# Guidance for FY25 is in focus

| Companies | Rating (Q4FY24) | CMP | TP |
|---|---|---|---|
| | | (INR) | (INR) |
| **TCS** | Hold | 3,964 | 3,997 |
| **INFY** | Accumulate | 1,476 | 1,705 |
| **Coforge** | Buy | 5,899 | 5,611 |
| **Persistent Systems** | Buy | 4,751 | 4,377 |
| **LTTS** | Reduce | 5060 | 4,160 |
| **Route Mobile** | Hold | 1,771 | 1,689 |
| **FSL** | Accumulate | 233 | 238 |
| **Birlasoft** | Hold | 717 | 716 |
| **ADSL** | Buy | 224 | 229 |
| **AXISCADES** | Accumulate | 585 | 637 |

Q1FY25 is anticipated to start with moderate performance, mainly due to declining enterprise sentiment and reluctance to resume discretionary programs amidst challenging economic conditions. The IT sector, particularly Tier-1 companies, is projected to see a median revenue growth of 0.8% QoQ in constant currency for Q1, a slight improvement compared to a 0.6% decline in Q4. Margins are expected to be stable, with a median improvement of 20bps QoQ. While major currencies remained relatively stable, the Euro and Pound Sterling strengthened against the US Dollar by 0.9% and 0.5% respectively, slightly affecting reported growth but not significantly.

Revenue growth in Q1 is likely to be driven by specific sectors or a few large deals that have been pending rather than a widespread recovery across the industry. The broader trend among enterprises to cut costs and enhance productivity persisted through Q1, with critical functions prioritized over discretionary programs. However, some sectors, such as BFSI and Communications, showed a slight increase in discretionary spending, though this is not seen as a sustainable trend. Therefore, no changes are expected in the full-year guidance for Infosys and Persistent. Margins for Q1 are expected to be modest, with a median increase of 20bps, due to several factors: higher visa costs following a fee increase for US H-1B visas, weak growth impacting operating leverage, initial costs from large deal ramp-ups, and the implementation of variable pay for select employees.

**Margin**

Employee attrition in the IT sector is decreasing, boosting operational efficiency. Companies are improving their workforce structure, cutting subcontracting costs, and implementing other measures to enhance margins. For the quarter, operating margins will vary due to wage hikes, seasonal factors, and higher visa costs. Tier-1 IT companies may see EBIT margins shift from +92 to -166 basis points QoQ, while Tier-2 companies could experience a range from +142 to -67 basis points QoQ.

We anticipate Infosys and TCS to achieve strong QoQ revenue growth of 2.0% and 1.2% in constant currency, while HCLT is expected to see a 2% decline, as previously guided. LTIM is projected to grow by 2%, with TechM and Wipro remaining flat. Among mid-tier firms, Persistent is expected to lead with ~5% growth driven by healthcare deals, Coforge to grow by 1.5%, and Mphasis by 1%. Cyient might have a weak quarter, potentially jeopardizing its FY25 guidance, with minimal cross-currency impact expected across the board.

**View**

**For FY25, we anticipate a positive trend due to the low base of FY24, growing interest in generative AI projects, a focus on operational efficiency, and the ramp-up of recently signed deals. A potential US Fed rate cut in CY24 will further benefit the IT sector. Select Tier-2 IT companies are expected to outperform Tier-1 companies in Q1FY25, driven by superior execution and strong performance in key sectors. We prefer TCS and Infosys; while among tier 2 IT companies, we prefer Coforge & Persistent and tier 3 companies, we prefer ADSL & Allsec.**

