Technology

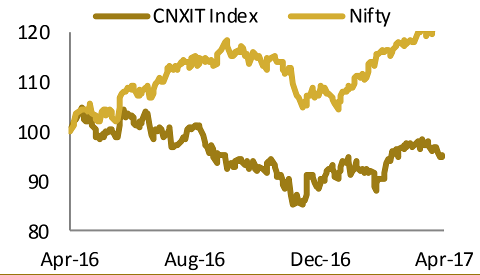
Sector Update

High single digit growth forecasted for 2017

	CMP(`)	3M ret.(%)	Yearly (%)
Index Returns			
Nifty	9,151	9	17
CNX IT	10,064	(2)	(11)
Large-Caps			
TCS	2,329	4	(8)
INFO	931	(5)	(21)
WPRO	495	2	(15)
HCLT	809	(5)	(3)
TECHM	430	(12)	(8)
Mid-Caps			
MTCL	443	(10)	(36)
MPHL	542	4	10
HEXW	206	3	(20)
ECLX	1,371	(4)	4
KPIT	129	(9)	(13)
NITEC	426	0	(14)
CYL	479	(5)	6
PSYS	565	(11)	(22)

	Rating	FDEPS (`)	
		FY18E	**FY19E**
TCS	Hold	145.4	162.2
INFO	Buy	68.9	76.7
WPRO	Hold	36.9	40.7
HCLT	Buy	65.8	73.2
TECHM	Buy	41.4	46.2
MTCL	Hold	33	39.1
MPHL	Sell	40.2	44.2
HEXW	Hold	16.6	18.7
ECLX	Hold	87.5	95.5
KPIT	Hold	13	15.8
NITEC	Buy	45.8	52.8
CYL	Buy	38.6	43.2
PSYS	Hold	46.4	54.8

Nifty vs CNX IT



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ISG Outsourcing (TPI) came out with its findings on global outsourcing industry for Q1CY17. The quarter has witnessed lower annual contracts value (ACV) awarded YoY after a strong Q4. ACV value (US$23.4bn) decreased 9% YoY, (Traditional Sourcing was down 2% YoY, As-a-Service increased 50% YoY). Deal values are expected to remain small with focus on security, Digital and Cloud.

Key highlights: 1) Commercial Combined Market up 12% as Traditional Sourcing remains flat YoY and As-a-Service growth continues. 2) Record quarter for Americas Commercial Combined Market; As-a-Service strength offsets slight YoY drop in Traditional Sourcing, 3) As-a-Service propels EMEA's near-record quarter; Traditional Sourcing rises slightly, 4) Asia Pacific sees four consecutive US$1bn-plus quarters; As-a-Service far surpasses Traditional Sourcing.

Trends across geographies: **Global Contracting Trends** - Combined Market down 9% YoY with weakness in Traditional Sourcing segment, which undermines strong As-a-Service gains across each region. **Americas Contracting Trends** - Combined Market ACV up 11% YoY as Americas registers its best-ever quarter. Both Traditional Sourcing and As-a-Service markets are running nearly parallel with each other in ACV volume. **Asia Pacific Contracting Trends** - Combined Market ACV up 16% YoY as quarterly ACV surpassed US$1bn for the fourth consecutive quarter; As-a-Service ACV now has overtaken the output of Traditional Sourcing. **EMEA Contracting Trends -** Combined Market in EMEA surpasses US$4bn level, up 13% YoY as EMEA registers second-best quarter ever; Traditional Sourcing sees slight growth YoY, while As-a-Service rises nearly 50% off a smaller base.

Award trends across geographies: **Americas Award Trends -** Financial Services and Business Services drive ACV growth in the Americas with gains in both Traditional Sourcing and As-a-Service segments. **Asia Pacific Award Trends -** Strong As-a-Service results drive growth in the larger verticals such as Telco and Business Services, with manufacturing still experiencing some headwinds due to softness in Traditional Sourcing**. EMEA Award Trends -** Telco and Financial Services ACV up notably, while manufacturing, weighed down by Traditional Sourcing, trails its prior year's result.

Market Summary: 1) Double digit YoY growth in each of the three regional commercial markets. 2). Each region is in varying degrees of cloud adoption with EMEA in early stages, the Americas seeing an equal split and Asia-Pacific being more heavily weighted toward As-a-Service 3) Several Industries drive growth, including Financial Services, Telecom and Business Services, the latter experiencing simultaneous annual ACV gains in both Traditional Sourcing and As-a-Service.

