ArihantCapital
Generating Wealth

8th April 2024

IT Services_ Q4FY24 Preview

Persistent demand weakness continues

Companies	Rating (Q3FY24)	CMP (INR)	TP (INR)
TCS	Hold	3,964	3,997
INFY	Accumulate	1,476	1,705
Coforge	Accumulate	5,682	7,292
Persistent Systems	Hold	3,875	4,393
LTTS	Accumulate	5,715	6,152
Route Mobile	Accumulate	1,615	1,819
FSL	Buy	200	254
Birlasoft	Accumulate	688	734
ADSL	Buy	150.5	229

Tata Consultancy Services INR (Mn.)	Q4FY24E	Q3FY23A	Q4FY23A	QoQ	YoY
Revenue (CC Terms) (Mn USD)	7386	7281	7195	1.4%	3%
Net Revenue	613,710	605,830	591,620	1.3%	3.7%
EBIT	157,160	151,550	144,880	3.7%	8.5%
EBIT Margin	*25.61%*	*25.02%*	*24.5%*	59bps	112bps
PAT	121,010	110,970	113,920	9%	6%
Infosys (Mn.)	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Revenue (CC Terms) (Mn USD)	4730	4663	4554	1.4%	4%
Net Revenue	392,750	388,210	374,410	1.2%	5%
EBIT	81,400	79,610	78,770	2.2%	3%
EBIT Margin	*20.73%*	*20.51%*	*21.04%*	22bps	-31bps
PAT	61,470	61,060	61,340	0.7%	0%
Coforge Limited	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Revenue (CC Terms) (Mn USD)	290	282	264.4	2.8%	10%
Net Revenue	24060	23233	21700	4%	11%
EBIT	3110	3201	3359	-3%	-7%
EBIT Margin	12.9%	13.8%	15.5%	-85bps	-255bps
PAT	2733	2380	1148	15%	138%
Persistent Systems	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Revenue (CC Terms) (Mn USD)	310	301	275	3.0%	13%
Net Revenue	25700	24982	22545	3%	14%
EBIT	3790	3631	3466.0	4%	9%
EBIT Margin(%)	14.7%	14.5%	15.4%	21bps	-63bps
PAT	2925	2861	2515	2%	16%
L&T Technology Services	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Revenue (CC Terms) (Mn USD)	294	291	288	1.0%	2.1%
Net Revenue	24525	24218	23706	1.3%	3.5%
EBIT	4230	4162	4234	1.6%	-0.1%
EBIT Margin	17.2%	17.2%	17.9%	6bps	-61bps
PAT	3415	3368	3414	1.4%	0%
Route Mobile	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Net Revenue	10650	10243	10087	4.0%	6%
EBIT	1345	1231	1253	9%	7%
EBIT Margin	12.6%	12.0%	12.4%	61bps	21bps
PAT	1150	1136	1041.0	1%	10%
Firstsource Solutions	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Revenue (CC Terms) (Mn USD)	194	192	190	0.9%	1.9%
Net Revenue	15621	15970	15570	-2%	0%
EBIT	1580	1709	1799	-8%	-12%
EBIT Margin	10.1%	10.7%	11.6%	-59bps	-144bps
PAT	1580	1287	1413.0	23%	12%
Birlasoft	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Revenue (CC Terms) (Mn USD)	166.0	161	149	2.9%	11.3%
Net Revenue	13744	13430	12264	2.3%	12.1%
EBIT	1968	1932	1460	1.9%	34.8%
EBIT Margin	*14.32%*	*14.39%*	*11.90%*	-7bps	241bps
PAT	1568	1611	1121.7	-3%	39.8%
Axiscades (INR Mn)	**Q4FY24E**	**Q3FY23A**	**Q4FY23A**	**QoQ**	**YoY**
Net Revenue	2350	2315	2232	1.5%	5.3%
EBIT	307	207	372	48.3%	-17.5%
EBIT Margin	*13.06%*	*8.94%*	*16.67%*	412bps	-360bps
PAT	132	75	161.0	75%	-18.0%

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Recent Interaction with the Management

Coforge: Q4FY24 expected to be a normal quarter for the company, with no red flags anticipated. Revenue growth is expected to be 1.8% in terms of constant currency. BFS deal wins are expected to be in a similar range. Margin is projected to improve in the range of 100-150 basis points, with an additional 40-50 basis points tailwind due to furloughs, which expect contribute to margin improvement. New deal wins are anticipated in the insurance and BFS segments. The demand environment remains unchanged, but going forward, no deterioration is expected. A good demand environment may be seen once the Fed rate cut occurs.