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

| Tata Consultancy Services INR (Mn.) | Q1FY25E | Q4FY24A | Q1FY24A | QoQ | YoY | Remarks |
|---|---|---|---|---|---|---|
| Revenue (CC Terms) (Mn USD) | 7455 | 7363 | 7226 | 1.2% | 3% | Revenue growth will be driven by the ramp-up of deals in BFSI, Retail, and the BSNL deal. Expect a dip in sequential EBIT margin due to a wage hike effective from April 1. Management's outlook on the demand environment is crucial to watch. |
| Net Revenue | 6,21,980 | 6,12,370 | 5,93,810 | 1.6% | 4.7% | |
| EBIT | 1,52,345 | 1,59,180 | 1,37,550 | -4.3% | 10.8% | |
| EBIT Margin | *24.49%* | *26.0%* | *23.2%* | -150bps | 133bps | |
| PAT | 1,21,040 | 1,24,340 | 1,10,740 | -2.7% | 9.3% | |
| **Infosys (Mn.)** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Revenue (Mn USD) | 4650 | 4564 | 4617 | 1.9% | 0.7% | Sequential growth will improve due to recent deal ramp-ups. Expect a 39 bps QoQ increase in EBIT margin due to the resolution of a one-off client issue from Q4FY24. |
| Net Revenue | 3,88,110 | 3,79,230 | 3,79,333 | 2.3% | 2.3% | |
| EBIT | 79,500 | 76,210 | 78,910 | 4.3% | 1% | |
| EBIT Margin | *20.48%* | *20.1%* | *20.8%* | 39bps | -32bps | |
| PAT | 66,200 | 79,690 | 59,390 | -16.9% | 11% | |
| **Coforge Limited** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Revenue (CC Terms) (Mn USD) | 291 | 287 | 271.8 | 1.5% | 7.1% | Updates on the Cigniti acquisition are key. Sequential EBIT margin is expected to decline due to high visa costs and a slight drop in utilization. |
| Net Revenue | 24234 | 23585 | 22210 | 2.8% | 9.1% | |
| EBIT | 3255 | 3405 | 2572 | -4.4% | 26.6% | |
| EBIT Margin | 13.4% | 14.4% | 11.6% | -101bps | 185bps | |
| PAT | 2300 | 2237 | 1658 | 2.8% | 38.7% | |
| **Persistent Systems** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Revenue (CC Terms) (Mn USD) | 326 | 311 | 256 | 4.82% | 27.54% | We expect consistent ~5% QoQ revenue growth for PSYS, propelled by broad-based vertical growth. However, we expect a 67bps QoQ EBIT margin decline due to high visa cost. Monitoring FY24 demand outlook, margin strategies, top client growth, deal wins, and hiring/attrition trends. |
| Net Revenue | 27200 | 25905 | 21694 | 5.00% | 25.38% | |
| EBIT | 3750 | 3744 | 3332.0 | 0.16% | 12.55% | |
| EBIT Margin(%) | 13.8% | 14.5% | 15.4% | -67bps | -157bps | |
| PAT | 3040 | 3153 | 2380 | -3.6% | 27.7% | |
| **L&T Technology Services** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Revenue (CC Terms) (Mn USD) | 302 | 288 | 280 | 4.9% | 7.9% | |
| Net Revenue | 25234 | 25345 | 23014 | -0.4% | 9.6% | Revenue is expected to remain flat sequentially due to seasonality. Anticipate a decline in sequential EBIT margin because of large deal ramp-ups. |
| EBIT | 4290 | 4355 | 3954 | -1.5% | 8.5% | |
| EBIT Margin | 17.0% | 17.2% | 17.2% | -18bps | -18bps | |
| PAT | 3466 | 3566 | 3121 | -2.8% | 11.1% | |
| **Route Mobile** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Net Revenue | 10950 | 10170 | 9673 | 7.67% | 13.20% | We expect revenue to grow QoQ due to strong deal momentum EBITDA Margin is likely to expand by 47bps sequentially led by better growth momentum.Key thing would watch for 1) Outlook on large deal, 2) outlook on the client budget, 3) outlook for the next quarter. |
| EBITDA | 1402 | 1254 | 1232 | 11.80% | 13.80% | |
| EBITDA Margin | 12.8% | 12.3% | 12.7% | 47bps | 7bps | |
| PAT | 1041 | 952 | 916.9 | 9.4% | 13.5% | |
| **Firstsource Solutions** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Revenue (USD) | 205 | 201 | 186 | 2.0% | 10.2% | Expect USD revenue growth of 2% QoQ led by improved traction in Healthcare/CMT. Expect margin to expand by 7 bps QoQ. Key Monitorable: Outlook on Recovery of Collection/Provider Volumes and bilable will increase. |
| Net Revenue | 17101 | 16700 | 15290 | 2.4% | 11.8% | |
| EBIT | 1886 | 1830 | 1789 | 3.1% | 5.4% | |
| EBIT Margin | 11.03% | 11.0% | 11.7% | 7bps | -67bps | |
| PAT | 1399 | 1335 | 1259.0 | 5% | 11% | |
| **Birlasoft** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Revenue (Mn USD) | 166.0 | 163.9 | 154 | 1.3% | 8.1% | Expecting growth 1.3% QoQ due to tailwinds BFSI. Cloud, Data analytics and ERP are key drivers of growth. Margin expcect to expand by 13bps due to no wage hike in Q1FY25. |
| Net Revenue | 13800 | 13625 | 12628 | 1.3% | 9.3% | |
| EBIT | 2050 | 2006 | 1717 | 2.2% | 19.4% | |
| EBIT Margin | *14.86%* | *14.72%* | *13.60%* | 13bps | 126bps | |
| PAT | 1660 | 1801 | 1375.4 | -7.8% | 20.7% | |
| **ADSL** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Net Revenue | 1900 | 1768 | 1690 | 7.5% | 12.4% | Expecting decent growth in Q1FY25 on the back of good deal wins. Margin will impact due to investment on the employee side and new centre in new location. |
| EBITDA | 254 | 243 | 178 | 4.5% | 42.7% | |
| EBITDA Margin | *13.37%* | *13.74%* | *10.53%* | -38bps | 284bps | |
| PAT | 146 | 141 | 85.9 | 3.5% | 69.8% | |
| **Axiscades** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Revenue (USD) | 31.5 | 31.00 | 26.20 | 1.6% | 20.2% | Expecting decent growth in Q1FY25 on the back of good deal wins. Key thing would watch for 1) Outlook on large deal, 2) outlook on the client budget, 3) outlook for the next quarter. |
| Net Revenue | 2560 | 2556 | 2136 | 0.2% | 19.9% | |
| EBITDA | 334 | 323 | 329 | 3.4% | 1.5% | |
| EBITDA Margin | 13.0% | 12.6% | 15.4% | 41bps | -236bps | |
| PAT | 88.60 | 89.92 | 56.6 | -1.5% | 56.6% | |
| **Allsec Technologies** | **Q1FY25E** | **Q4FY24A** | **Q1FY24A** | **QoQ** | **YoY** | |
| Net Revenue | 1298 | 1297 | 1075 | 0.0% | 20.7% | We expect revenue to grow YoY, driven by strong growth in EXM and CXM at 20% each. Management's outlook on the demand environment is crucial to watch. Seasonally, Q4 is strong for the company. |
| EBITDA | 312 | 354 | 245 | -12.1% | 27.0% | |
| EBITDA Margin | 24.0% | 27.3% | 22.8% | -331bps | 120bps | |
| PAT | 180.93 | 207.30 | 157.7 | -12.7% | 14.7% | |

