

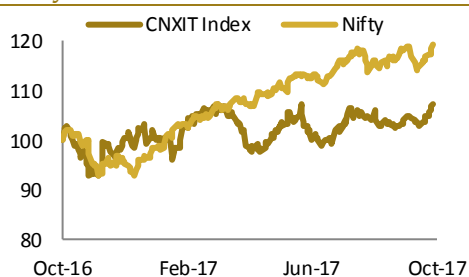
# Technology Sector Update

*Traditional sourcing to grow at 2.5% in CY18*

	CMP(₹)	3M ret.(%)	Yearly (%)
<b>Index Returns</b>			
Nifty	10,231	3	19
CNX IT	10,962	6	7
<b>Large-Caps</b>			
TCS	2,587	8	9
INFO	940	(3)	(9)
WPRO	291	12	22
HCLT	924	9	14
TECHM	475	22	13
<b>Mid-Caps</b>			
MTCL	494	(4)	(1)
MPHL	652	13	19
HEXW	277	15	52
ECLX	1,255	(8)	(17)
KPIT	128	(6)	(2)
NITEC	626	11	42
CYL	553	8	10
PSYS	660	1	(4)

	Rating	FDEPS (₹)	
		FY18E	FY19E
TCS	Hold	134.6	143.1
INFO	Buy	64.7	71.0
WPRO	Hold	17.7	19.1
HCLT	Buy	61.2	67.5
TECHM	Buy	36.1	43.3
MTCL	Hold	29.8	34.3
MPHL	Sell	38.9	43.6
HEXW	Hold	15.5	17.0
ECLX	Hold	78.4	92.7
KPIT	Hold	10.5	13.1
NITEC	Buy	42.3	50.0
CYL	Buy	36.7	41.2
PSYS	Hold	39.8	48.4

## Nifty vs CNX IT



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**ISG Outsourcing (TPI) came out with its findings on global outsourcing industry for Q3CY17. 3Q17 Combined Market ACV up 16% YoY on strength in As-a-service; with As-a-Service increasing 43%, offsetting only a 2% increase in Traditional Sourcing. Deal values are expected to remain small with focus on security, Digital and Cloud.**

**Key highlights:** 1) Demand for cloud-based solutions spurs record As-a-Service ACV of US\$4.7 bn, up 43%. 2) Combined global market up 16%, including slight increase in Traditional Sourcing, 3) Americas ACV surges 45%, with both As-a-Service and Traditional Sourcing up over 40%, 4) Despite record As-a-Service sourcing, EMEA stumbles on drop-off in Traditional Sourcing, 5) Asia Pacific up 43%, with Traditional Sourcing slightly outpacing As-a-Service growth.

**Trends across geographies: Global Contracting Trends - 3Q17 Combined Market ACV up 16% YoY on record high As-a-Service ACV; YTD, Traditional Sourcing remains static but with record high contracting activity (based on number of awards). Americas Contracting Trends Commercial Market ACV is up 45% YoY as both Traditional Sourcing and As-a-Service segments exceed 40% growth; YTD, Combined Market up 20% on record highs in As-a-Service (37%) and Traditional Sourcing (9% YoY). Asia Pacific Contracting Trends - Combined Market ACV rises 43% YoY on record high As-a-Service awards and best Traditional Sourcing ACV since 2014; YTD, Asia Pacific ACV is up 25% as both IaaS and ITO ACV increase 30+%. EMEA Contracting Trends - Combined Market in EMEA declines 23% YoY; record ACV levels in As-a-Service (+48%) can't offset decline in Traditional Sourcing (-43%); YTD, Combined Market increases 3% with strength in IaaS and a flurry of Traditional Sourcing activity from early in 2017.**

