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Infosys Ltd	
Rating	Hold
TP	1,463
PE	27x
Tata Consultancy Services	
Rating	Neutral
TP	3,084
PE	29x
MindTree	
Rating	Hold
TP	2,183
PE	28x
Coforge Limited	
Rating	Accumulate
TP	3,803
PE	33x
Persistent Systems	
Rating	Hold
TP	2171
PE	34x
L&T Technology Services	
Rating	Reduce
TP	2,514
PE	29x

Source: Arihant Research

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1QFY22 Preview- Expect a Good Quarter

We expect another good quarter of growth for IT services companies. Deal intake remains healthy across the industry, driven by a strong demand environment and steady deal closures Deal signings will be robust, and the pipeline will stay healthy. Margin likely to remain under pressure across companies due to wage revisions and attrition will be the key factor to watch. **Amongst the Tier I Infosys will be our preferred pick and Coforge & Persistent Systems in the Tier II techs.**

Accenture continued to outperform as its revenue grew by 16%. YoY in local currency terms as against guidance of 10-13%. Accenture's strong 3QFY21 results and the significant raise in FY21 revenue guidance for the year confirms strong near term momentum that should likely signal a strong 1QFY22 for the offshore techs. **(Accenture is listed on the New York Stock Exchange)**

- Meanwhile, the company has acquired a record 39 innovative companies this year. And done share repurchases of USD 2.9 bn in 9 months.
- The good 3QFY21 results, and the improved FY21 revenue guidance indicates healthy near term momentum that should likely signal a strong growth performance for Indian peers going into 1QFY22 and should reduce concerns on continuation of strong growth that has arisen post the slight 4QFY21 miss.
- The strong net hiring of ~32k employees in 3QFY21 for Accenture, on the back of strong ~22k hiring witnessed in 2QFY21, and the increased attrition (17% in 3QFY21 V/s 12% in 2QFY21, it is in line with historical attrition), could lead to continued demand for talent with niche skills, in line with what has been suggested by Indian IT companies.
- Management commentary on strong pipeline despite the healthy bookings, and sustained demand for shorten transformation lends confidence to medium term growth prospects for Indian peers.

Revenue growth momentum to continue in Q1FY22 due to seasonal strength (higher billing days and uptick in spending after budget allocation), with USD revenue growth of 4%-9% QoQ for Tier-1 & Tier-2 companies. Revenue growth momentum should sustain on the back of broad-based demand, strong deal wins, continued traction in digital and cloud, ramp-up of large deals and demand recovery in highly impacted verticals (travel, hospitality and manufacturing).

Attrition rate and wage: We expect uptick in attrition rates and higher recruitment costs as the war for talent intensifies. Wage inflation and higher attrition rates can pose a downside risk to margins for selected companies (like TCS & Coforge). Large companies will be able to cope-up with this situation better.

Q1FY22 Earnings Estimates:

INR (Cr.)	Q1FY22E	Q4FY21A	Q1FY21A	YoY	QoQ	Remarks
Tata Consultancy Services						
Revenue (CC Terms) (Mn USD)	6204	5989	5059	23%	4%	We expect USD revenue to grow 4% YoY. EBIT margin is expected to decline 134 bps YoY due to wage hikes. During the Q1FY22 key things to watch out for trends of demand in verticals like Manufacturing BFSI, Retail, and Communications. Management commentary on deal intake in Q1, deal pipeline and deal closure momentum. while other things like pricing environment, margin outlook, and supply-side challenges and attrition.
Net Revenue	45,890	43,705	38,322	20%	5%	
EBIT	11,706	11,734	9,048	29%	-0.2%	
EBIT Margin	25.5%	26.8%	23.6%	-134bps	190bps	
PAT	9,543	9,282	7,049	35%	3%	
Infosys						
Revenue (CC Terms) (Mn USD)	3745	3613	3121	20%	4%	We expect Net revenue is likely to grow at 6% QoQ. 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	27,784	26,311	23,665	17%	6%	
EBIT	6,699	6,440	5,365	25%	4%	
EBIT Margin	24.1%	24.5%	22.7%	144bps	-37bps	
PAT	5,527	5,078	4,272	29%	8.8%	
Coforge Limited						
Revenue (CC Terms) (Mn USD)	179	172	140	28%	3.8%	We expect EBITDA margins to decline by 77bps QoQ. We expect net revenue to grow 4% sequentially and Key things to watch out in Q1FY22 are Deal intake during the quarter and growth in deal pipeline, Top client and progress on scaling other major clients, margin outlook.
Net Revenue	1312	1262	1057	24%	4.0%	
EBITDA	208	210	170	23%	-1%	
EBITDA Margin	15.9%	16.6%	16.0%	-18bps	-77bps	
PAT	133	133	80	66%	-0.3%	
MindTree						
Revenue (CC Terms) (Mn USD)	303	288	253	20%	5%	We expect 5% QoQ CC revenue growth with flat cross-currency movements, Net revenue to grow 7% on QoQ. We expect EBIT margins to decline by 110bps QoQ due to lower utilization, salary hikes for senior management, and the cost of hiring. Key things to watch for Performance in a top client is important to watch and Outlook on key verticals like BFSI, Hitech, Travel, and CPG.
Net Revenue	2251	2109	1909	18%	7%	
EBITDA	446	463	322	38%	-4%	
EBITDA Margin	19.8%	22.0%	16.9%	293bps	-215bps	
PAT	299	317	213	40%	-6%	
Persistent Systems						
Revenue (CC Terms) (Mn USD)	162	153	131	24%	6%	We expect 6% QoQ CC revenue growth with flat cross-currency movements. We expect EBIT margins to expand 33bps QoQ aided by healthy operating leverage and completion of deal-related amortization expense from this quarter. key things to watch in Q1FY22 are Deal intake & pipeline. Demand trends in key sectors like BFSI, Healthcare and Technology verticals, attrition uptick, and margin outlook.
Net Revenue	1191	1113	991	20%	7%	
EBITDA	205	188	146.0	41%	9%	
EBITDA Margin	17.2%	16.9%	14.7%	249bps	33bps	
PAT	154	138	90	71%	11%	
L&T Technology Services						
Revenue (CC Terms) (Mn USD)	209	198	171	22%	5.6%	We expect 5.6% QoQ CC revenue growth with flat cross-currency movements. Expect EBIT margins to decline 205bps sequentially. Key things to watch in Q1FY22 are Deal intake & pipeline. Demand trends in key sectors outlook. Attrition & sub-contracting and commentary on supply-side factors
Net Revenue	1526	1441	1295	18%	5.9%	
EBITDA	279	293	206	35%	-4.8%	
EBITDA Margin	18.3%	20.3%	15.9%	238bps	-205bps	
PAT	202	195	118.0	71%	3.6%	