Market Outlook: 1) ISG continues to forecast high single-digit gains in each of the geographies. 2) Growth driven by increasing As-a-Service activity. 3) Occasional strong quarters in Traditional Sourcing space due to high volumes or large deal flow

Mindtree, Mphasis, L&T Infotech and KPIT gets mention among midcaps: Top-5 omnipresent: Among the mid-caps in our coverage universe, Mindtree (Americas, EMEA), Mphasis (Americas), L&T Infotech (Americas), Hexaware (Americas) and KPIT (Americas) was mentioned in "The Breakthrough 15 Sourcing Standouts". However, Top-5 Indian IT companies continue to have a strong presence across geographies.

Our view: The ISG commentary is in sync with the financial performance of IHVs – with companies pointing out to uncertain revenue visibility on account of weak macro environment. According to ISG, deal activity this quarter was weaker than in the previous quarter (Q4CY16). We continue to prefer companies with stronger revenue momentum – HCLT and Tech Mahindra in large-caps.

1) **Commercial Combined Market** up 12% as Traditional Sourcing remains flat YoY and As-a-Service growth continues. 2) **Record quarter for Americas Commercial Combined Market**; As-a-Service strength offsets slight YoY drop in Traditional Sourcing, 3**) As-a-Service propels EMEA's** near-record quarter; Traditional Sourcing rises slightly, 4) **Asia Pacific sees four consecutive US$1bn-plus quarters**; As-a-Service far surpasses Traditional Sourcing.

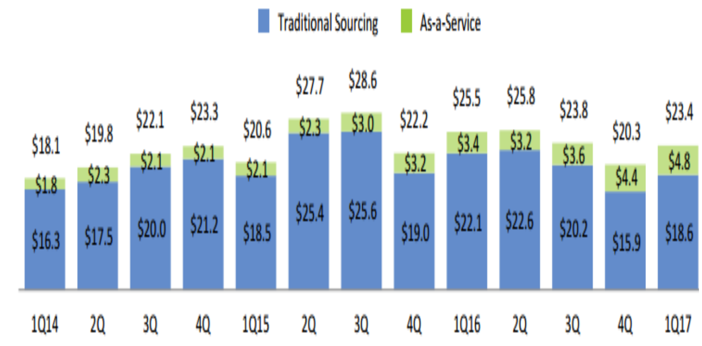
Exhibit 1: Deal signings in Q1CY17 – At a glance

Scorecard	1Q17 ACV (US$ bn)*	1Q YoY Change (%)	1Q QoQ Change (%)
Global Commercial Combined Market	**10.5**	**12**	**13**
By Type – Outsourcing	6.1	(1)	17
By Type – As-a-Service	4.4	39	9
By Region – Americas	5	11	11
By Region – EMEA	4.4	13	19
By Region – Asia Pacific	1.1	16	1
Global Public Sector Combined Market	**12.9**	**(21)**	**17**
By Type – Outsourcing	12.5	(22)	17
By Type – As-a-Service	0.4	31	8

*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

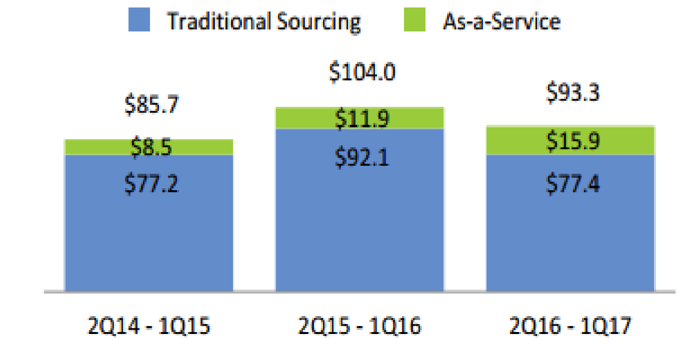
Global Commercial and Public Sector Contracting Trends - Combined Market down 9% YoY with weakness in Traditional Sourcing segment, which undermines strong As-a-Service gains across each region.