**Award trends across geographies: Americas Award Trends - Combined Market shows growth across all industries with the exception of Telecom; largest verticals, Financial Services and Manufacturing, lead the way in YoY growth in both Traditional Sourcing and As-a-Service. Asia Pacific Award Trends - Most industry verticals grow YoY in Combined Market ACV; Financial Services and mid-sized markets such as Energy and CPG generate both strong YoY As-a-Service and Traditional Sourcing activity. EMEA Award Trends - YTD, mixed results in many industry sectors with Financial Services leading and Manufacturing and Telecom lagging; Financial Services and mid-sized verticals CPG and Business Services lead the way with double-digit gains in both Traditional Sourcing and As-a-Service.**

**Market Summary:** 1) Substantial YoY growth for the quarter in both the Americas and Asia Pacific, but that was offset by a decline in EMEA. 2) As-a-Service segment rebounded from slowing 2Q with record-setting ACV; YTD, As-a-Service rose 40% with strength in IaaS segment, notably the public cloud, and high single-digit growth in SaaS. 3) Several Industries generated both Traditional Sourcing and As-a-Service YTD growth, including Financial Services and smaller sectors such as Energy and CPG.

**Market Outlook:** 1) As-a-Service segment: forecast 20+% growth through next year, driven by further acceptance of public cloud and stepped-up activity occurring in both EMEA and Asia Pacific. 2) Traditional Sourcing segment: forecast an increase of 2.5% next year.

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



1) **Demand for cloud-based solutions** spurs record As-a-Service ACV of US\$4.7 bn, up 43%. 2) **Combined global market up 16%**, including slight increase in Traditional Sourcing, 3) **Americas ACV surges 45%**, with both As-a-Service and Traditional Sourcing up over 40%, 4) Despite record As-a-Service sourcing, **EMEA stumbles** on drop-off in Traditional Sourcing. 5) **Asia Pacific up 43%**, with Traditional Sourcing slightly outpacing As-a-Service growth.

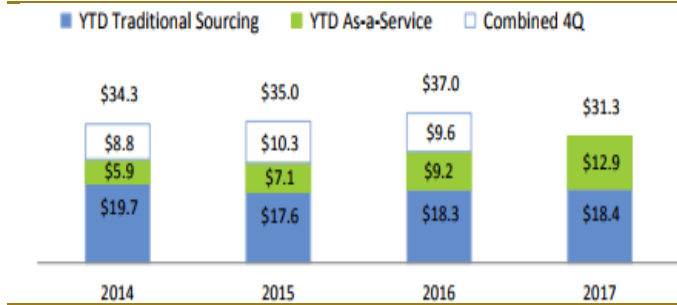
**Exhibit 1: Deal signings in Q3CY17 – At a glance**

Scorecard	3Q17	3Q YoY	3Q QoQ	YTD	YTD
	ACV (US\$ bn)*	Change (%)	Change (%)	ACV (US\$ bn)	Change (%)
<b>Global Commercial Combined Market</b>	<b>10.7</b>	<b>16</b>	<b>9</b>	<b>31.3</b>	<b>14</b>
By Type – Outsourcing	6	2	2	18.4	1
By Type – As-a-Service	4.7	43	18	12.9	41
By Region – Americas	6.3	45	31	16.3	20
By Region – EMEA	2.9	(23)	(22)	11.3	3
By Region – Asia Pacific	1.5	43	16	3.7	25

Source: 3Q17 – ISG – Outsourcing – Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

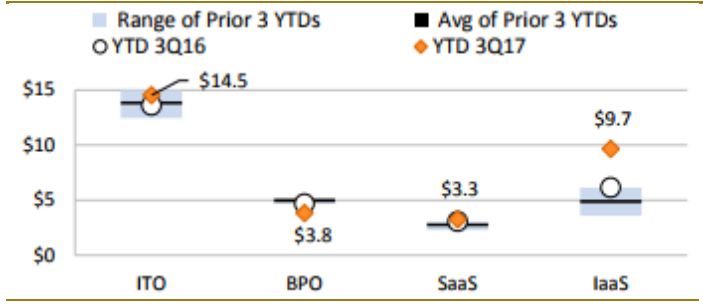
**Global Commercial Sector Contracting Trends - 3Q17 Combined Market ACV up 16% YoY** on record high As-a-Service ACV; YTD, Traditional Sourcing remains static but with record high contracting activity (based on number of awards).

