

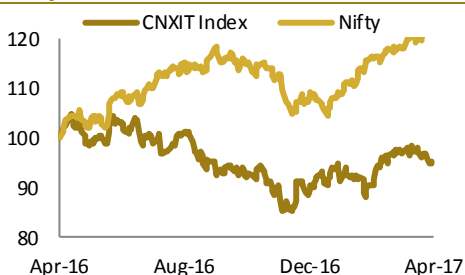
# Technology Sector Update

High single digit growth forecasted for 2017

	CMP(₹)	3M ret.(%)	Yearly (%)
<b>Index Returns</b>			
Nifty	9,151	9	17
CNX IT	10,064	(2)	(11)
<b>Large-Caps</b>			
TCS	2,329	4	(8)
INFO	931	(5)	(21)
WPRO	495	2	(15)
HCLT	809	(5)	(3)
TECHM	430	(12)	(8)
<b>Mid-Caps</b>			
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



ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.in

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.

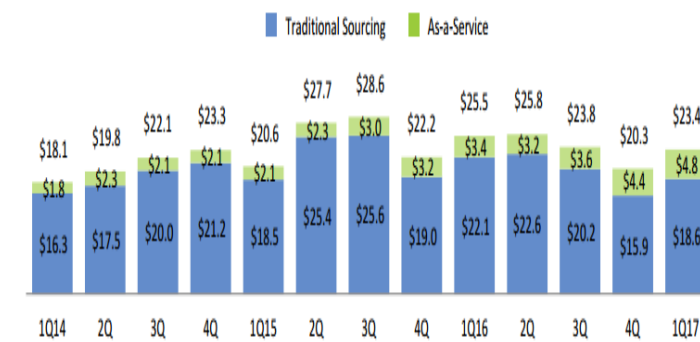
**Exhibit 1: Deal signings in Q1CY17 – At a glance**

Scorecard	1Q17 ACV (US\$ bn)*	1Q YoY Change (%)	1Q QoQ Change (%)
<b>Global Commercial Combined Market</b>	<b>10.5</b>	<b>12</b>	<b>13</b>
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
<b>Global Public Sector Combined Market</b>	<b>12.9</b>	<b>(21)</b>	<b>17</b>
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

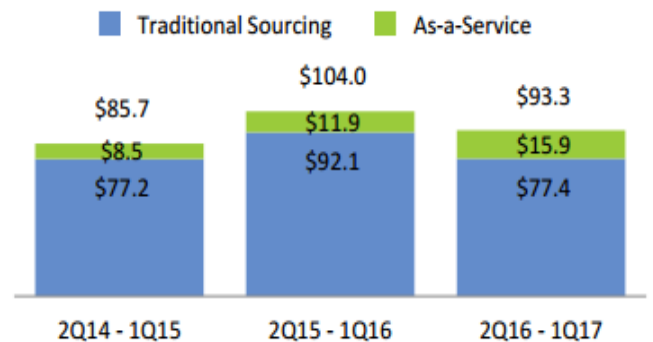
**Global Commercial and Public Sector Contracting Trends** - Combined Market down 9% YoY with weakness in Traditional Sourcing segment, which undermines strong As-a-Service gains across each region.

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



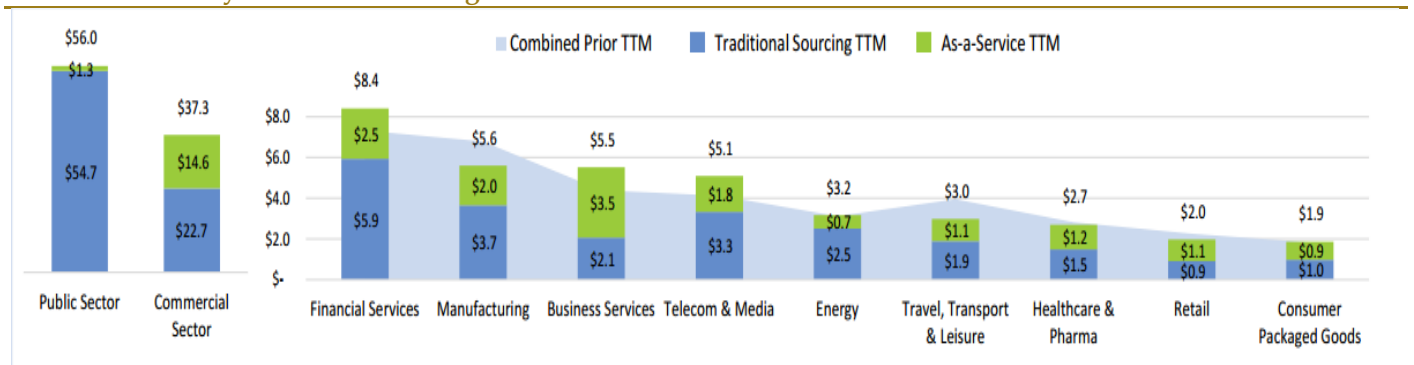
Source: 1Q17 – ISG – Outsourcing – Index

