

### L&T Technology Services Ltd (LTTS)

**CMP INR 3,684 | Market Cap INR 401,890 Mn | Rating: Neutral**

- 6 big bets are helping LTTS win deals discussed the domain controller in EACV, the digital thread in Digital Manufacturing, and the Energy & Sustainability Manager in Sustainability.
- **Demand:** Deal pipeline remains strong. However, there are signs of demand softness in sectors such as Telecom and Medical Devices where clients are watchful of evolving macroeconomic situations.
- **Guidance:** The revenue growth guidance of 15.5%-16.5% in cc terms takes into account seasonally weak Q3.
- **Revenue run rate:** The aim is to achieve a \$1.5bn revenue run rate by FY25.
- The company is looking for M&A in the mid-range and the segment like new-age technology.
- **Geography:** US is on the major R&D side and top contributor to the company and the current macroeconomic situation is a concern.
- **EBIT Margin:** The aim is to maintain an EBIT margin of <18% in the medium term.
- There were dips in offshore revenue mix in the quarter due to certain large deal ramp-ups. It will take a few quarters more when 5G-related deals pick up for LTTS.
- **Client:** The client business traction is muted compared to last year.
- **Outlook:** The company is seeing a strong deal pipeline. However, there are signs of demand softness in sectors such as telecom and Medical Devices where clients are watchful of evolving macroeconomic situations. Also, client business traction is muted as compared to last year. At a CMP of INR 3,684, LTTS is trading at a P/E of 27x to its FY25E EPS of INR 136.8.

### Coforge Ltd-Concall Highlights

**CMP INR 3,884 | Market Cap INR 237,230 Mn | P/E: 24x (FY24E)**

- Q3FY23 will be a steady quarter as furlough will be higher but it will be in a similar range as compared to Q3FY22. USD revenue should see growth approx. 3% as compared to 3.4% in Q2FY23.
- **Margin:** In Q3FY23E, should see margin improvement by 50-60bps largely driven by deal wins.
- **Budget:** The company is following up the bottom-up approach. The budget is stable with more clarity to come in the month of January.
- **Guidance:** The company continues maintaining the annual revenue growth guidance of at least 20% in constant currency terms, and adjusted EBITDA margin guidance in the range of 18.5% to 19% for FY23.
- **Segment:** The company is seeing macroeconomic concerns on the BFSI side but due to good deal win in that segment, company will see better Q3& Q4FY23. Insurance will see traction as they hired top management for the segment and won a few deals too. Travel and transportation are doing pretty decent and contribute to 17-18% of revenue. We will see increasing contributions going forward.
- **Attrition:** The attrition dropped down by 160 bps to 16.4% in Q2FY23. There should be more downside on that front.
- **Onsite & offshore:** Near-term deviation will be in the range of 2% and continue to win large deals, onsite is slightly elevated and as continue to win large deals so offshore numbers should increase.
- **View and outlook:** We are not seeing any change in client budgets, but there is some delay in decision making. Overall we do not expect any concern in terms of Coforge's customers but there are macroeconomic concerns. Deal wins are also steady. BFS and travel should do better in Q3FY23. At CMP of INR 3,884 stock is trading at 24x on its FY24E EPS of INR 165.3. We have a Hold rating on the stock with a price of INR 4,133.

## Route Mobile

**CMP INR 1216 | Market Cap INR 7,53,30 Mn | PE:20x (FY24E)**

- Q3FY23E, expect 12-13% revenue growth and similar margin as compared to Q2FY23 ~12%.
- The company is winning deals, revenue guidance was upped to 60% from 40% earlier for full year FY23.
- Across the board BFS and e-commerce seeing weakness due to reduction in transactions as a macroeconomic concern but Volume is increasing in (CPaaS) other use cases.
- **App launch:** Company is focusing on an app where it can minimize frauds by authenticating Aadhar via SIM Card. Although it is still a work in progress.
- **View & Outlook:** Route mobile has consecutively reported good set of numbers for past few quarters and in Q3FY23E also expected to deliver good set of numbers (since Q3 is the strongest quarter). We have a Target Price of INR 1,631 with the Accumulate rating on the stock.

