation. Margin guidance could give a picture of profitability in deals like Daimler, which involve asset/ people takeover.
EBIT	6,742	4,927	6,589	37%	2%	
EBIT Margin	22%	21%	25%	50bps	-370bps	
PAT	5,862	4,380	5,215	34%	12%	
<b>Coforge Limited</b>						
Net Revenue	1223	1109	1191	10%	3%	We Expect Coforge has continued growth momentum in 4Q driven by strong executable order book (up 18% YoY in 3Q) and aided by reversal of discount given to travel vertical clients. Initial signs of revival in travel vertical with indications of wallet-share gains and replication of hunting successes in client mining with scale-up in larger Banking/insurance client where the company has been empanelled in last 12-24 months.
EBITDA	221	198	202	11%	10%	
EBITDA Margin	18%	18%	17%	20bps	110bps	
PAT	138	126	122	9%	13%	
<b>MindTree</b>						
Revenue (CC Terms) (Mn USD)	289	278	274	4%	5%	Mindtree will likely to have a good growth quarter with all verticals, including travel participating. Performance in top client Microsoft (29% of revenue) is important to watch. Traction in annuity deal flow and demand in Travel/BFSI and RCM are key to watch. Indication of wage hikes in FY22E and hiring attrition trends.
Net Revenue	2097	2051	2024	2%	4%	
EBITDA	463	324	468	43%	-1%	
EBITDA Margin	22%	16%	23%	630bps	-100bps	
PAT	262	206	327	27%	-20%	
<b>Persistent Systems</b>						
Revenue (CC Terms) (Mn USD)	144	127	146	14%	-1%	Expect TSU to grow at 6% sequentially, while the Alliance business is expected to show a revenue decline. Deal pipeline is healthy and order book is strong for the next couple of quarters.
Net Revenue	11631	9264	10754	26%	8%	
EBITDA	1494	1269	1825	18%	-18%	
EBITDA Margin	13%	14%	17%	-85bps	-413bps	
PAT	1333	838	1209	59%	10%	
<b>L&amp;T Technology Services</b>						
Revenue (CC Terms) (Mn USD)	192	195	190	-2%	1%	We expect LTTS to deliver strong growth (on lower base) for FY22E, led by a recovery in the ER&D industry.
Net Revenue	15610	14466	14007	8%	11%	
EBITDA	3591	2683	2756.0	34%	30%	
EBITDA Margin	23%	19%	20%	446bps	333bps	
PAT	2690	2063	1869.0	30%	44%	
<b>AxisCADES Technologies</b>						
Net Revenue	209	192	125.5	8%	66%	In defense, there is a lot of potential as many more tender and order participating and government pushes. While Management is expecting double-digit EBITDA Margin growth by FY22.
EBITDA	18	33	17.6	-45%	5%	
EBITDA Margin	9%	17%	14%	-800bps	-500bps	
PAT	12	16	5.5	-28%	113%	

Source: Arianth Research

## Peer Valuation

(Consolidated) (INR Cr.)	TCS			INFY			*HCL Tech		
	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E
Net Sales	1,56,949	1,66,837	1,82,037	90,791	1,05,164	1,17,874	70,676	75,550	85,091
PAT	32,447	34,980	38,586	16,639	20,207	23,428	11,057	16,926	19,665
EBITDAM%/EBIT%	27%	27%	28%	21%	24%	25%	25%	26%	25%
ROE%	41%	30%	33%	25%	27%	27%	24%	23%	22%
PE(x)	38	34	31	36	29	26	25	21	19
EPS(Rs)	86	95	104	39	48	55	41	49	53
MCap		12,15,359			6,00,710			2,80,457	
CMP (Rs)		3265			1411			1028	
Rating		Hold			Accumulate			NA	
TP		3,337			1,543			NA	

(Consolidated) (INR Cr.)	*TechM			*Larsen & Toubro Infotech			MindTree		
	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E
Net Sales	36868	38023	42006	10879	12366	14414	7764	7955.5	9289.6
PAT	3897	6257	7315	1521	1886	2214	631	1055.6	1194.7
EBITDAM%	16%	18%	18%	19%	22%	25%	14%	21%	21%
ROE%	19%	20%	20%	29%	31%	30%	20%	27%	25%
PE(x)	20	19	17	49	39	33	55	33	29
EPS(INR)	49	52	60	87	108	127	38	64	73
MCap		96603			74609			34400	
CMP (INR)		991			4258			2088	
Rating		NA			NA			Hold	
TP		NA			NA			1,806	

(Consolidated) (INR Cr.)	LTTS			Coforge Limited ( NIITech)			Persistent System		
	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E
Net Sales	5619	5570	6393	4184	4624	5425	3566	4238	4734
PAT	822	740	945	468	478	621	340	446	579
EBITDAM%	20%	19%	21%	17%	18%	18%	14%	15%	17%
ROE%	30%	23%	24%	19%	17%	20%	14%	17%	20%
PE(x)	35	40	32	42	41	30	44	33	27
EPS(INR)	78	69	87	71	73	99	44	58	73
MCap		28,992			18,399			14,970	
CMP(INR)		2746			2999			1938	
Rating		Hold			Accumulate			Hold	
TP		2,736			2,778			1,768	