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



Source: 1Q17 – ISG – Outsourcing – Index

**Exhibit 4: Industry Details for Trailing 12 Months\***



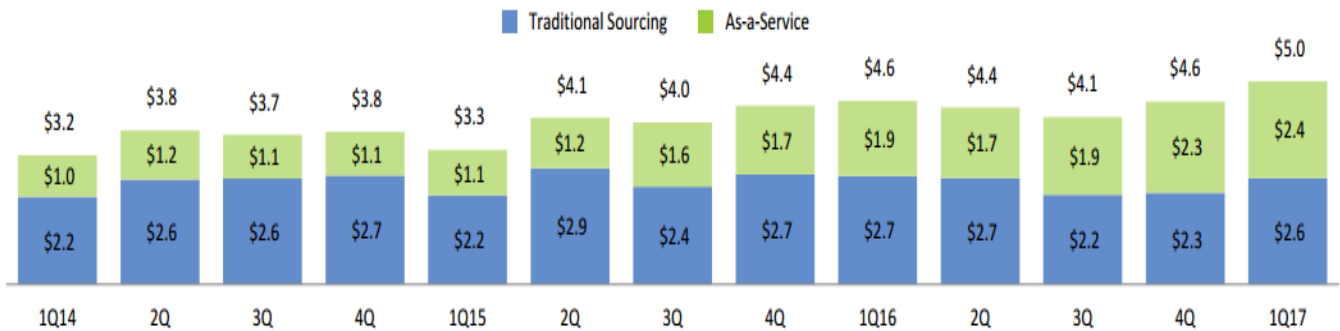
Source: 1Q17 – ISG – Outsourcing – Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**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.



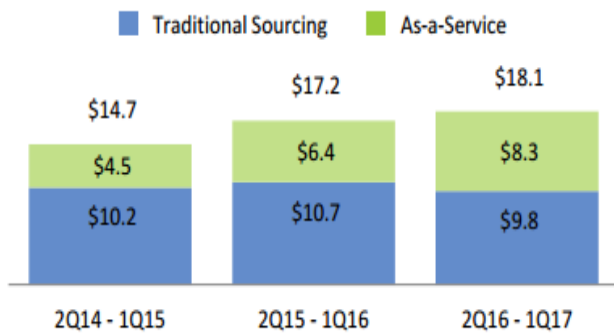
**Americas Commercial Sector Contracting Trends** - Combined Market ACV up 11% YoY as Americas registers its best-ever quarter. Traditional Sourcing & As-a-Service markets running parallel with each other in ACV volume.

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



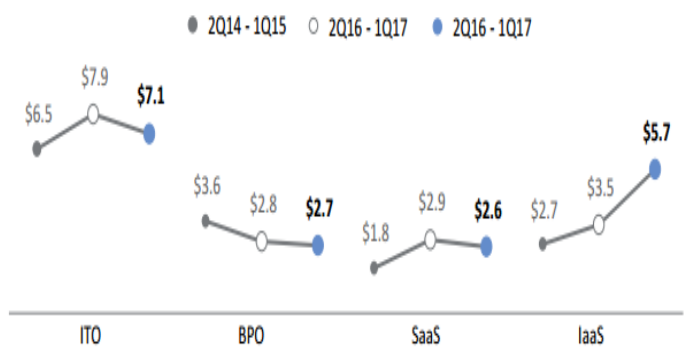
Source: 1Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**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**