Exhibit 2: Global Combined Market Quarter ACV ($B)*



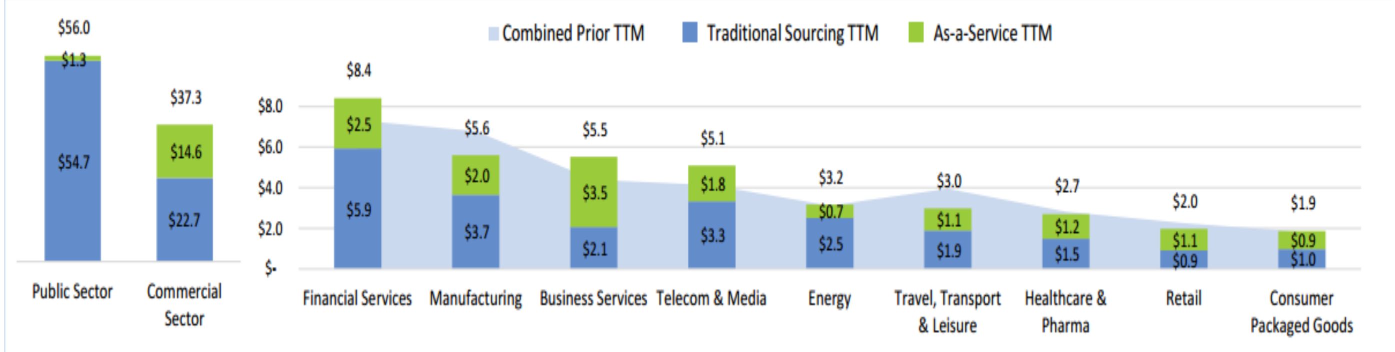
Source: 1Q17 – ISG – Outsourcing – Index

Exhibit 3: Global Combined Market TTM ACV ($B)*



Source: 1Q17 – ISG – Outsourcing – Index

Exhibit 4: Industry Details for Trailing 12 Months*

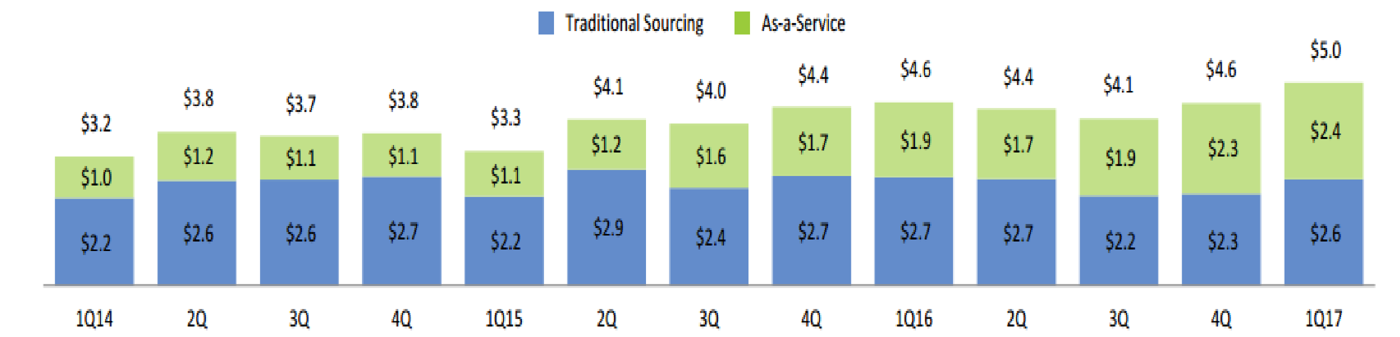


*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

Our view: ISG commentary is in sync with the financial performance of IHVs – with companies pointing out to uncertain revenue visibility on account of weak macro environment. According to ISG, deal activity this quarter was weaker than in the previous quarter (Q4CY16). We continue to prefer companies with stronger revenue momentum – HCLT and Tech Mahindra in large-caps.

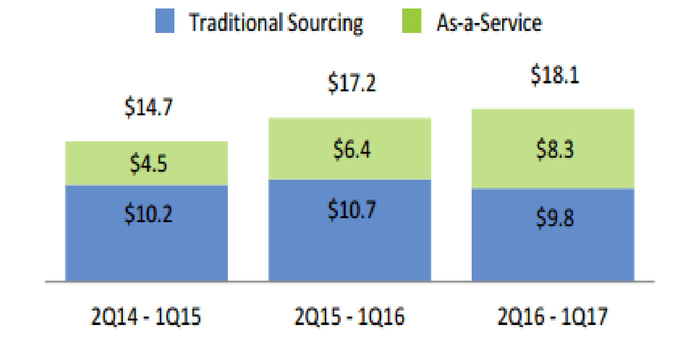
Americas Commercial Sector Contracting Trends - Combined Market ACV up 11% YoY as Americas registers its best-ever quarter. Traditional Sourcing & As-a-Service markets running parallel with each other in ACV volume.