**Exhibit 2: Global Comm. Sector YTD ACV (\$B)\***



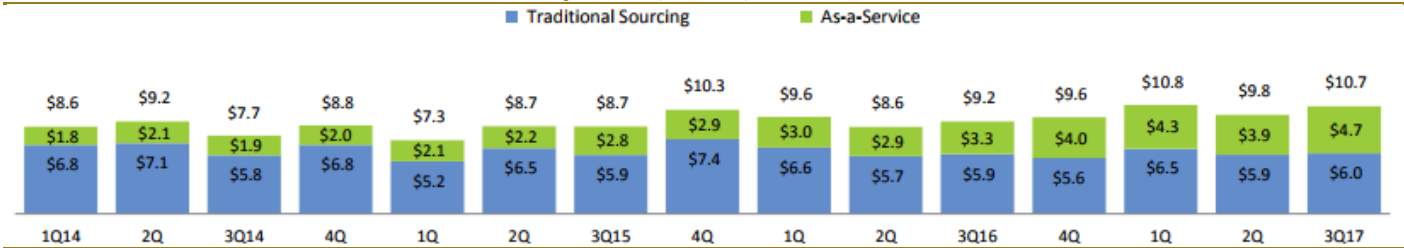
Source: 3Q17 – ISG – Outsourcing – Index

**Exhibit 3: Global Comm. Sector YTD ACV by type**



Source: 3Q17 – ISG – Outsourcing – Index

**Exhibit 4: Global Commercial Sector Quarterly ACV (US\$bn)\***



Source: 3Q17 – ISG – Outsourcing – Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

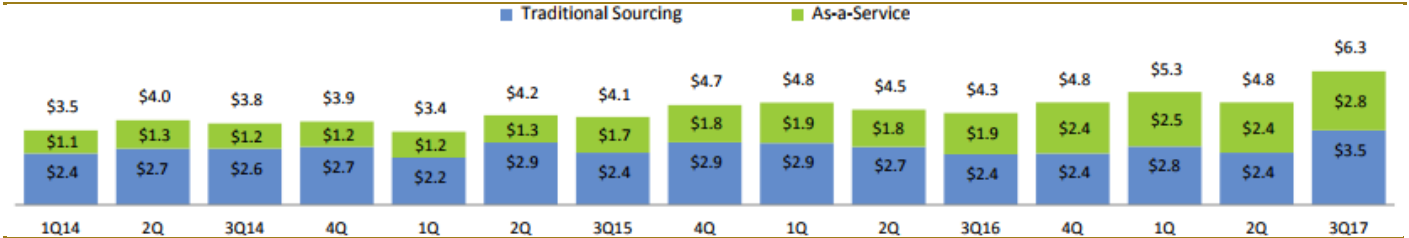
**Our view:** ISG commentary is in sync with the financial performance of Indian IT companies – with companies pointing out to uncertain revenue visibility on account of weak macro environment, since Indian IT companies are still dependent on traditional outsourcing as their main business. We continue to prefer companies with stronger revenue momentum and margin of safety in valuations – HCLT and Tech Mahindra in large-caps.

**Top-5 omnipresent:** Among the mid-caps in our coverage universe, Mindtree (Americas), L&T Infotech (Americas), Hexaware (Americas, EMEA, APAC), Polaris (Americas, EMEA, APAC) was mentioned in “The Breakthrough 15 Sourcing Standouts”. However, Top-5 Indian IT companies continue to have a strong presence across geographies.