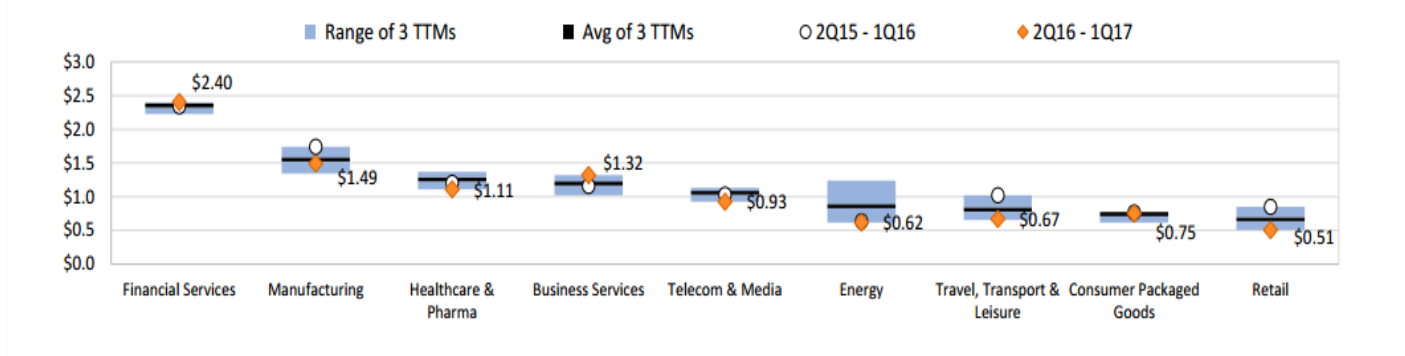
The Big 15 Co. Revenues > \$10 B	The Building 15 Co. Revenues \$1 -10 B	The Breakthrough 15 Co. Revenues < \$1 B
<b>Traditional Sourcing Market</b> Accenture Atos BT Capgemini Cognizant HPE IBM Infosys NTT DATA TCS T-Systems  <b>As-a-Service Market</b> Amazon Web Services Google Microsoft Oracle	<b>Traditional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

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



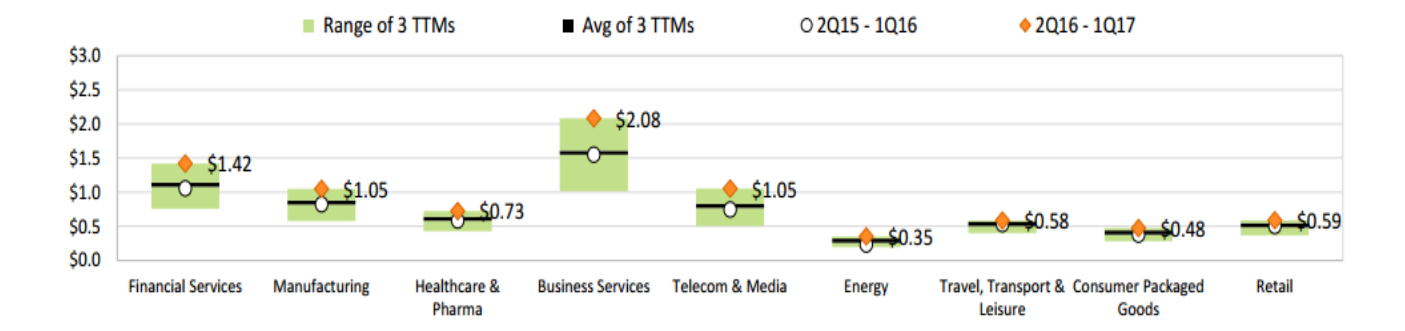
**Americas Commercial Sector Industry Award Trends** - Financial Services and Business Services drive ACV growth in the Americas with gains in both Traditional Sourcing and As-a-Service segments.