Exhibit 5: Americas Combined Quarterly ACV (US$ bn)*



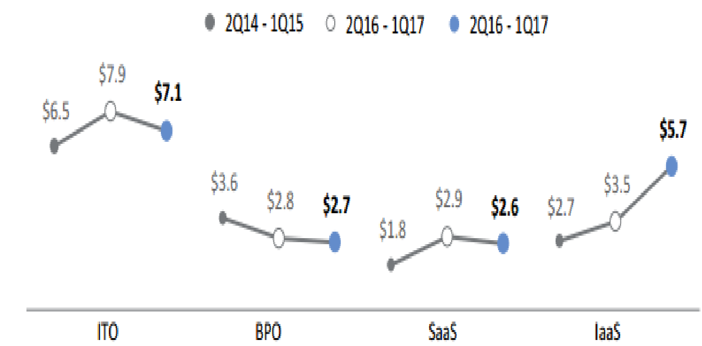
*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

Exhibit 6: Americas Commercial Sector TTM ACV ($B)*



Source: 1Q17 – ISG – Outsourcing – Index

Exhibit 7: America Commercial TTM ACV by Type ($B)



Source: 1Q17 – ISG – Outsourcing – Index

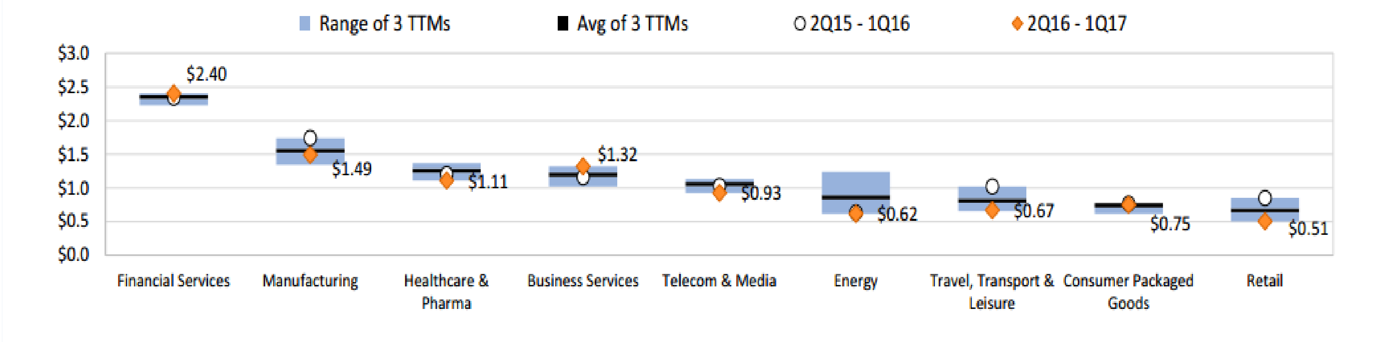
Exhibit 8: Americas Top 15s – Sourcing standouts grouped by company size

The Big 15 Co. Revenues > $10 B	The Building 15 Co. Revenues $1 -10 B	The Breakthrough 15 Co. Revenues < $1 B
Traditional Sourcing Market	**Traditional Sourcing Market**	**Traditional Sourcing Market**
Accenture	CGI	Atento
Atos	CSC	Ensono
BT	Concentrix	Hexaware
Capgemini	DST Systems	Hinduja Global Solutions
Cognizant	Genpact	KPIT Technologies
HPE	HCL	L&T Infotech
IBM	Sutherland Global	Luxoft
Infosys	TeleTech	Mindtree
NTT DATA	Unisys	Mphasis
TCS	WEX	Softtek
T-Systems	Wipro	StarTek
		Synacor
		VirtusaPolaris
As-a-Service Market	**As-a-Service Market**	**As-a-Service Market**
Amazon Web Services	Adobe Systems	CyrusOne
Google	Equinix	IPsoft
Microsoft	Iron Mountain	
Oracle	Salesforce.com	