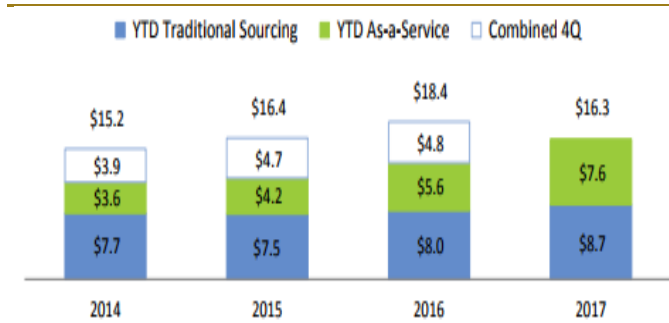
**Americas Commercial Sector Contracting Trends** - Commercial Market ACV is up 45% YoY as both Traditional Sourcing and As-a-Service segments exceed 40+% growth; YTD, Combined Market up 20% on record highs in As-a-Service (37%) and Traditional Sourcing (9% YoY).

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



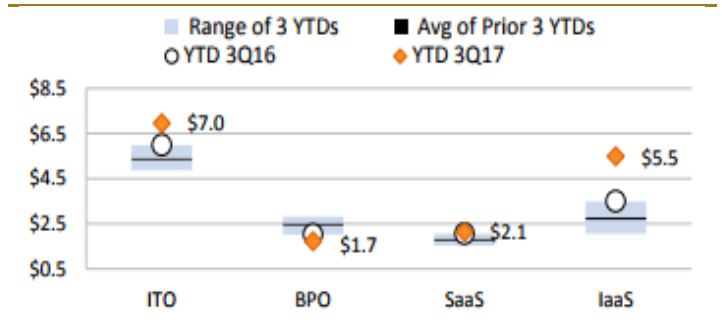
Source: 3Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**Exhibit 6: Americas Commercial Sector YTD ACV**



Source: 3Q17 - ISG - Outsourcing - Index

**Exhibit 7: America Comm. Sector YTD ACV**



Source: 3Q17 - ISG - Outsourcing - Index

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

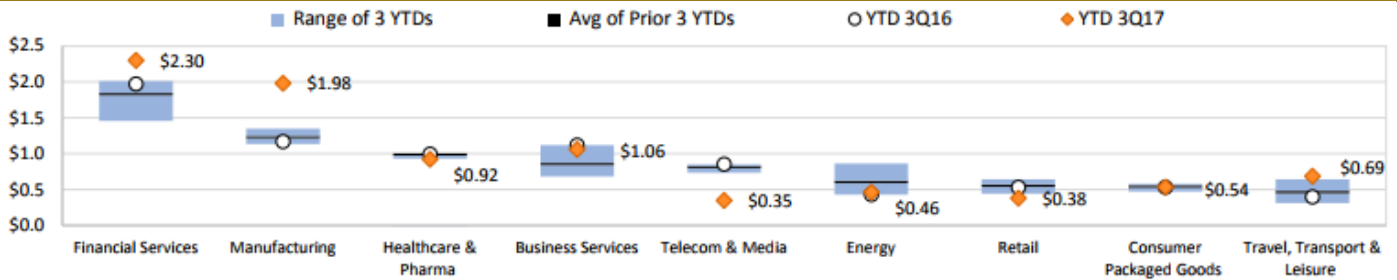
The Big 15 Co. Revenues > \$10 B	The Building 15 Co. Revenues \$1 -10 B	The Breakthrough 15 Co. Revenues < \$1 B
<b>Traditional Sourcing Market</b> Accenture AT&T Atos Capgemini Cognizant DXC Technology IBM Infosys NTT DATA TCS  <b>As-a-Service Market</b> Amazon Web Services Google Microsoft Oracle Salesforce	<b>Traditional Sourcing Market</b> Black Knight, Inc Diebold Nixdorf Genpact HCL Sutherland Global TeleTech Unisys Wipro  <b>As-a-Service Market</b> Adobe Systems Digital Realty Equinix Iron Mountain Rackspace/Datapipe ServiceNow Workday	<b>Traditional Sourcing Market</b> C3/CustomerContactChannels Ensono EXL Hexaware HGS LTI Luxoft Mindtree StarTek Syntel Virtusa  <b>As-a-Service Market</b> Coresite CyrusOne LogMeIn Mulesoft