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



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

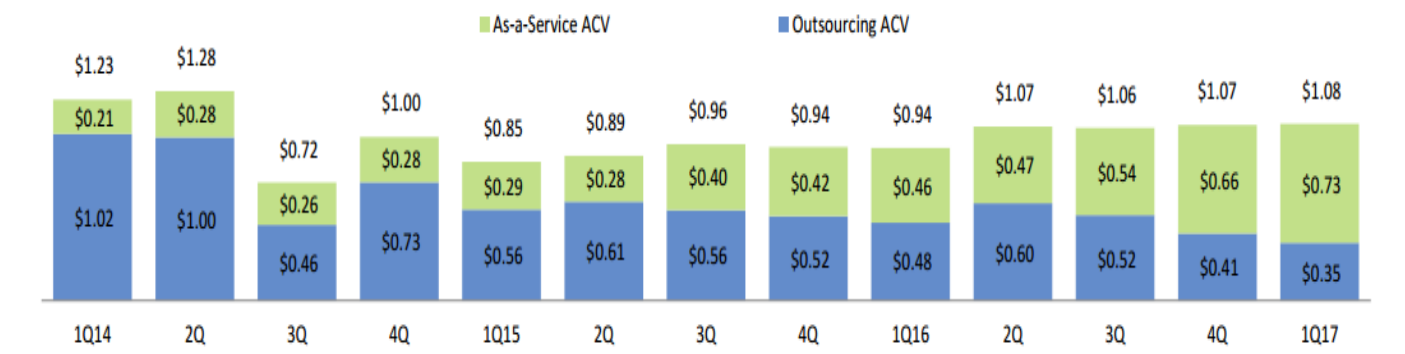
**Exhibit 10: Americas Commercial Industries - As-a-Service TTM ACV (\$B)**



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.

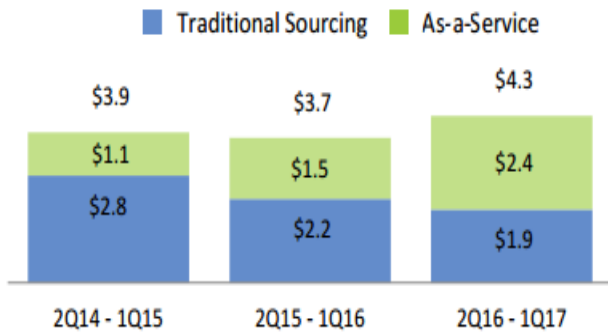
**Exhibit 11: Asia Pacific Commercial Sector Quarterly ACV (\$B) \***



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

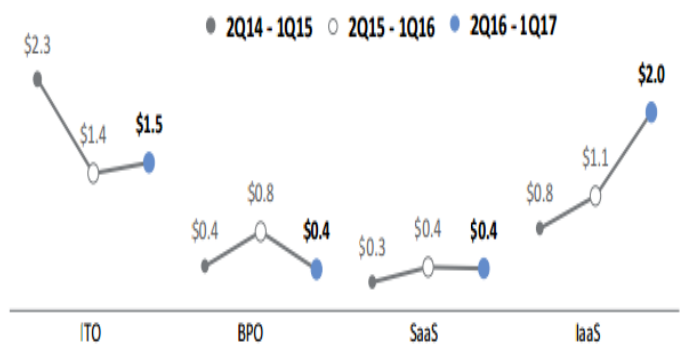


**Exhibit 12: APAC Commercial Sector TTM ACV (\$B)\***



Source: 1Q17 - ISG - Outsourcing - Index

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



Source: 1Q17 - ISG - Outsourcing - Index

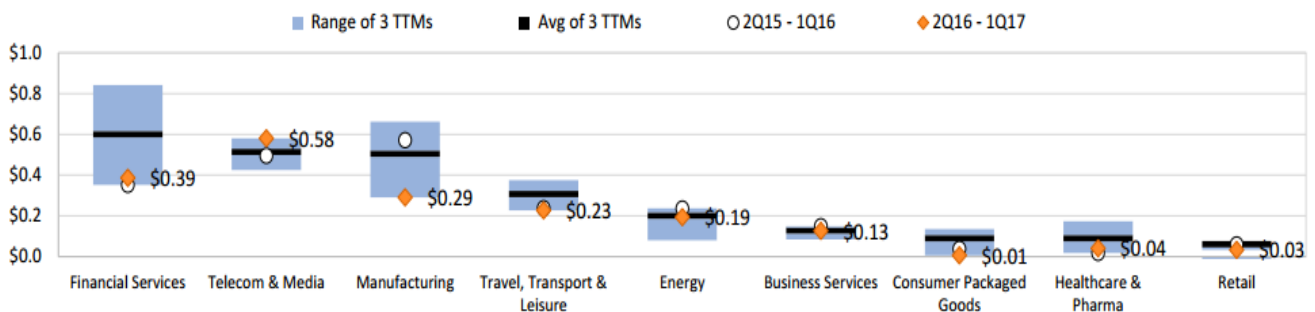
**Exhibit 14: Asia Pacific Top 15s - Sourcing standouts grouped by company size**



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.