Source: 1Q17 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

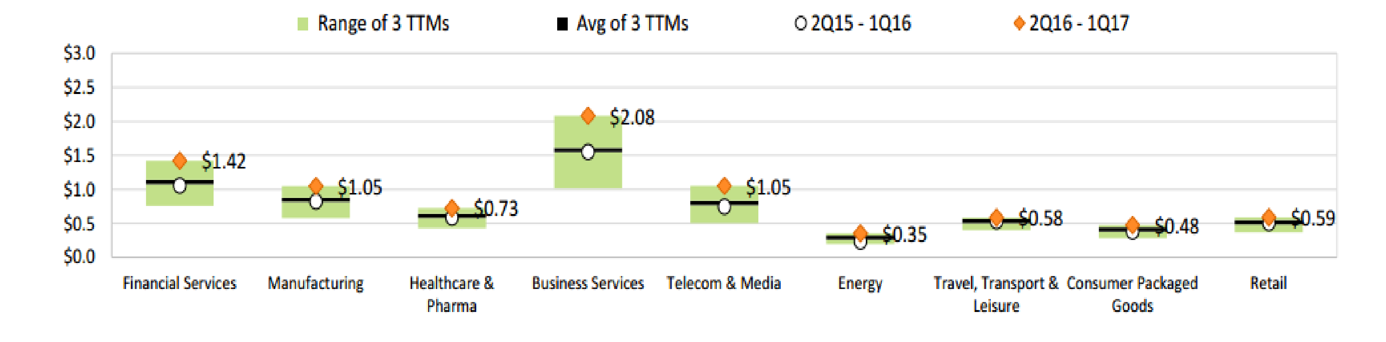
Americas Commercial Sector Industry Award Trends - Financial Services and Business Services drive ACV growth in the Americas with gains in both Traditional Sourcing and As-a-Service segments.

Exhibit 9: Americas Commercial Industries - Traditional Sourcing TTM ACV ($B)



*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

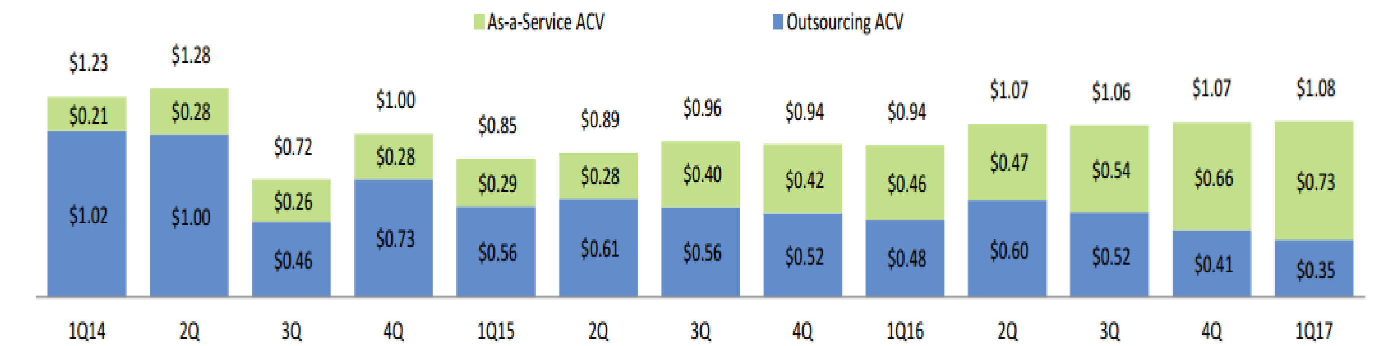
Exhibit 10: Americas Commercial Industries - As-a-Service TTM ACV ($B)



*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

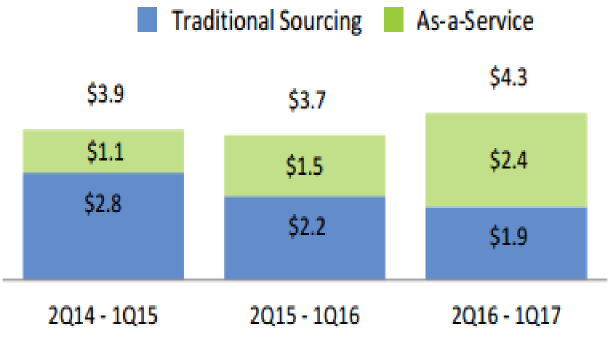
Asia Pacific Commercial Sector Contracting Trends - Combined Market ACV up 16% YoY as quarterly ACV surpassed US$1bn for the fourth consecutive quarter; As-a-Service ACV now has overtaken the output of Traditional Sourcing.

