

Arihant Capital values your support in the Asiameoney Brokers Poll 2022 for Institutional Team. We request your ballot

**ASIAMEONEY**

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Tata Consultancy Services	
Rating	Neutral
TP	3,720
PE FY24E	24.2x
Infosys Ltd	
Rating	Neutral
TP	1,659
PE FY24E	21.4x
MindTree	
Rating	Neutral
TP	4,153
PE FY24E	20.4x
Coforge Limited	
Rating	Neutral
TP	3,637
PE FY24E	21.4x
Persistent Systems	
Rating	Neutral
TP	4,173
PE FY24E	28.1x
L&T Technology Services	
Rating	Reduce
TP	3,802
PE FY24E	24.1x
Route Mobile	
Rating	Hold
TP	1,389
PE FY24E	23.4x
Firstsource	
Rating	Accumulate
TP	134
PE FY24E	10.5x
Birlasoft	
Rating	Buy
TP	443
PE FY24E	16.3x

Source: Arihant Research

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### Q1FY23 Preview

IT sector companies are expected to report a steady Q1FY23. However, h some companies are expected to report weak result amid seasonal weakness and pressure in certain business segments, while some companies would clock better growth led by supported by acquisitions. However, deal pipeline is expected to drive modest growth. Margin is likely to stabilize in Coforge backed by a healthy deal pipeline. While TCS, Infosys, Mindtree, Persistent System, and Birlasoft are likely to face margin expansion due to wage hikes and amortization of charges related to an acquisition.

**Revenue.** We expect, tier I company's revenue growth to be narrow range due to seasonal weakness and USD/INR depreciation (2.6% QoQ) is expected to offset it partially.

Revenue for the tier I companies will be in the range of 1-3%QoQ and 10%-17% YoY. Tier-II companies like Persistent, MindTree, and Coforge are expected to report revenue growth of 3%-8% on a QoQ basis and 20%-14% YoY basis. For the tier, III Route Mobile and Birlasoft are likely to report revenue growth of 15%-91% on a YoY basis.

**Margin:** We expect to report muted margin in most companies during the quarter due to higher visa costs, supply-side pressure and attrition should remain at an elevated level. The margin for the tier I companies will be in the -79bps to -121bps range on a QoQ basis. In tier II companies like Mindtree and LTTs are expected to report soft margins on account of wage hikes and travel. Further, in tier III Route Mobile is expected to report a margin expansion of 142bps range on a QoQ basis.

**PAT:** We expect our IT coverage universe to deliver a PAT decline sequentially. TCS/Infosys is expected to report a PAT decline of -1% to 2% QoQ, while growth in the range of 8%-9%YoY respectively. In tier II Persistent is expected to report a PAT growth of 5% on a QoQ basis and 39% YoY basis. For the tier, III Route Mobile and Birlasoft are likely to report PAT growth of 7%-46% on a YoY basis.

**View:** The Information technology sector has corrected notably over the past 6 months, with Nifty IT correcting 28% CYTD against Nifty corrected 10%. The intense de-rating of valuation multiple was due to concerns on deteriorating macro. The stock price correction has largely been due to the de-rating of valuation multiples, as earnings estimates have mostly remained intact or seen major downgrades. Hence, We expect near-term pressure on valuations to continue as the worsening macro. Key things to watch out for in the Q1FY23 will be revenue growth guidance, positive management commentary on the demand environment on the segments, and the pricing environment. We expect healthy deal wins in Q1FY23 backed by accelerated demand for digital transformation and cloud adoption and spending on higher technology.