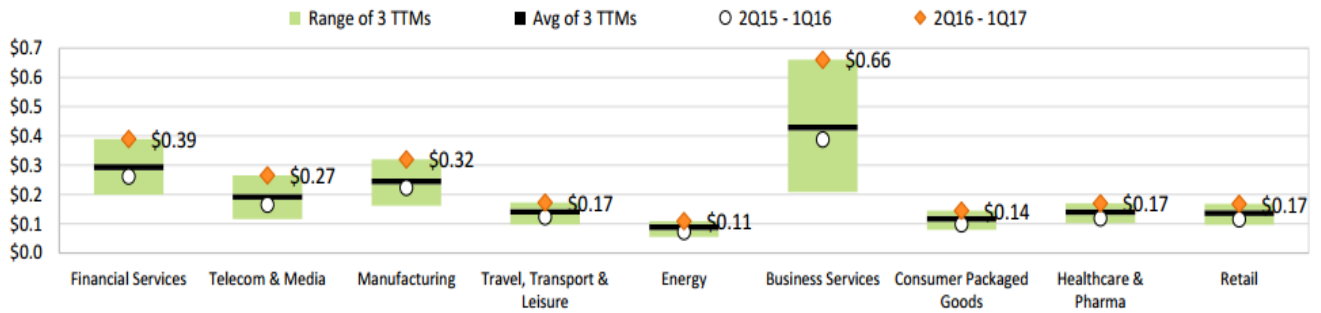
**Exhibit 15: Asia Pacific Commercial Industries - Traditional Sourcing TTM ACV (\$B)**



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



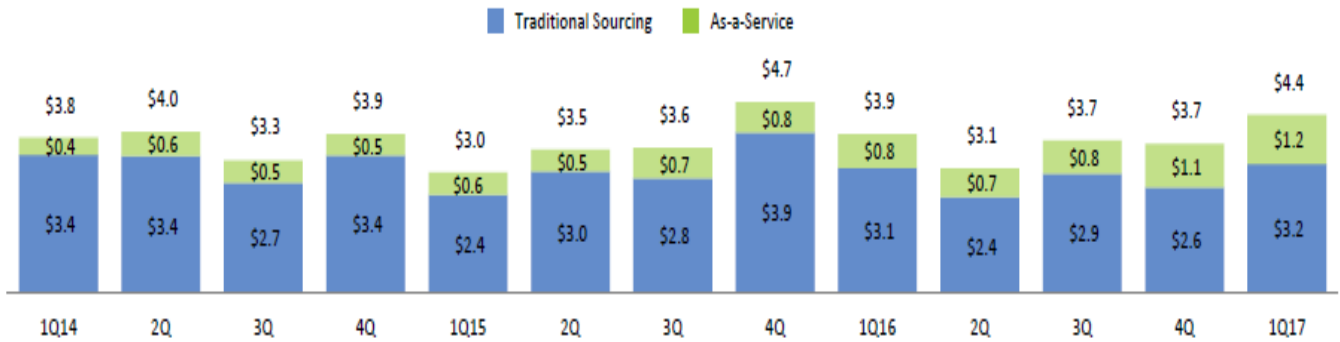
**Exhibit 16: Asia Pacific Commercial Industries - As-a-Service TTM ACV (\$B)**



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

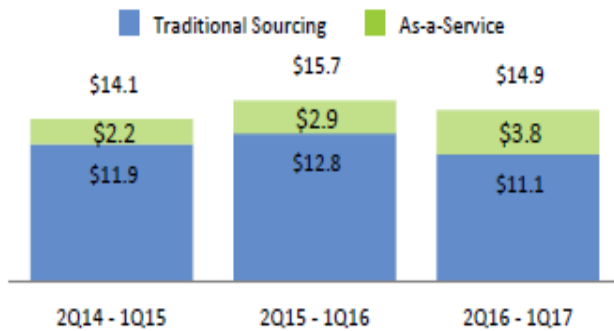
**EMEA Commercial Sector Contracting Trends** - Combined Market in EMEA surpasses US\$4bn level, up 13% YoY as EMEA registers second-best quarter ever; Traditional Sourcing sees slight growth YoY, while As-a-Service rises nearly 50% off a smaller base.