**Recent Interaction with the Management**

**Infosys:** The demand environment remains stable across various sectors and geographies, with no significant shifts observed. In Europe, while the recent rate cut has generated a wave of cautious optimism, the market remains under pressure. However, the company has managed to secure balanced deal wins across both the US and European markets. Notably, Europe has demonstrated a strong performance with several large deals closed during the quarter.
In Q1 FY25, the absence of any one-off events marked a departure from previous quarters. Conversely, the BFSI and Telecom sectors saw a decline in Q4 FY24. Project Maximus continues to perform well, now completing its first year. The company has reaffirmed its margin guidance of 20-22%, with a strategic focus on enhancing margins through the ramp-up of large deals and the integration of Generative AI technologies.
The hiring strategy remains cautious and highly selective, concentrating on acquiring niche skills with minimal new hires. Additionally, there is an anticipated increase in utilization rates by 1-2% over the upcoming quarters.
On an industry level, the investment in Generative AI is substantial, with approximately $10-12 billion already allocated, indicating a rapid pace of technological evolution. However, the retail sector remains underweight, reflecting ongoing challenges and a conservative approach to expansion.

**TCS:** The demand environment remains similar to Q4 FY24, with no significant changes. However, there is growing optimism as deal wins pick up, especially in North America, Europe, and the UK, which are experiencing good deal momentum. Despite this, challenges persist, including delays in decision-making within the Telecom sector and its slower recovery. The automotive sector, supported by the General Motors acquisition, is seeing a surge in deals, enhancing capabilities in EV and manufacturing.

Margins are expected to face pressure in Q1 FY25 due to wage hikes, although long-term margins are targeted at 26-28%, with potential benefits from increased utilization. Pricing is anticipated to improve as discretionary spending stabilizes. The industry is also addressing technology debt and advancing cloud migration. The order book for Q1 is robust, reaching a record high of $52.7 billion, a >25% YoY growth, providing a strong outlook. Despite client caution, the historical IT downturns typically last 5-6 quarters, suggesting a possible rebound as we approach the end of the 5th quarter.