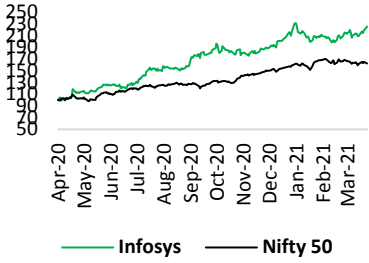
(Consolidated) (INR Cr.)	*Tata Elxsi			*Birlasoft			Axiscades Technologies		
	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E	FY20A	FY21E	FY22E
Net Sales	1610	1783.9	2078.3	3291	3564	3955.3	673	632	663
PAT	256	339.6	406.7	225	307	403	30	21	22
EBITDAM%	21%	28%	32%	12%	14%	15%	14%	11%	11%
ROE%	29%	31%	30%	12%	15%	18%	10%	10%	10%
PE(x)	70	53	45	34	25	19	5	8	7
EPS(INR)	41	55	64	8	11	14	8	6	6
MCap		17,784		7,482			159		
CMP(INR)		2877		270			42		
Rating		NA		NA			Accumulate		
TP		NA		NA			57		

Source: Arihant Research, Company Filings, Bloomberg consensus

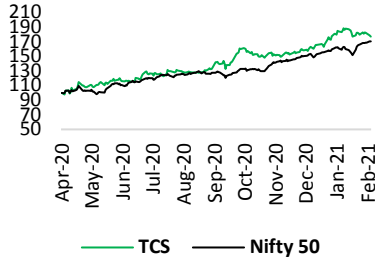
\*Company not under our coverage , Bloomberg consensus

Price Performance - Charts with Nifty Index Comparison

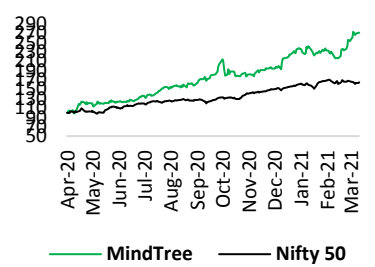
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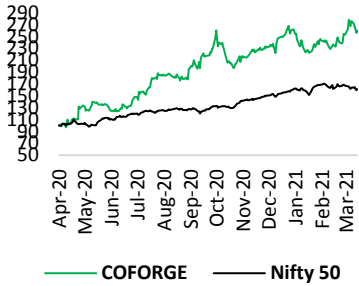
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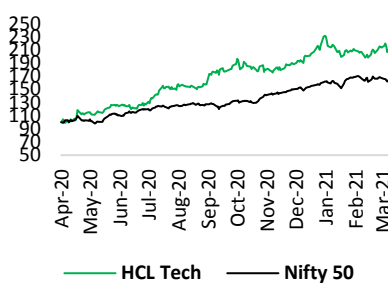
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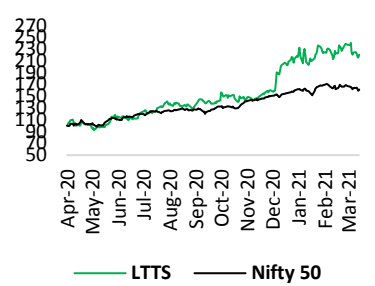
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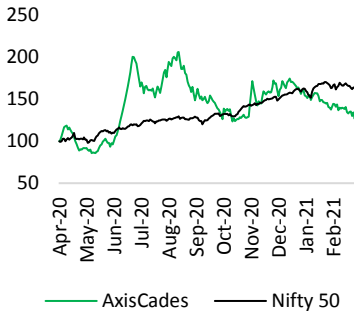
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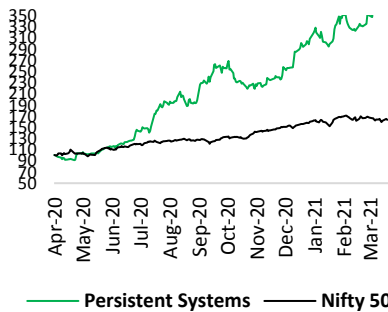
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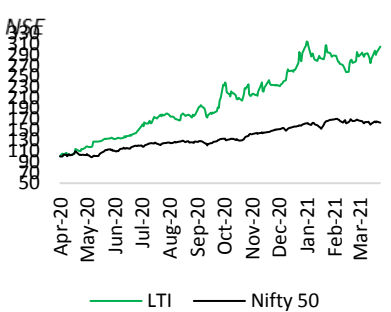
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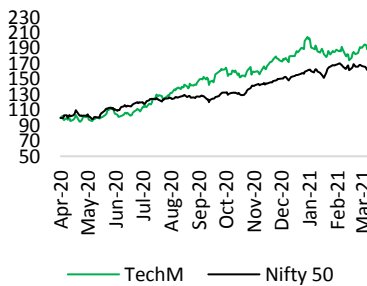
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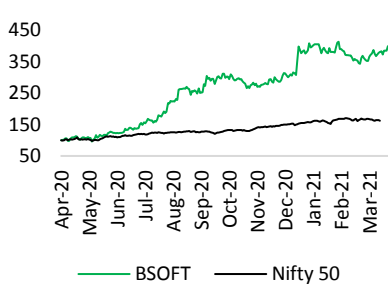
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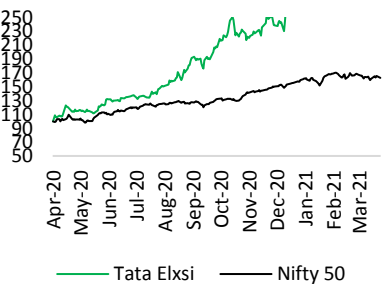
TechM



BSOFT



Tata Elxsi



Source: NSE, Arianth Research

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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%

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