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



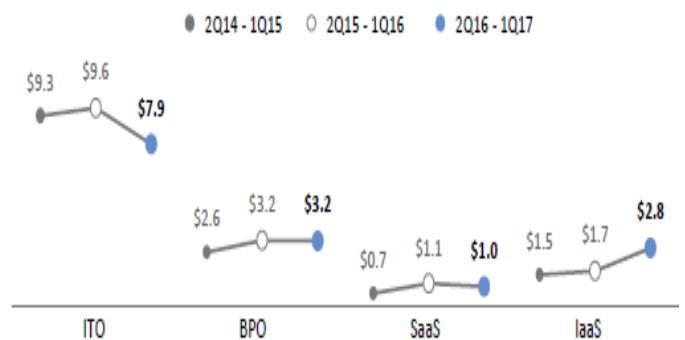
Source: 1Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**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



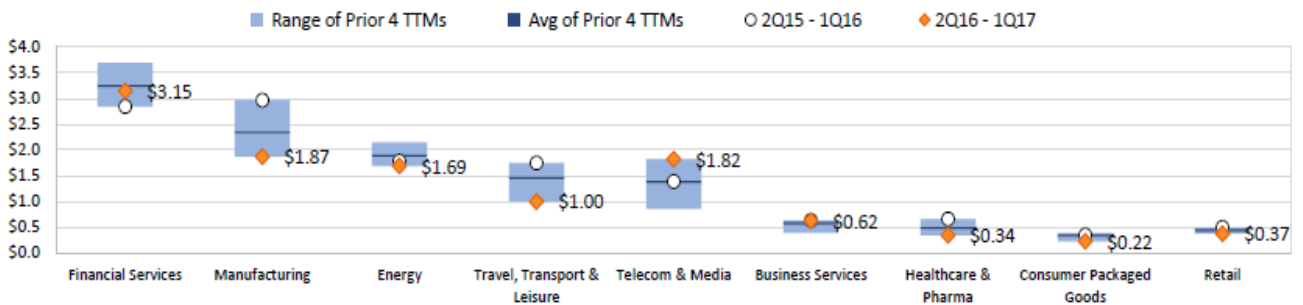
**Exhibit 20: EMEA Top 15s – Sourcing standouts grouped by company size**



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

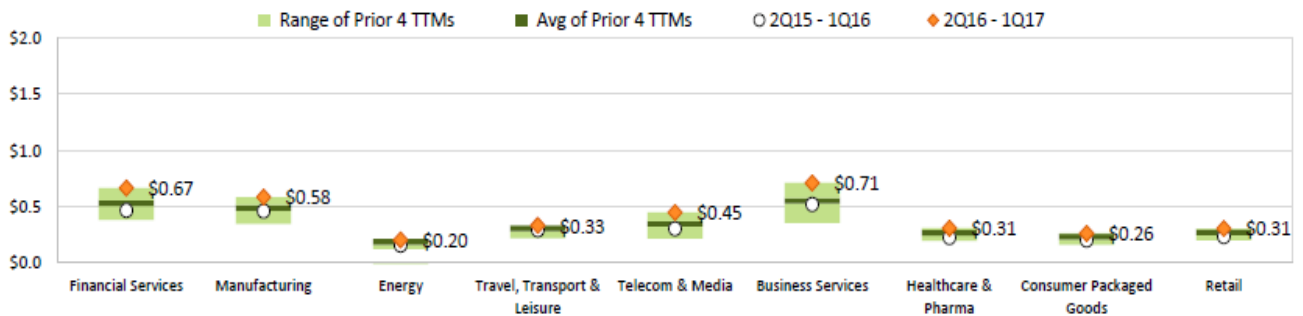
EMEA Commercial Sector Industry Award Trends - Telco and Financial Services ACV up notably, while manufacturing, weighed down by Traditional Sourcing, trails its prior year’s result.

**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



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
<b>Sales Trading &amp; Dealing</b>				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
<b>Research Team</b>				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

### DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.