## Tech Mahindra Ltd

**CMP INR 1,016 | Market Cap INR 9,84,295 Mn | PE:22.4x (TTM Basis)**

- The revenue growth is expected to remain flattish in Q3FY23E.
- Margin expected to remain flat in the quarter (due to macroeconomic headwinds).
- **Geography:** Slowdown seen in the Europe region (Contributing revenue of 25.5% in Q2FY23) and APAC (ROW revenue of 24.9% in Q2FY23) and America (contributing revenue of 49.6% in Q2FY23).
- Q3FY23 expected to be a weaker quarter but will see growth on a YoY basis due to high furlough and Macroeconomic concerns.
- **View:** Overall, expects flat Q3FY23E due to macroeconomic concern and delay in client decision making. At a CMP of INR 1,016, the stock is trading at 22.4x (TTM Basis).

## Persistent System Ltd

**CMP INR 3,871 | Market Cap INR 2,91,874 Mn | PE:22.7x (TTM Basis)**

- USD revenue growth expected to be 2.75% and cc revenue growth expected in the range of 3.25% to 3.5% in cc term due to higher rentals INR exposure. Most of revenue recognition is in INR.
- Margin expected to remain flat in this quarter as furlough is high due to some BFS and Tech customers during December don't have much billing and work but cost remain in the book as the company has to pay the employee. Currency and high utilization will offset the furlough impact so the net should be flattish.
- The growth should come from the Software and Hi-tech (vertical Mix of 46.40%) where the company is doing decent.
- The company revenue contribution is 78.4% from North America and Europe 8.5%. The company is looking to increase its revenue contribution in Europe and other geographies. So, can expect some better growth on the Europe front like 12-15% revenue contribution going forward.
- **Orders:** The company is having good deal wins during the quarter and will see a high growth trajectory in QFY23.
- **View:** Overall, expects flat Q3FY23E due to high furlough but expects strong Q4FY23E. **At a CMP of INR 3,871, the stock is trading at 22.8x (FY25E).**

## Firstsource Solution Ltd

**CMP INR 102 | Market Cap INR 70,884 Mn | PE: 12.1x (FY25E)**

- Q3FY23E revenue growth should be flattish both on sequentially and annually primarily due to pressure on the mortgage business and unique situation in the collection market and some deal delays in the healthcare market.
- **EBIT Margin** should stick in the range of 8.5% to 9%. Overall macro environment further deteriorated and the interest rates increased much faster which continues to impact the business. It may also impact the margin.
- The company expects to normalize its operating margin in Q4FY23E and the growth after H1FY24. The strategy remains investment in core and delivery of consistent growth and building a more balanced portfolio.
- **Industry:** BFS will see a continued decline, the mortgage industry outlook is continuing to worsen due to aggressive fed rate hikes to counter inflation and the sharp downward movement of housing, and the collapse of the re-financing market.
- **CMT:** This segment should see de-growth in single digits as the business is cool down.
- **Healthcare:** should see degrowth and expect to record better deals Q1 onwards.
- Delinquency at a slower pace despite rapidly rising interest rates is primarily a very low employment rate and the strongest household balance sheet in USSC last for the year.
- **View:** Overall, Q3FY23E is expected to be flattish compared to Q2FY23 as a growth washout due to the mortgage business. **At a CMP of INR 102, the stock is trading at 12.1x (FY25E). We have reduce the rating on the stock.**

## Birlasoft Ltd

**CMP INR 299 | Market Cap INR 81,792 Mn | PE: 10.9x (FY25E)**

- Birlasoft appoints Angan Guha as its CEO and MD, effective December 1, 2022. Angan joins the Birlasoft Board as a full-time Director and will be based in the US. Angan joins Birlasoft from Wipro, where he was the chief executive officer for the Americas 2 Strategic market unit and served on its executive board and group executive council. He has extensive experience leading large transformational engagements and building strong global teams.
- **Verticals:** Among the verticals, life science is sluggish due to 1-2 client drops which is causing a drag. Other segment like Manufacturing & BFS are doing better.
- **Revenue:** Overall top line should see flattish growth in Q3FY23E due to high furlough. Margin should see decline approx. 70-80 bps due to the last leg of the wage hike and also some hiring on the top management front.
- **View:** We are expecting weaker Q3FY23E due to high furlough and the last leg of wage hike but should see the strongest Q4FY23E led by a decent deal. We are expecting 10-11% growth in FY23E. **At a CMP of INR 299, the stock is trading at 10.9x (FY25E). We have a Buy rating on the stock with a target price of INR 429.**

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> 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
<b>INH000002764</b>	<b>SMS: 'Arihant' to 56677</b>	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:instresearch@arihantcapital.com">instresearch@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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