IndiaMart InterMesh Ltd: Net additions during the quarter range between 2000 to 3000. Collection stands at 16-17%. Supply mutation shows slow collection of 460-465, also at 16-17%. The company has shifted from a monthly to an annual recognition model, leading to underperformance in the short term but expected to improve yearly revenue recognition. Organic churn has improved, and Q4 renewal rates are positive. The company will observe two years of subscription in FY25, which began in FY23, indicating churn will commence in FY25, and FY24 churn has seen improvement. With most backfilling and customer additions completed, margin improvement is anticipated.

Persistent System: Revenue growth expected to remain in the range of 2.7-3.5% for Q4FY24E. Margin is anticipated to be in the range of 14.5-15.5%, showing a slight improvement in Q4FY24E, led by cost optimization and a 50 basis points tailwind from Furlough. Deals that were originally scheduled for Q4FY24 have been pushed to be equivalent to Q2FY24. Additionally, in Q4, there expect be more renewal deals compared to new deal wins, as December saw mostly renewals rather than new deals. The healthcare segment is expected to drive growth for them in this quarter, owing to large deal wins in this segment. Both Europe and the US are performing decently for them.

LTTS: In Q1FY25, expects a wage hike, and the cycle expect remain the same. In Q4FY24e, company expects not be too many large deals. The Software Capabilities indicator reflects the demand, with a good pickup in AI, SDX, and Nvidia. There is some recovery in the semiconductor business in the Telecom & Hitech sector. In transportation, Aerospace has a good cycle start, and transportation is driven by auto. Medical devices are experiencing some softness as large medical device orders decrease due to new product development and the use of AI in medical devices. In terms of business potential, digital manufacturing shows high potential as AI integration facilitates R&D. Client budgets are expected to marginally increase based on client feedback. Margins expectation remain maintained at 18%+Cybersecurity deals involve more things like SDV & AI transactions.

FSL: For Q4, expect maintain its guidance of 0.5% to 1.5%, as per Q3FY24, for FY24. There has not been much impact on the mortgage industry due to the rate cut, as it remains in the single digits. The delinquency rate has improved. The company continues to fund investments mainly through internal cost optimization and efficiency gains. Some planned investments are being brought forward to boost the medium-term growth outlook. In healthcare, some deals are expected in this quarter. Overall, deal activity picked up in Q3FY24. Revenue Cycle Management (RCM) is gaining traction and expect be the growth driver for this quarter, particularly RCM offshore. Demand remains steady with no significant improvement. Europe is showing good traction, while the US market is decent. The UK market share improved to 34.5% during Q3FY24, with expectations for further improvement. Margin is anticipated to improve as efforts focus on reducing costs.

Birlasoft: Q4FY24 seems to be an okay quarter compared to Q3FY24 due to a high base with a growth of 1.8% in constant currency terms. Margin expected to see a similar improvement of 10-20 basis points. However, micro-level changes might worsen, resulting in weak commentary in Q4FY24e.

Recent Interaction with the Management

TCS: There are no anticipated significant changes soon. Clients are still causing reprioritization of budgets.A new deal is showing a promising ramp-up. The Aviva deal is significant for this quarter; overall deal momentum remains positive. Margin expectations: No headwinds; full impact of wage hikes expected in Q4FY24. Targeting margin range of 26%-28% with emphasis on disciplined execution and strategic levers such as productivity, utilization, realization, pricing, and subcontractor cost optimization. Growth is crucial for margin improvement. Demand reprioritization continues. Cost optimization strategies include adjusting wages to normal levels and enhancing variable salary components. Stable demand environment observed over the last three months. Portfolio-level pricing remains relatively stable. TCV expected in the range of $7-$9 bn. UK outperforming US and Europe. General AI presents a significant opportunity for the industry, but it is still in the early stages with good traction for integration.

Infosys: The demand environment remains unchanged. Budget discussions are ongoing, with guidance assumptions for Q4FY24 being considered. Q4FY24 is expected to be softer due to furloughs, with additional costs including one month of wage hike and visa expenses. Efforts are underway to achieve a margin of 20-22% through strategies such as value-based selling, collection pyramid, focus on utilization operating leverage, and subcon optimization. Hiring is paused to focus on improving utilization, targeting an increase from 82.7% to 84%. TCV was $3.2 mn in Q3FY24 with six large deals; Q4 expected to maintain a $2-3 bn run rate, though large deals may vary. Industry budget trends have been in a pause mode for the past 6-7 months. General AI presents significant opportunities but is still in its early stages, gaining traction for integration. Revenue growth guidance remains in the range of 1.5%-2.0%. Deal wins are experiencing ramp-up. UK outperforms the US in terms of geography.

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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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