Source: 3Q17 - ISG - Outsourcing - Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase



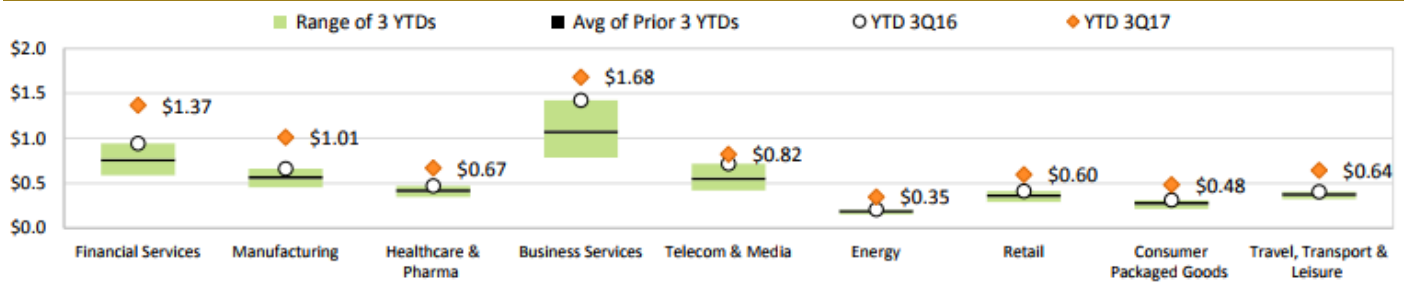
**Americas Commercial Sector Industry Award Trends** - Combined Market shows growth across all industries with the exception of Telecom; largest verticals, Financial Services and Manufacturing, lead the way in YoY growth in both Traditional Sourcing and As-a-Service.

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



Source: 3Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

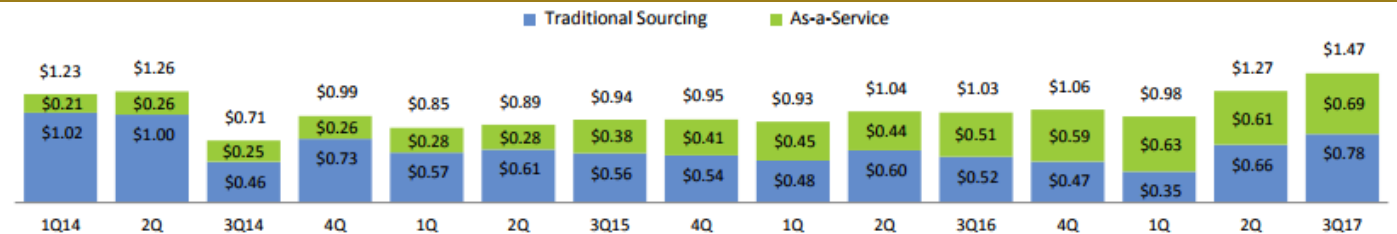
**Exhibit 10: Americas Commercial Industries - As-a-Service YTD ACV (\$B)**



Source: 3Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

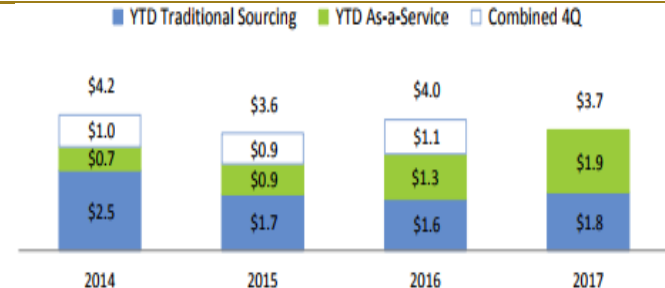
**Asia Pacific Commercial Sector Contracting Trends** - Combined Market ACV rises 43% YoY on record high As-a-Service awards and best Traditional Sourcing ACV since 2014; YTD, Asia Pacific ACV is up 25% as both IaaS and ITO ACV increase 30+%.