Source: Arianth Research

Recent Deal Wins:

TCS: Current deal wins by; 1) TCS has expanded its strategic partnership with Royal London to Transform its Pensions Platform and Improve Customer Experience. 2) TCS Helps Wiley Improve Customer Experience and Boost its Online Business. 3) TCS Recognized as a Leader in Gartner Magic Quadrant for Worldwide SAP S/4HANA Application Services. 4) SonyLIV Enters into Strategic Partnership with TCS to Transform Customer Experience and Drive Growth. 5) Modernize ecommerce platform with SAP Commerce. 6) TCS Partners with LACChain to Develop a Blockchain Ecosystem in Latin America and the Caribbean.

Infosys: Recent deal wins by Infosys ;1) Infosys Positioned as a Leader in Gartner Magic Quadrant for Data and Analytics Services 2021. 2) Infosys Finacle Announces Digital Banking SaaS offering for Urban Cooperative Banks in India. 3) Infosys Finacle Announces Digital Banking SaaS offering for Urban Cooperative Banks in India. 4) Infosys Collaborates with the Centre for Accessibility to Inspire Better Digital Access for All.

MindTree: Partnered with Duck Creek to improve customer experience for UPC Insurance customers.

LTTS: Partnership to deliver end-to-end 5G automation services with Mavenir, the Network Software Provider building the future of networks with cloud-native software that runs on any cloud.

Persistence System: Persistent Systems and IBM Deepen Collaboration to Accelerate Hybrid Cloud Adoption in the Enterprise.

View: Demand environment remains healthy in Broder manner as progress on vaccination and unlock will lead to recovery in some of the highly impacted verticals like travel, hospitality, and manufacturing. We are positive on the demand outlook in IT services whereas higher recruitment costs as the war for talent intensifies are likely to weigh in on margins. We expect a healthy deal wins in 1QFY22 backed by accelerated demand for digital transformation and cloud adoption and spending on higher technology due to improving economic outlook in the US.

Valuation

(Consolidated) (INR Cr.)	TCS			INFY			MindTree		
	FY21A	FY22E	FY23E	FY21A	FY22E	FY23E	FY21A	FY22E	FY23E
Net Sales	1,64,177	1,90,002	2,05,972	1,00,472	1,14,886	1,27,760	7968	9263	10356
PAT	32,562	39,060	42,378	19,423	22,834	24,935	1111	1354	1486
EBITDAM%	28%	28%	28%	24.5%	25.3%	25%	20.6%	20.9%	20.3%
ROE%	37%	42%	43%	25%	25%	24%	25.7%	25.5%	21.6%
PE(x)	37	31	29	34	29	27	38	31	28
EPS(Rs)	87	105	114	45.6	53.6	58.5	67	82	90
MCap		12,06,741			6,65,695			41872	
CMP (Rs)		3262			1562			2542	
Rating		Neutral			Hold			Hold	
TP		3,084			1,463			2,183	

(Consolidated) (INR Cr.)	LTTS			Coforge Limited			Persistent System		
	FY21A	FY22E	FY23E	FY21A	FY22E	FY23E	FY21A	FY22E	FY23E
Net Sales	5450	6102	6751	4663	5522	6521	4188	4986	5818
PAT	667	809	1109	466	628	778	451	556	695
EBITDAM%	18.5%	18.3%	19.5%	16.7%	18.0%	18.3%	16.3%	16.3%	17.0%
ROE%	19.1%	20.0%	22.4%	19.2%	21.2%	21.3%	16%	18%	20%
PE(x)	46	39	29	56	41	33	49	41	34
EPS(INR)	63	74	101	75	102	127	59	70	86.8
MCap		30,398			25,410			22,267	
CMP(INR)		2894			4193			2914	
Rating		Reduce			Accumulate			Hold	
TP		2,514			3,803			2,171	

Source: Aриhant 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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