**Amongst the Tier I, INFY will be our preferred pick and Birlasoft in tier III techs.**

## Q1FY23 Earnings Estimates:

Tata Consultancy Services INR (Mn.)	Q1FY23E	Q4FY22A	Q1FY22A	QoQ	YoY	Remarks
Revenue (CC Terms) (Mn USD)	6769	6696	6154	1.1%	10%	We expect USD revenue to grow 1% QoQ, due to strong quarter offset by cross currency impact.  EBIT margin is expected to decline 121bps QoQ due to wage hike and lower utilization.  Expect reporting TCV contain of mid size and small deals. Key commentary to watch out in Q1FY23 around the long term growth outlook.
Net Revenue	5,08,600	5,05,910	4,54,110	0.5%	12.0%	
EBIT	1,20,780	1,26,280	1,15,880	-4.4%	4.2%	
EBIT Margin	23.75%	25.0%	25.5%	-121bps	-177bps	
PAT	97,240	99,590	90,310	-2%	8%	
Infosys (INR Mn.)	Q1FY23E	Q4FY22A	Q1FY22A	QoQ	YoY	
Revenue (CC Terms) (Mn USD)	4425	4280	3782	3.4%	17%	We expect revenue cc is likely to grow at 3% QoQ offset by 100bps cross currency impact.  EBIT margin is expected to contract by 79bps in Q1FY23 led by wage hike, higher travel cost and lower utilization due to fresher intake.  Key things to watch: steps taken to manage supply-side challenges and available levers to defend margins and demand environment in BFSI, Manufacturing, Retail, and Communications, pricing environment. Deals pipeline and deal closure momentum.
Net Revenue	3,40,330	3,22,760	2,78,960	5%	22%	
EBIT	70,660	69,560	66,030	2%	7%	
EBIT Margin	20.76%	21.55%	23.67%	-79bps	-291bps	
PAT	56,540	56,950	52,010	-1%	9%	
Coforge Limited (INR Mn.)	Q1FY23E	Q4FY22A	Q1FY22A	QoQ	YoY	
Revenue (CC Terms) (Mn USD)	240	232	199.7	3%	20%	We are expecting healthy growth in revenue by 6% QoQ supported by borad based demand momentum  Expect a soft margin on account of wage hikes and travel costs.  The company FY23-24 guidance will be key monitorable.
Net Revenue	18467	17429	14616	6%	26%	
EBITDA	3139	2541	1590	24%	97%	
EBITDA Margin	17.0%	14.6%	10.9%	242bps	612bps	
PAT	1886	2248	1312	-16%	44%	
MindTree (INR Mn.)	Q1FY23E	Q4FY22A	Q1FY22A	QoQ	YoY	
Revenue (CC Terms) (Mn USD)	397	384	311	3.4%	27.7%	Net revenue to grow 3% on QoQ in CC terms offset by 100bps cross currency impacts  The deal pipeline is healthy and demand will be healthy in BFSI, CMT, TTH and HCARE.RCM will see marginally downside in Q1FY23.  The headwind is travel and visa cost. In Q1FY23 will be having the one-time cost of travel and visa costs due to strategy meet.  Key things to watch: steps taken to manage supply-side challenges ,expansion plan in Europe and M&A. Deals pipeline and deal closure momentum.
Net Revenue	30776	28974	22917	6.2%	34.3%	
EBITDA	6167	6083	4645	1.4%	32.8%	
EBITDA Margin	20.0%	21.0%	20.3%	-96bps	-23bps	
PAT	4723	4731	3434	-0.2%	37.5%	