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



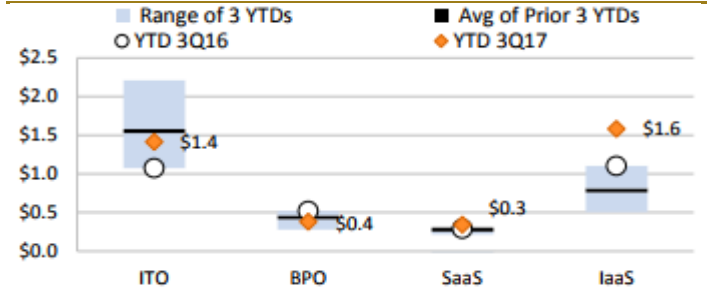
Source: 3Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**Exhibit 12: APAC Comm. Sector YTD ACV (\$B)\***



Source: 3Q17 - ISG - Outsourcing - Index

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



Source: 3Q17 - ISG - Outsourcing - Index



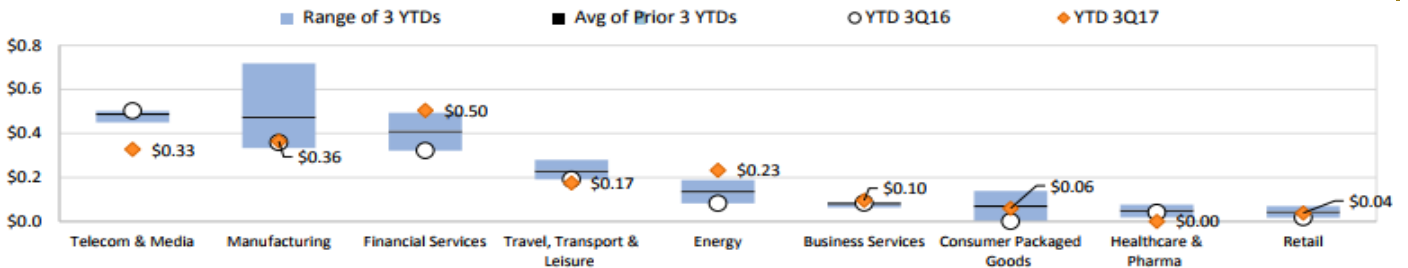
**Exhibit 14: Asia Pacific Top 15s – Sourcing standouts grouped by company size**



Source: 3Q17 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

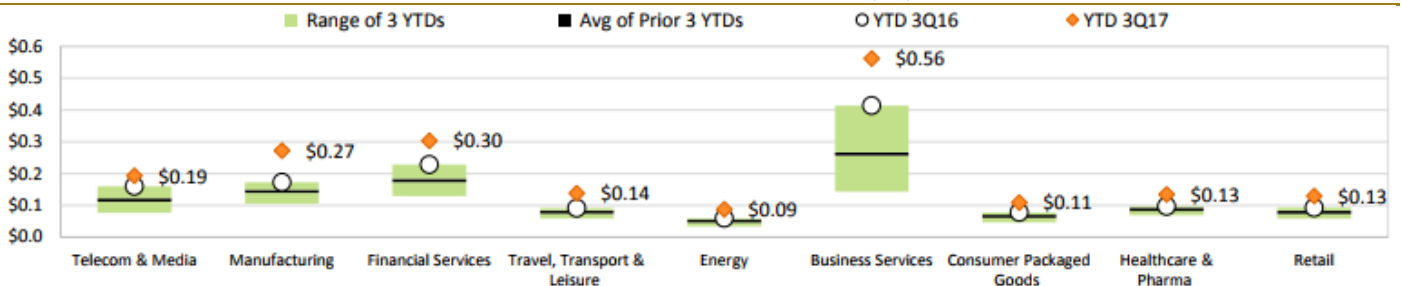
**Asia Pacific Traditional Outsourcing Award Trends** - Most industry verticals grow YoY in Combined Market ACV; Financial Services and mid-sized markets such as Energy and CPG generate both strong YoY As-a-Service and Traditional Sourcing activity.