Exhibit 11: Asia Pacific Commercial Sector Quarterly ACV ($B) *



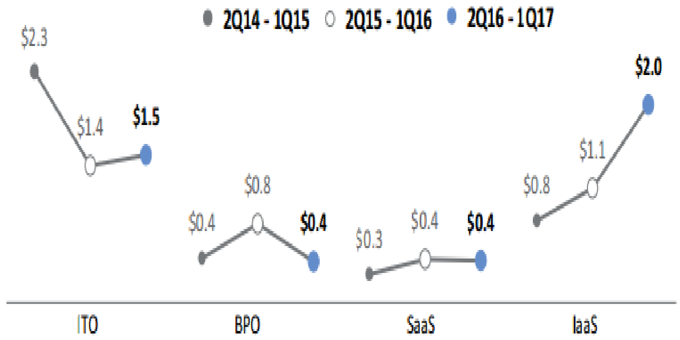
*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

Exhibit 12: APAC Commercial Sector TTM ACV ($B)*



Source: 1Q17 – ISG – Outsourcing – Index

Exhibit 13: APAC Comm. Sector TTM ACV Type ($B)



Source: 1Q17 – ISG – Outsourcing – Index

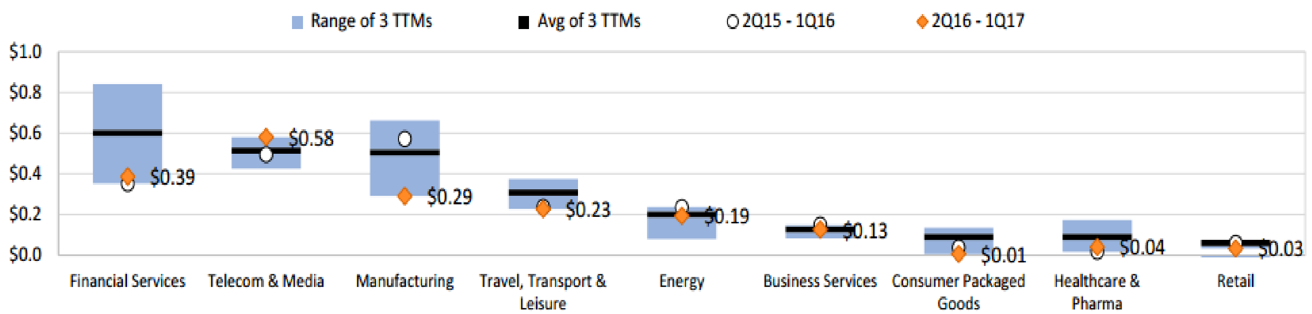
Exhibit 14: Asia Pacific Top 15s – Sourcing standouts grouped by company size

The Big 15 Co. Revenues > $10 B	The Building 15 Co. Revenues $1 -10 B	The Breakthrough 15 Co. Revenues < $1 B
Traditional Sourcing Market	**Traditional Sourcing Market**	**Traditional Sourcing Market**
Accenture	Amadeus	Ajilon
BT	HCL	Cross-Tab Marketing Services
Cognizant	Sabre	Data #3 Group
HPE	Singtel Optus	Datacom
IBM	SK C&C Co.	Ebix
Infosys	Sutherland Global	Firstsource Solutions
NEC	Tech Mahindra	FPT Software
NTT DATA	Unisys	Insurity
TCS	WEX	Luxoft
Telstra	Wipro	Mindpearl
		Posco ICT
		VirtusaPolaris
As-a-Service Market	**As-a-Service Market**	**As-a-Service Market**
Amazon Web Services	Adobe Systems	IPsoft
Google	Equinix	Xero
Microsoft	FIS Global	Zoho
Oracle	Iron Mountain	
SAP	Salesforce.com	