Source: Arianth Research

<b>Persistent Systems (INR Mn.)</b>	<b>Q1FY23E</b>	<b>Q4FY22A</b>	<b>Q1FY22A</b>	<b>QoQ</b>	<b>YoY</b>	
Revenue (CC Terms) (Mn USD)	235	217	167	8%	41%	We expect 8% QoQ CC revenue growth backed by growth to continue, supported by acquisitions (Data Glove, Shree Partners, and SCI).
Net Revenue	18203	16379	12299	11%	48%	
EBIT	2451	2300	1665.0	7%	47%	The company is likely to face margin compression due to visa costs and lower utilizations.
EBIT Margin(%)	13.5%	14.0%	13.5%	-58bps	-7bps	
PAT	2105	2010	1512	5%	39%	All three verticals will see good growth. We expect commentary on the margin side.
<b>L&amp;T Technology Services (INR Mn.)</b>	<b>Q1FY23E</b>	<b>Q4FY22A</b>	<b>Q1FY22A</b>	<b>QoQ</b>	<b>YoY</b>	
Revenue (CC Terms) (Mn USD)	235	232	206	1%	14%	We expect 1% QoQ CC revenue growth, however any deterioration in the demand environment will remain in focus.
Net Revenue	18078	17561	15184	3%	19%	
EBIT	3265	3274	2623	0%	24%	We expect margin contract by 58bps in Q1FY23 due to wage growth and attrition.
EBIT Margin	18.1%	18.6%	17.3%	-58bps	79bps	
PAT	2705	2632	2170.0	3%	25%	key things to watch in Q1FY23 are Deal intake, pipeline and industry Outlook.Demand trends in key sectors outlook.
<b>Route Mobile (INR Mn.)</b>	<b>Q1FY23E</b>	<b>Q4FY22A</b>	<b>Q1FY22A</b>	<b>QoQ</b>	<b>YoY</b>	
Net Revenue	7200	6261	3775	15%	91%	We expect revenue to grow 15% QoQ/91% YoY on the back of better deal momentum.
EBITDA	750	563	455	33%	65%	
EBITDA Margin	10.4%	9.0%	12.1%	142bps	-164bps	EBITDA Margin is likely to expand by 142bps sequentially led by better growth momentum and margin expansion on card from next quarter onward
PAT	500	474	343.0	5%	46%	The company FY23-24 guidance will be key monitorable.
<b>Firstsource Solutions (INR Mn.)</b>	<b>Q1FY23E</b>	<b>Q4FY22A</b>	<b>Q1FY22A</b>	<b>QoQ</b>	<b>YoY</b>	
Revenue (CC Terms) (Mn USD)	197	205	201	-3.9%	-2.0%	We expect revenue to decline on QoQ basis due to impacted by softness in mortgage segments due to high interest rates. The company sees recovery in collection period and increase in delinquency rates.
Net Revenue	14700	15439	14848	-5%	-1%	
EBIT	1623	1750	1800	-7%	-10%	EBIT Margin is likely to decline by 29bps.
EBIT Margin	11.0%	11.3%	12.1%	-29bps	-108bps	Key things to watch out for: a) Business outlook for revenue growth guidance and EBITM guidance, b) Mortgage business outlook on the Origination and the Collections business.
PAT	1160	1324	1337.0	-12%	-13%	
<b>Birlasoft (INR Mn.)</b>	<b>Q1FY23E</b>	<b>Q4FY22A</b>	<b>Q1FY22A</b>	<b>QoQ</b>	<b>YoY</b>	
Revenue (CC Terms) (Mn USD)	147.8	146	128	1.0%	15.1%	We expect 1% QoQ CC revenue growth partially offset by cross currency impact of ~40bps.The subdued growth is mainly due to shift of wins to next quarter and normalizing of revenue in healthcare.
Net Revenue	11410	11014	9453	3.6%	20.7%	
EBIT	1450	1546	1326	-6.2%	9.4%	We expect margin contracted by 133bps in Q1FY23 due to higher travel cost and investment in delivery.
EBIT Margin	12.71%	14.04%	14.03%	-133bps	-132bps	
PAT	1211	1329	1137.0	-9%	7%	key things to watch in Q1FY23 are Deal intake, pipeline and industry Outlook. Demand trends in key sectors outlook.

Source: Aриhant Research

Exhibit 1: Sequential currency movement in June 2022 quarter

Column1	INR/USD	USD/GBP	USD/EUR	USD/AUD	JPY/USD
<b>Depreciation of currencies against the US Dollar</b>					
Mar-22	75.3	1.34	1.12	0.72	117.6
Jun-22	77.5	1.25	1.06	0.71	130.8
<b>Appr/ (Depr) (%)</b>	<b>-2.8</b>	<b>-6.6</b>	<b>-5</b>	<b>-1.7</b>	<b>-10.1</b>

Column1	INR/USD	INR/GBP	INR/EUR	INR/AUD	JPY/INR
<b>Appreciation of the Rupee against other currencies</b>					
Mar-22	75.3	100.9	84.4	54.2	1.6
Jun-22	77.5	97	82.5	54.9	1.7
<b>Appr/(Depr) (%)</b>	<b>-2.8</b>	<b>4.1</b>	<b>2.3</b>	<b>-1.2</b>	<b>7.5</b>

Exhibit 2: YoY currency movement in June 2022 quarter

Column1	INR/USD	USD/GBP	USD/EUR	USD/AUD	JPY/USD
<b>Depreciation of currencies against the US Dollar</b>					
Jun-22	73.8	1.4	1.21	0.77	109.5
Jun-22	77.5	1.25	1.06	0.71	130.8
<b>Appr/ (Depr) (%)</b>	<b>-4.8</b>	<b>-10.6</b>	<b>-12.1</b>	<b>-8.1</b>	<b>-16.3</b>

Column1	INR/USD	INR/GBP	INR/EUR	INR/AUD	JPY/INR
<b>Appreciation of currencies of the Rupee against other currencies</b>					
Jun-22	73.8	103.3	89.2	56.8	1.5
Jun-22	77.5	97	82.5	54.9	1.7
<b>Appr/ (Depr) (%)</b>	<b>-4.8</b>	<b>6.5</b>	<b>8.2</b>	<b>3.5</b>	<b>12</b>

Source: Arian Research

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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