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



Source: 3Q17 – ISG – Outsourcing – Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

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



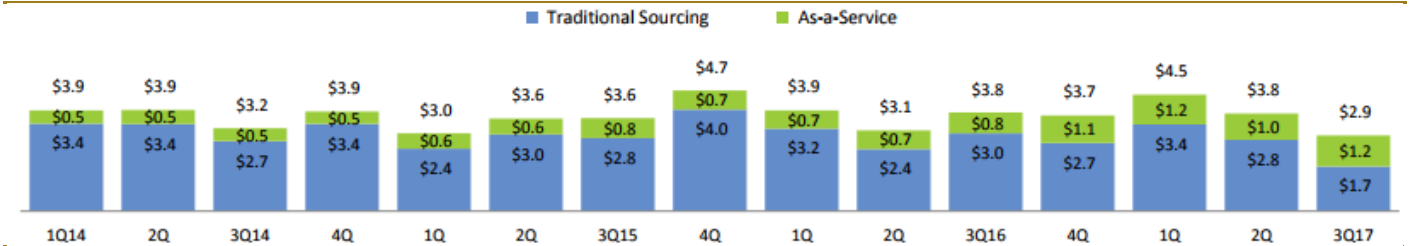
Source: 3Q17 – ISG – Outsourcing – Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase





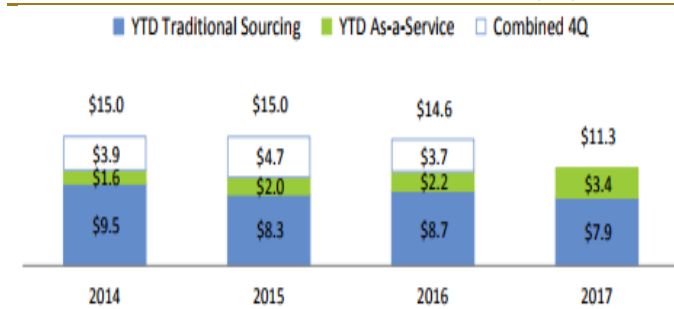
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**Exhibit 17: EMEA Commercial Sector Quarterly ACV (US\$ bn)\***



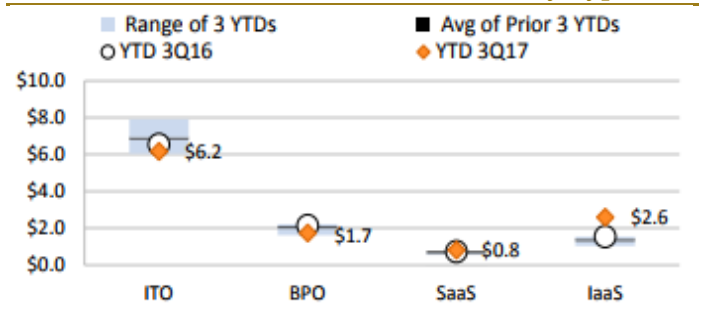
Source: 3Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**Exhibit 18: EMEA Comm. Sector YTD ACV (\$B)\***