Source: 1Q17 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

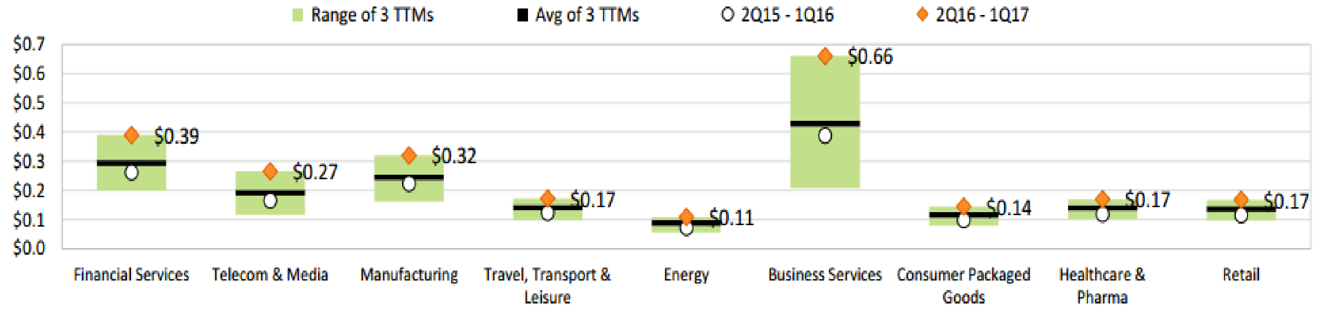
Asia Pacific Traditional Outsourcing Award Trends - ANZ rebounds in 2016, up ~30%, while India ACV continues to pull back; Telco rises 12% in 2016, but most major industry verticals fall below their prior-five-year averages.

Exhibit 15: Asia Pacific Commercial Industries - Traditional Sourcing TTM ACV ($B)



*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

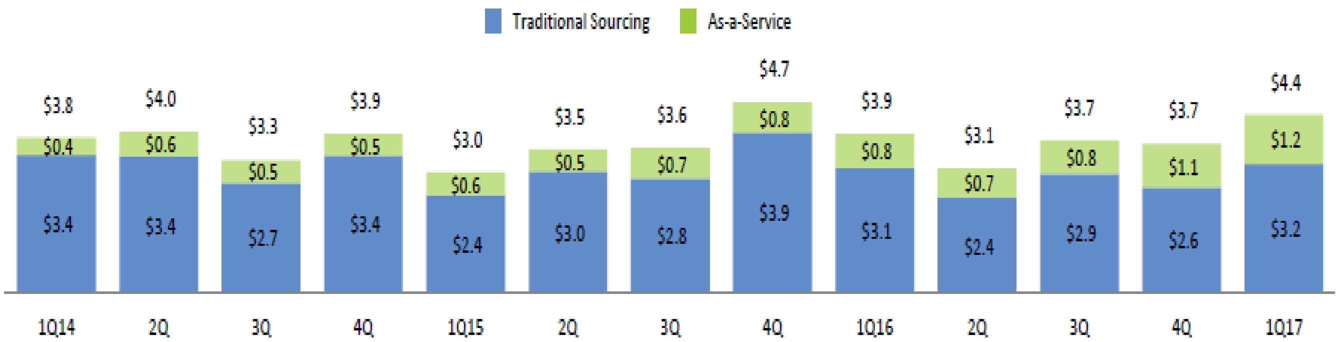
Exhibit 16: Asia Pacific Commercial Industries - As-a-Service TTM ACV ($B)



*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

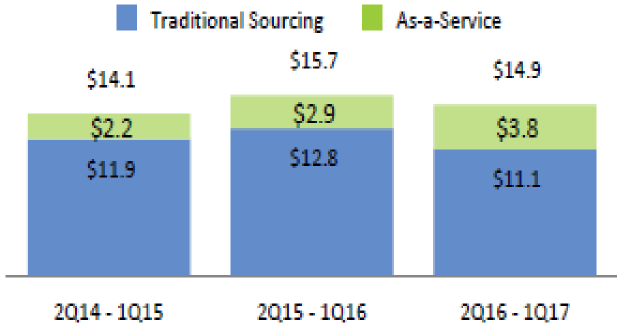
EMEA Commercial Sector Contracting Trends - Combined Market in EMEA surpasses US$4bn level, up 13% YoY as EMEA registers second-best quarter ever; Traditional Sourcing sees slight growth YoY, while As-a-Service rises nearly 50% off a smaller base.

