

Traction in topline growth

Tata Consultancy Services	
Rating	Hold
TP	4,170
PE	31x
Infosys Ltd	
Rating	Accumulate
TP	1,938
PE	27x
MindTree	
Rating	Neutral
TP	4,279
PE	38x
Coforge Limited	
Rating	Accumulate
TP	6,068
PE	35x
Persistent Systems	
Rating	Accumulate
TP	4,562
PE	36x
L&T Technology Services	
Rating	Hold
TP	5,461
PE	34x
Route Mobile	
Rating	Accumulate
TP	2,585
PE	65x
Firstsource	
Rating	Accumulate
TP	192
PE	17x

Source: Arihant Research

Q3 FY22 Preview- Expect a Good Quarter

We expect another good quarter of growth for IT services companies despite furloughs and reduced working days. The growth will be driven by a strong demand environment and steady deal closures. Deal signings will be robust, and the pipeline will stay healthy. Margin is likely to stabilize in Coforge backed by healthy deal pipeline. While Mindtree, Persistent System and Route Mobile are likely to face margin compression due to wage hike and amortization of charges related to acquisition.

Revenue. Growth momentum to continue in Q3FY22 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). We expect Infosys to increase its FY22 revenue growth guidance to 17.5-18.5% CC YoY (current 16.5-17.5%). Tier- I companies on the back of healthy deal wins and pipeline, client mining, and consistent execution over tier- II companies are expected to maintain growth outperformance. The shortage of skilled resources remains a key challenge in the short term.

Margin: We expect report margin expansion in few companies during the quarter backed by healthy deal pipeline, INR depreciation and strong top line growth. Margin is likely to stabilize in Coforge backed by strong order book. While Mindtree, Persistent are likely to face margin compression due to wage hike and amortization of charges related to acquisition.

PAT: We expect our IT coverage universe to deliver a strong PAT growth sequentially. TCS/Infosys is expected to report a PAT growth of 14% QoQ respectively. In tier II Coforge is expected to report a PAT growth of 57% on QoQ basis

View: Sector valuations remain on the higher side, we remain positive as the demand environment continues to stay strong. Key things to watch out for the Q3FY22 will be revenue growth guidance, management commentary on the demand environment on the segments and pricing environment.

We expect healthy deal wins in Q3FY22 backed by accelerated demand for digital transformation and cloud adoption and spending on higher technology.

Amongst the Tier I, INFY and TCS will be our preferred pick and Route Mobile and Coforge in the Tier II techs.

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Q3FY22 Earnings Estimates:

INR (Mn.)	Q3FY22E	Q2FY22A	Q3FY21A	QoQ	YoY	Remarks
Tata Consultancy Services						
Revenue (CC Terms) (Mn USD)	6460	6333	5702	2%	13%	We expect USD revenue to grow 3% QoQ, factoring in ~70 bps cross currency headwinds. EBIT margin is expected to expand 41 bps due to normalization of wage hikes and revenue growth led operating leverage. We expect strong growth led by recovery in the India business and momentum of deal wins in the 2QFY22. Expect reporting of robust TCV due to continued momentum in deal wins.
Net Revenue	4,86,110	4,68,670	4,20,150	4%	16%	
EBIT	1,26,480	1,20,000	1,11,840	5%	13.1%	
EBIT Margin	26.0%	25.6%	26.6%	41bps	-60bps	
PAT	98,990	98,650	87,010	0%	14%	
Infosys						
Revenue (CC Terms) (Mn USD)	4124	3998	3516	3%	17%	We expect Net revenue is likely to grow at 3% QoQ. EBIT margin may expand on 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	3,09,580	2,96,020	2,59,270	5%	19%	
EBIT	76,140	71,190	65,890	7%	16%	
EBIT Margin	24.6%	24.0%	25.4%	55bps	-82bps	
PAT	59,350	55,120	52,150	8%	13.8%	
Coforge Limited						
Revenue (CC Terms) (Mn USD)	224	213	163	5%	37.6%	We expect EBIT margins to expand by 133 bps QoQ on the back of the revenue growth momentum lower visa costs, higher offshoring, better utilization. We expect net revenue to grow 5% sequentially and Key things to watch out in Q3FY22 are Deal intake during the quarter and growth in deal pipeline, Top client and progress on scaling other major clients, margin outlook.
Net Revenue	16859	15694	11906	7%	41.6%	
EBIT	2533	2149	1554	18%	63%	
EBIT Margin	15.0%	13.7%	13.1%	133bps	197bps	
PAT	1938	1615	1235	20%	56.9%	
MindTree Limited						
Revenue (CC Terms) (Mn USD)	369	350	274	5%	35%	Net revenue to grow 5% on QoQ as demand continues to be strong and expects that the growth broad-based across the international geography. The deal pipeline is healthy and demand will be healthy across the service line but due to the furloughs season and Calendar year for the year so the company may see the sessional impact on the order book and no structural issue. Some of the orders were pushed to the next quarter. Outlook on current deal wins, top client, and margin.
Net Revenue	27765	25862	20237	7%	37%	
EBIT	5183	4697	3962	10%	31%	
EBIT Margin	18.7%	18.2%	19.6%	51bps	-91bps	
PAT	4330	3989	3265	9%	33%	
Persistent Systems						
Revenue (CC Terms) (Mn USD)	197	182	146	8.2%	35%	We expect 8.2% QoQ CC revenue growth backed by healthy growth in the technology segment. The company is likely to face margin compression due to wage hike and amortization of charges related to acquisition. Expect reporting of robust TCV compare to last quarter due to continued momentum in deal wins.
Net Revenue	14862	13512	10754	10%	38%	
EBIT	2537	2244	1825.0	13%	39%	
EBIT Margin(%)	17.1%	16.6%	17.0%	46bps	10bps	
PAT	1684	1618	1209	4%	39%	
L&T Technology Services						
Revenue (CC Terms) (Mn USD)	226	217	190	4%	18.9%	We expect 4% QoQ CC revenue growth. Expect growth momentum across verticals. Key things to watch in Q3FY22 are Deal intake, pipeline and industry Outlook. Demand trends in key sectors outlook. We Expect strong demand commentary.
Net Revenue	16808	16077	14007	5%	20.0%	
EBIT	3149	2964	2132	6%	47.7%	
EBIT Margin	18.7%	18.4%	15.2%	30bps	352bps	
PAT	2436	2308	1869.0	6%	30.3%	
Route Mobile						
Net Revenue	5079	4357	3848	17%	32%	We expect revenue to grow 17% QoQ/32.2% YoY on the back of seasonal strength in volume and contribution from acquisitions sequentially. However, higher amortization charges could impact EBIT Margin.
EBITDA	651	561	446	16%	46.0%	
EBITDA Margin	16.1%	16.3%	14.1%	-24bps	196bps (~4% QoQ). EBITDA Margin is likely to remain stable	
PAT	489	421	376.0	16%	30.1%	
Firstsource Solutions						
Revenue (CC Terms) (Mn USD)	194	193	185	0.5%	4.9%	We expect revenue to flat on QoQ basis due to impacted by softness in mortgage segments and CMT vertical. EBITDA Margin is likely to contraction of 29bps. 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
Net Revenue	14335	14286	13652	0.3%	5.0%	
EBIT	1755	1791	1590	-2.0%	10.4%	
EBIT Margin	12.2%	12.5%	11.6%	-29bps	60bps	
PAT	1321	1350	1210.0	-2.1%	9.2%	

