

Deal Pipeline remains strong; Margins are likely to face pressure

Tata Consultancy Services	
Rating	Hold
TP	4,235
PE FY24E	25.5x
Infosys Ltd	
Rating	Accumulate
TP	2,124
PE FY24E	24.5x
MindTree	
Rating	Neutral
TP	4,684
PE FY24E	32.8x
Coforge Limited	
Rating	Accumulate
TP	5,202
PE FY24E	26x
Persistent Systems	
Rating	Neutral
TP	4,179
PE FY24E	35x
L&T Technology Services	
Rating	Neutral
TP	5,190
PE FY24E	41.8x
Route Mobile	
Rating	Accumulate
TP	1,695
PE FY24E	28.5x
Firstsource	
Rating	Accumulate
TP	174
PE FY24E	12x
Birlasoft	
Rating	Buy
TP	550
PE FY24E	23x

Source: Arihant Research

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Q4FY22 Preview

Growth momentum to continue in Q4FY22 on the back of broad-based demand, strong deal wins, continued traction in digital and cloud, high base in the previous quarter and the ramp-up of mid-size and small deals, despite a seasonally weak quarter. We believe Q4FY22E to be relatively strong with no impact from Russia-Ukraine war and inflation on demand. Deal signings will be robust with pipeline demand to stay healthy. Margin is likely to stabilize in Coforge backed by a healthy deal pipeline while Mindtree, Persistent System, and Route Mobile are likely to face margin compression due to wage hikes and amortization of charges related to an acquisition.

Revenue. We expect tier I company's revenue growth to be in narrow range given strong QoQ growth in the past two quarters and currency headwinds of 30-60 bps. Revenue for the tier I companies will be in the base range of ~2-3% QoQ and ~12-21% YoY. Tier-II companies like Persistent, MindTree, and Coforge are expected to report revenue growth of ~7%/~5%/3.5% on a QoQ basis and ~40%/33%/33% YoY basis. Route Mobile and Birlasoft are likely to report revenue growth of ~63% and 19% respectively on a YoY basis.

Margin: We expect IT companies to report muted margin in most companies during the quarter due to higher visa costs, supply-side pressure and attrition should remain on elevated level. The margin for the tier I companies will be in the -3bps to -44bps range on a QoQ basis. In tier II companies like Coforge and LTTS are expected to report in the 155bps to 37bps QoQ supported by control on resources by balancing wage growth and attrition. Whereas, Mindtree and Persistent are likely to report margin in the range of -57bps to -46bps sequentially. Further, in tier III Route Mobile, FSL and Birlasoft are expected to report in the range of -18bps to -164bps range on a QoQ basis.

PAT: We expect our IT coverage universe to deliver a strong PAT growth sequentially despite margin pressure. TCS/Infosys is expected to report a PAT growth of ~3% QoQ/~9%,~20% YoY respectively. In tier II Persistent, MindTree and Coforge are expected to report a PAT growth of ~7%/~0.8%/~18% on a QoQ basis and ~37%/39%/~69% YoY basis. For the tier, III Route Mobile and Birlasoft are likely to report PAT growth of ~30%/22% on a YoY basis.

View: Despite higher sector valuations, we remain positive on IT sector as the demand environment continues to stay strong. Key things to watch out for in the Q4FY22 will be revenue growth guidance, management commentary on the demand and the pricing environment. We expect Infosys to raise its FY23 revenue growth guidance to 11-14% CC YoY. We expect healthy deal wins in Q4FY22 backed by accelerated demand for digital transformation and cloud adoption and spending on higher technology.

INFY is our top pick in large cap IT space. Coforge, Route Mobile and Birlasoft are another preferred pick in Midcap IT.

Q4FY22 Earnings Estimates:

INR (Mn.)	Q4FY22E	Q3FY22A	Q4FY21A	QoQ	YoY	Remarks
Tata Consultancy Services						
Revenue (CC Terms) (Mn USD)	6720	6524	5989	3.0%	12.2%	We expect USD revenue to grow 3% QoQ, due to high base effect in BFSI segment .
Net Revenue	504,790	488,850	437,050	3.3%	15.5%	
EBIT	126,190	122,370	117,340	3.1%	7.5%	EBIT margin is expected to flattish 3bps QoQ despite favourable operating leverage. we are expecting similar growth in Q4FY22 against Q3FY22 led by momentum of deal wins.
EBIT Margin	25.0%	25.0%	26.8%	-3bps	-185bps	
PAT	100,530	98,060	92,460	2.5%	8.7%	Expect reporting TCV contain of mid size and small deals. Key commentary to watch out in Q4FY22 around the medium term to long term growth outlook.
Infosys						
Revenue (CC Terms) (Mn USD)	4352	4250	3613	2.4%	20.5%	We expect Net revenue is likely to grow at 2.4% QoQ due to high base effect in Q3FY22.
Net Revenue	326,580	318,670	263,110	2.5%	24.1%	
EBIT	75,270	74,840	64,400	0.6%	16.9%	EBIT margin is expected to contract by 44bps in Q4FY22 led by higher visa cost and supply side pressure.
EBIT Margin	23.0%	23.5%	24.5%	-44bps	-143bps	
PAT	60,820	58,220	50,780	4.5%	19.8%	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.
Coforge Limited						
Revenue (CC Terms) (Mn USD)	229	222	172	3.5%	33.3%	We are expecting healthy growth in revenue by 3.5% QoQ supported by broad based demand momentum
Net Revenue	17156	16581	12615	3.5%	36.0%	
EBIT	2819	2467	1649	14.3%	71.0%	Margins may improve by 155 bps QoQ as management guided in the Q3FY22.
EBIT Margin	16.4%	14.9%	13.1%	155bps	336bps	
PAT	2315	1972	1374	17.4%	68.5%	The company FY23 guidance will be key monitorable.
MindTree						
Revenue (CC Terms) (Mn USD)	384	366	288	4.9%	33.3%	Net revenue to grow 4.9% on QoQ as demand continues to be strong led by BFSI and TTH.
Net Revenue	28476	27500	21093	3.5%	35.0%	
EBIT	5313	5289	3913	0.5%	35.8%	The deal pipeline is healthy and demand will be healthy in BFSI, CMT, TTH and HCARE.RCM will see marginally downside in Q4FY22.
EBIT Margin	18.8%	19.2%	18.6%	-57bps	11bps	
PAT	4411	4375	3173	0.8%	39.0%	We expect margin contract by 57bps in Q4FY22 due to supply side cost pressure from promotions and higher attrition Key things to watch: steps taken to manage supply-side challenges ,expansion plan in Europe and M&A. Deals pipeline and deal closure momentum.
Persistent Systems						
Revenue (CC Terms) (Mn USD)	214	199	153	7.43%	39.99%	We expect 7.43% QoQ CC revenue growth backed by growth to continue, supported by acquisitions (Data Glove, Shree Partners, and SCI).
Net Revenue	16144	14917	11134	8.23%	45.00%	
EBIT	2180	2083	1464.0	4.66%	48.91%	The company is likely to face margin compression due to provision for ESOP and one time charges related to acquisition.
EBIT Margin(%)	13.5%	14.0%	13.2%	-46bps	35bps	
PAT	1884	1764	1378	6.8%	36.7%	Expect reporting of robust TCV compare to last quarter due to continued momentum in deal wins. We expect commentary on the margin side.

Source: Arianth Research

INR (Mn.)	Q4FY22E	Q3FY22A	Q4FY21A	QoQ	YoY	Remarks
L&T Technology Services						
Revenue (CC Terms) (Mn USD)	235	225	198	4.4%	19.0%	We expect 4% QoQ CC revenue growth. Expect growth momentum in transportation vertical.
Net Revenue	17574	16875	14405	4.1%	22.0%	
EBIT	3339	3144	2391	6.2%	39.6%	We expect margin expand by 37bps in Q4FY22 supported by control on resources by balancing wage growth and attrition.
EBIT Margin	19.0%	18.6%	16.6%	37bps	240bps	key things to watch in Q4FY22 are Deal intake, pipeline and industry Outlook.
PAT	2759	2496	1953.0	11%	41.3%	Demand trends in key sectors outlook.
Route Mobile						
Net Revenue	5890	5628	3624	5%	62.5%	We expect revenue to grow 5% QoQ/62.5% YoY on the back of better deal momentum.
EBIT	540	585	424	-8%	27%	EBIT Margin is likely to decline by 123bps sequentially
EBIT Margin	9.2%	10.4%	13.7%	-123bps	-253bps	led by amortization of charges related to acquisition.
PAT	460	483	354.0	-5%	29.9%	The company FY23 guidance will be key monitorable.
Firstsource Solutions						
Revenue (CC Terms) (Mn USD)	196	195	200	0.3%	-2.0%	We expect revenue to flat on QoQ basis due to impacted by softness in mortgage segments due to high high interest rates.
Net Revenue	14375	14638	14628	-1.8%	-1.7%	The company sees recovery in collection period and increase in delinquency rates.
EBIT	1704	1762	1808	-3.3%	-5.8%	EBITDA Margin is likely to decline by 18bps.
EBIT Margin	11.9%	12.0%	12.4%	-18bps	-51bps	Key things to watch out for: a) Business outlook for revenue growth guidance and EBITM guidance, b)
PAT	1223	1353	1565	-9.6%	-21.9%	Mortgage business outlook on the Origination and the Collections business.
Birlasoft						
Revenue (CC Terms) (Mn USD)	147	143	123	2.4%	19.1%	We expect slightly softer quarter due to supply-pressure issue but demand momentum is strong.
Net Revenue	10993	10719	9029	2.6%	21.8%	EBITDA Margin is likely to decline by 35bps due to .
EBIT	1438	1440	1346	-0.1%	6.8%	Key things to watch out for: a) Business outlook for revenue growth guidance and EBITM guidance, b)
EBIT Margin	13.1%	13.4%	14.9%	-35bps	-183bps	Mortgage business outlook on the Origination and the Collections business.
PAT	1208	1140	990.0	6.0%	22.0%	