Exhibit 17: EMEA Commercial Sector Quarterly ACV (US$ bn)*



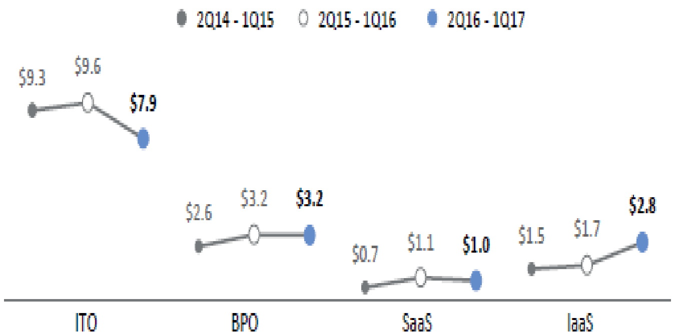
*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

Exhibit 18: EMEA Commercial Sector TTM ACV ($B)*



Source: 1Q17 – ISG – Outsourcing – Index

Exhibit 19: EMEA Comm Sector TTM ACV by Type ($B)



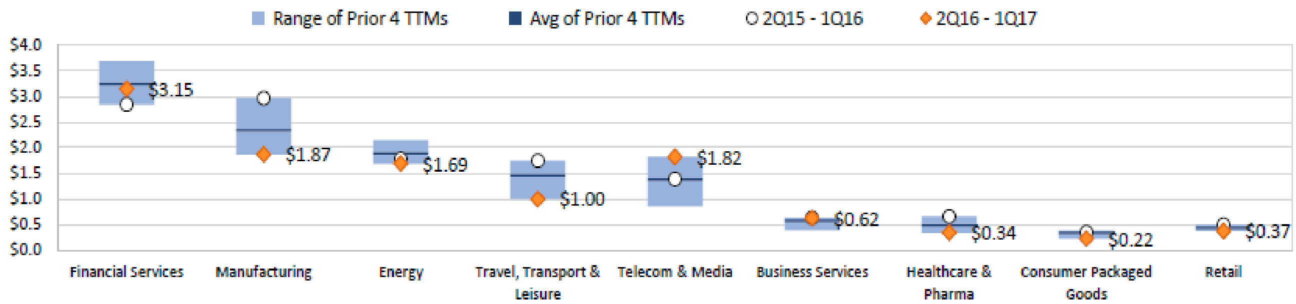
Source: 1Q17 – ISG – Outsourcing – Index

Exhibit 20: EMEA Top 15s – Sourcing standouts grouped by company size

Source: 1Q17 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

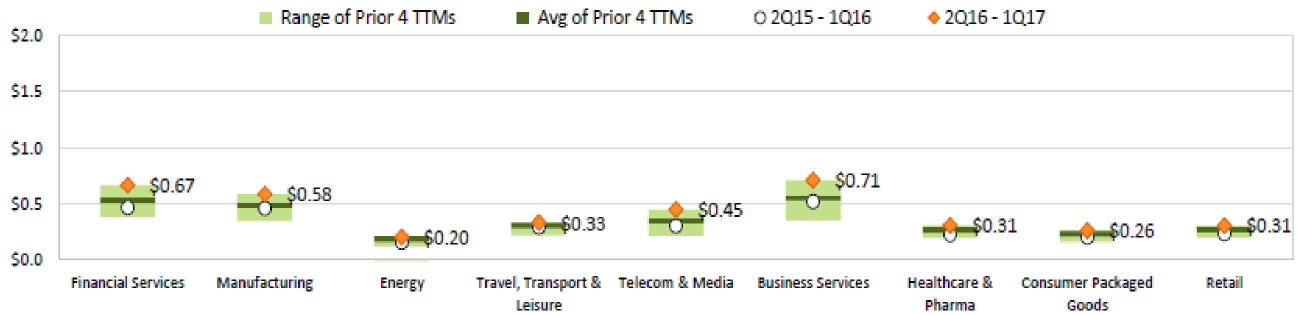
EMEA Commercial Sector Industry Award Trends - Telco and Financial Services ACV up notably, while manufacturing, weighed down by Traditional Sourcing, trails its prior year's result.

Exhibit 21: EMEA Commercial Industries - Traditional Outsourcing TTM ACV (US$ bn)



*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

Exhibit 22: EMEA Commercial Industries – As-a-Service TTM ACV (US$ bn)



*Source: 1Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

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