Source: Arianth Research

Recent Deal Wins:

TCS: Current deal wins by; 1) The company will continue to maintain and enhance SBI's application estate around core banking, trade finance, financial reporting, and financial inclusion with new features and functionality. 2) Tata Consultancy Services has been selected as a strategic partner by Cainz Corporation (CAINZ), Japan's leading home improvement company, to accelerate its digital transformation, improve customer experience, and drive growth. 3) The company a leading global IT services, consulting and business solutions organization, has partnered with Heritage Life Insurance Company, a US-based provider of insurance and reinsurance services, to transform the customer experience for policy holders in the closed book of business it recently acquired.

Infosys: 1) Infosys will establish a best-in-class IT Service Desk and adapt Posten Norge's IT processes for new age software delivery methods. The Council will deploy Oracle Fusion Applications for finance, procurement and human resources. The project will be implemented by Infosys Oracle Cloud Services, part of Infosys Cobalt, which brings together strategy consulting, cloud offerings and managed services capabilities to support public sector digital transformation initiatives to accelerate cloud journeys. 2) Infosys Public Services successfully upgraded South Florida Water Management District's (SFWMD) ERP system to the SAP S/4HANA platform. 3) Infosys will oversee the development, maintenance, and operations of Proximus' IT applications in a managed service model. Infosys will also leverage its extensive partner ecosystem to accelerate the implementation of the strategic transformation programs for Proximus while ensuring optimal cost savings. 4) Infosys will adopt standardized best SAP practices to enable end-to-end visibility across Orion's operations, informed decision making, and reduce business operations cost through AI, ML, and robotic process automation (RPA). 5) The expanded collaboration will see Infosys and Tennis Australia continue to harness Big Data and Analytics, Artificial Intelligence, Virtual Reality and Cloud technologies to elevate the AO experience for fans, players, coaches, partners and the media.

TCS: TCS will help Swiss Re enhance operational excellence through state-of-the-art, lean processes across the end-to-end workplace support function by bringing automation and implementing DevOps best practices. Under the new contract, management of critical infrastructure that was previously managed by multiple service-providers has been consolidated with TCS, driving end-to-end accountability.

The long-term partnership focuses on reimagining the end-to-end airport travel experience across three core areas: customer experience, employee experience and operational excellence. Leveraging its deep domain knowledge of the air transport sector, TCS is creating a first-of-its-kind customized Passenger Services Technology Platform for PPG.

MindTree: Mindtree will enable Western Asset to create a more flexible operating model that can quickly adapt to changing business needs and accelerate time to-value.

Source: Arian 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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