Source: 3Q17 - ISG - Outsourcing - Index

**Exhibit 19: EMEA Comm. Sector YTD ACV by Type**



Source: 3Q17 - ISG - Outsourcing - Index

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

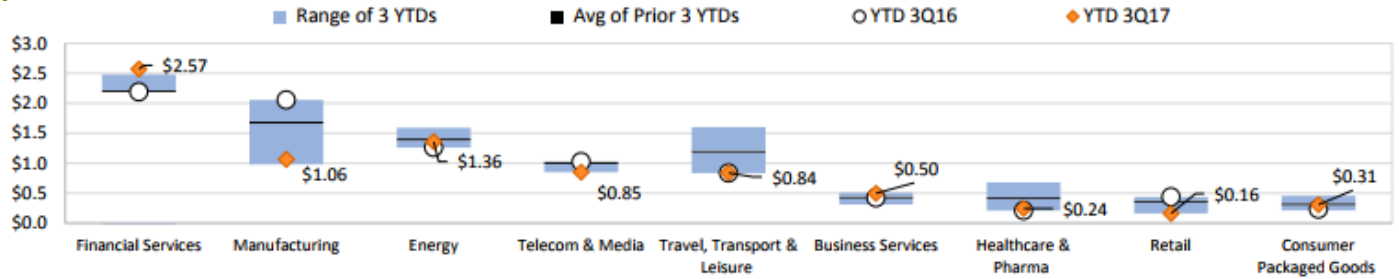
The Big 15 Co. Revenues > \$10 B	The Building 15 Co. Revenues \$1 -10 B	The Breakthrough 15 Co. Revenues < \$1 B
<b>Traditional Sourcing Market</b> Accenture Atos BT Capgemini Cognizant DXC Technology IBM Infosys TCS T-Systems  <b>As-a-Service Market</b> Amazon Web Services Google Microsoft Oracle SAP	<b>Traditional Sourcing Market</b> Atento Capita Carillion Diebold Nixdorf EVERY HCL Interserve Orange Business Services Sopra Steria Tech Mahindra Tieto Wipro  <b>As-a-Service Market</b> Adobe Systems Equinix United Internet	<b>Traditional Sourcing Market</b> Adare Group Coor Service Management Eulen Firstsource Solutions Hexaware Ibykus KMD Luxoft MAYKOR NNIT A/S Virtusa WNS  <b>As-a-Service Market</b> Interxion LogMeIn OVH

Source: 3Q17 - ISG - Outsourcing - Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase



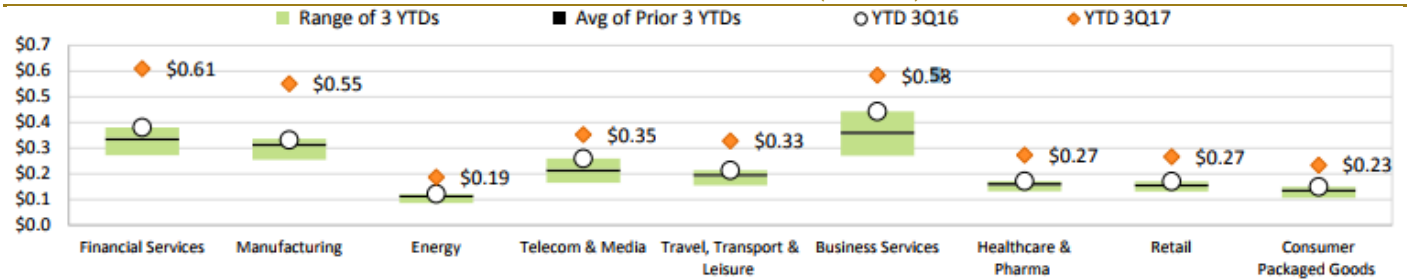
EMEA Commercial Sector Industry Award Trends - YTD, mixed results in many industry sectors with Financial Services leading and Manufacturing and Telecom lagging; Financial Services and mid-sized verticals CPG and Business Services lead the way with double-digit gains in both Traditional Sourcing and As-a-Service.

**Exhibit 21: EMEA Commercial Industries - Traditional Outsourcing YTD ACV (US\$ bn)**



Source: 3Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**Exhibit 22: EMEA Commercial Industries - As-a-Service YTD ACV (US\$ bn)**



Source: 3Q17 - ISG - Outsourcing - Index, \*Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

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Served as Director or Employee	No

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**Recommendation**      **Expected absolute returns (%) over 12 months**

Buy                      More than 15%

Hold                     15% to -15%

Sell                      Less than -15%

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