Source: Arihant Research

Recent Deal Wins:

TCS: Current deal wins by; 1) Tata Consultancy Services (TCS) announced that the Kansas Department of Labor (KDOL) has selected TCS to build a modern, secure, web-based system for the state's unemployment insurance program, transforming a legacy mainframe platform from the 1970s into a cloud-based system that dramatically improves the delivery of services to Kansas residents., 2) Tata Consultancy Services (TCS) has been recognized as the 2022 Americas Premier Partner of the Year by MuleSoft, provider of the world's #1 integration and API platform. TCS was honored for excellence in demonstrating value to customers; rapidly scaling capabilities through training and certifications; and strength in helping companies become composable businesses with reusable building blocks, like APIs, to enable speed, agility, and efficiency., 3) Tata Consultancy Services (TCS) has entered into a strategic partnership with Payments Canada, the country's largest payment organization, to transform its payment system operations and help implement the Real-Time Rail (RTR), the new real-time payments system that will allow Canadians to initiate payments and receive irrevocable funds in seconds, 24/7/365.

Infosys: 1) Infosys, a global leader in next-generation digital services and consulting, announced that it has been ranked #2 in the Everest Group PEAK Matrix® IT Service Provider of the Year™ 2022 Awards. Infosys was distinguished for maintaining excellence and consistency in service delivery while demonstrating significant improvement in digital, data and analytics, cloud and infrastructure, banking and financial services (BFSI), healthcare, life sciences, and enterprise platform segments.

2) Infosys a global leader in next-generation digital services and consulting, announced a definitive agreement to acquire oddity, a Germany-based digital marketing, experience, and commerce agency. The move strengthens Infosys' creative, branding and experience design capabilities, and demonstrates its continued commitment to co-create with clients and help them navigate their digital transformation journey.

3) Infosys Finacle, part of EdgeVerve Systems, a wholly-owned product subsidiary of Infosys, announced that it has been recognized as a Leader in 2022 Gartner® Magic Quadrant™ report for Global Retail Core Banking for the 14th consecutive time, following the evaluation of its Finacle Core Banking Solution. Gartner comprehensively assessed five global core banking solution vendors on 65 variables and 321 data points spanning across 'ability to execute' and 'completeness of vision'.

4) Dow Jones, the leading news and business information provider and publisher of The Wall Street Journal, and Infosys, a global leader in next-generation digital services and consulting, announced their growing collaboration as Dow Jones continues to expand its product portfolio.

MindTree: 1) Mindtree, a global digital transformation company, announced that it has been recognized as the 2022 ServiceNow Americas Emerging Service Provider Partner of the Year for achieving overall excellence in delivery and ServiceNow pipeline growth. Mindtree has demonstrated the ability to deliver a world-class customer experience.

LTTS: L&T Technology Services, a leading global pure-play engineering services company, announced that it has been awarded a deal worth USD45 million from a U.S. based automotive Tier 1 company, to be its strategic engineering partner and provide engineering services for its Electric Vehicle (EV) product portfolio.

Route Mobile: The company announced that its wholly owned subsidiary, Routesms Solutions FZE today signed definitive agreements to acquire M. R Messaging FZC (M. R Messaging/MRM), one of the leading Cloud communications service provider catering to enterprises and aggregators in Europe & South Africa.

The acquisition is aligned to Route Mobile's global growth strategy and strengthens its global presence as a CPaaS leader.

Source: Arianth 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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