**Tech Mahindra:** Communication sector weakness persists due to cyclicality, resulting in the weakest Q1 performance. Non-communication sectors are expected to remain flat to marginally improved. There is potential for marginal expansion in margins, with similar operational patterns as previously seen, aiming for around $100 mn.

**Route Mobile:** Expects Q1FY25 top-line growth of 7-8% QoQ and double-digit YoY growth, with margins projected between 12.5% to 13%. PAT is expected to range between 7% and 10%. Recently, the company announced a strategic partnership with Microsoft and Proximus Group, spanning 5 years with expected annual revenues of $380 mn, translating to ~ $66 mn per year, with Route Mobile's share being 20%.

**Persistent:** We expect a 5% growth in USD revenue, primarily driven by the healthcare sector, followed by BFSI, while Hitech is projected to experience steady growth. Margins will be impacted by a one-time visa cost and the ramp-up in large deal wins, which will have a short-term effect due to increased onsite requirements but are expected to balance out positively in the long term through cost savings.
The booking outlook is decent for both LCV and TCV. Headcount is expected to remain flat to slightly negative, leading to higher utilization as hiring is limited, with a focus on maintaining billability. Organizationally, the headcount is stable, and geographically, performance is decent.

**Recent Interaction with the Management**

B**irlasoft:** In Q1FY25, we anticipate a rebound following weakness in Q4, with no confirmed wage hike yet. Continued investment in employee hiring has resulted in some one-off expenses. The company aims to maintain margins within the 15.6-16.5% range, potentially expanding by 50-60 basis points. Deal wins are satisfactory, particularly in the BFSI sector, with positive signs in ROW markets.

**FSL:** The collection services sector is experiencing positive momentum, driven by record-high credit card spending and rising delinquencies, boosting client acquisition. While competition is intensifying in healthcare, the company has secured new deals and is targeting further client additions, especially in RCM. Offshore RCM services are gaining traction, contributing to this growth. Following the lifting of the PHE, government revenue has ceased, yet the company is focusing on reducing costs and enhancing operational efficiency.
Geographically, Europe shows strong traction, while the US market remains steady. Notably, the company's market share in the UK has increased to 34%, reflecting a solid foothold and growth in that region.

**ADSL**
Due to the recent 2024 Lok Sabha elections in India, activity was low, but it has started to pick up from June post-election results.

Most of the billing is expected to come in Q2 and Q3 of FY24. The company is opening a new center in Abu Dhabi, so expenses will be reflected in the books. Customers are taking time in decision-making, but the company remains optimistic about new deal wins.

The election is expected to slightly contract margins in Q1, but improvement is anticipated in Q2 and Q3 of FY24. In Abu Dhabi, the company has already received two significant orders from the Dubai government. Additionally, the company has received one smaller RFQ post-election.

While large deals are taking longer to close, smaller deals are closing faster. The company expects margins in the mid-teens and is targeting a top line of INR 1,000 crore in the near term. There are several large deals in the pipeline.

In FY24, uncertainties from the Russia-Ukraine situation have led some customers in aggressive sectors to cut losses. The company's revenue mix is 65% global and 35% domestic, and this is expected to increase. Most realizations will come in Q2 and Q3 from Pune, Thane, and Panvel over almost 30 quarters. For Abu Dhabi, expenses for 10-15 days will appear in Q1FY25, with the remainder in Q2FY25.

In Europe, there is significant traction and good deal wins. The company has also hired a senior person in Europe to enhance its reach. Regarding execution, the company has added 100 new cities, received many smaller RFQs, such as for railway and metro projects, and subcontracting for CCTV. The company prefers larger smart city projects, with deal sizes ranging from INR 80-500 cr, while smaller deals range from INR 10-25 cr. Once the situation improves, the company will start negotiating price increases with clients.

## Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

| Head Office | Registered Office |
|---|---|
| #1011, Solitaire Corporate Park<br>Building No. 10, 1st Floor<br>Andheri Ghatkopar Link Road<br>Chakala, Andheri (E)<br>Mumbai – 400093<br>Tel: (91-22) 42254800<br>Fax: (91-22) 42254880 | 6, LAD Colony<br>Y N Road<br>Indore-452001<br>Tel: (91-731) 4217100<br>Tel: (91-731) 4217101 |

| 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 |



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