

# Technology

## Dec'17 Results Preview

*Mid-caps to have a better quarter*

	CMP (₹)	3M ret. (%)	Yearly (%)
<b>Index Returns</b>			
Nifty	10,632	6	28
CNX IT	12,055	12	18
<b>Large-Caps</b>			
TCS	2,807	14	21
INFO	1,052	12	8
WPRO	327	14	37
HCLT	916	2	9
TECHM	542	16	14
<b>Mid-Caps</b>			
MTCL	624	28	29
MPHL	710	15	33
HEXW	362	30	79
ECLX	1,526	25	7
KPIT	206	57	49
NITEC	719	19	67
CYL	582	12	19
PSYS	744	12	17

**3QFY18E preview – Revenue growth will be muted on account of seasonal weakness and continued softness in the BFS vertical. Cc revenue growth to be in the range of 1.1 to 1.5%, organically (Large Caps). The margins for the IT Large Caps are expected to remain flattish. Rupee has depreciated 0.5% QoQ against the US\$. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 1.1%, 1.2%, 1.4% and 1.1%, respectively. Deal TCv and ramp ups in the deals won over the last couple of quarters are key monitorables for the quarter. HCL Tech and Tech Mahindra are our top picks in the Large Caps, while NITEC is in the Mid-Caps. We expect Infosys to maintain its cc revenue growth guidance for FY18 to 5.5-6.5% and maintain EBIT margin guidance.**

**Muted growth for tier I companies.** We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 1.1%, 1.2%, 1.4% and 1.1%, respectively. Tech Mahindra & Mphasis are expected to show US\$ growth of 1.5% and 3.4% respectively. We expect Infosys to maintain its cc revenue growth guidance for FY18 at 5.5-6.5% and maintain EBIT margin guidance. We expect HCLT to retain cc revenue growth guidance of 10.5-12.5% and EBIT margin guidance at 19.5-20.5%.

**EBITDA margins – expect flattish margins QoQ.** EBITDA margins of Tier-1 & Tier-2 IT companies expected to remain flat QoQ primarily on account of wage hike normalization dented by weak revenue trajectory. On the positive front, Tech Mahindra (higher operational efficiencies), Mindtree (non-recurrence of one-time costs), NIIT Tech (better revenue mix) and on the negative front, Hexaware (client loss) and Cyient (weak Services revenue).

	Rating	FDEPS (₹)	
		FY18E	FY19E
TCS	Hold	134.6	148.1
INFO	Buy	65.4	71.5
WPRO	Hold	17.9	19.0
HCLT	Buy	62.7	68.2
TECHM	Buy	35.0	39.6
MTCL	Hold	30.6	34.1
MPHL	Sell	39.8	44.2
HEXW	Hold	16.8	17.5
ECLX	Hold	74.3	84.1
KPIT	Hold	11.8	14.1
NITEC	Buy	42.3	51.7
CYL	Buy	36.7	41.2
PSYS	Hold	41.3	48.2

**Business outlook – cautious -** (1) Investors are likely to focus on CY2018 demand outlook, (2) expected recovery in IT spending in the banking vertical after the past two years were impacted, (3) large deals, new markets opening up and continued market-share gains, (4) Large deals are extremely competitive and have high pricing pressure. Progress in SMAC/AI vertical to determine ability to offset the pressure on traditional business.

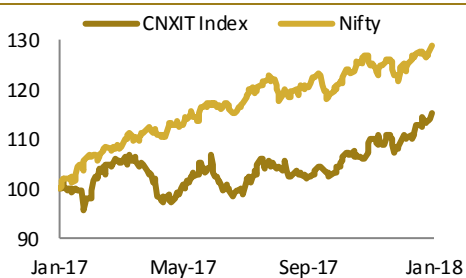
**Top Picks – Tech Mahindra, HCLT and NITEC.**

### Exhibit 1: Key Financials for quarter ending Dec 2017

(₹ mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
TCS	310,111	1.5	82,696	1.3	64,750	0.4
INFO	178,627	1.7	47,535	1.1	36,179	(2.9)
WPRO	136,243	1.5	28,007	0.8	21,370	(2.4)
HCLT	127,628	2.6	28,100	1.8	21,523	(1.6)
TECHM	77,396	1.8	11,787	6.6	7,702	(7.9)
MTCL	13,677	2.7	1,707	10.8	1,086	(12.9)
MPHL	15,993	(0.3)	2,440	(2.1)	1,967	(0.5)
HEXW	9,886	(0.5)	1,709	(5.9)	1,262	(16.2)
ECLX	3,378	2.1	999	4.1	729	(17.6)
KPIT	9,135	(0.3)	900	(0.3)	526	(11.9)
NITEC	7,291	(1.1)	1,222	2.7	662	(1.4)
CYL	9,738	0.9	1,375	(2.5)	993	(11.0)
PSYS	7,945	4.4	1,251	8.1	827	0.2

Source: Trust

### Nifty vs CNX IT



ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in



**Exhibit 2: Results preview for quarter ending Dec' 2017**

Mn		Dec'17	Dec'16	YoY (%)	Sep'17	QoQ (%)	Comments
TCS	Revenues (US\$)	4,793	4,387	9.3	4,739	1.1	Expect a cc growth of 1.1% QoQ. Growth to be impacted by seasonal furloughs.
	Revenues	310,111	297,350	4.3	305,410	1.5	We expect margins to be up flats QoQ - wage hikes normalisation to be dented by weak revenue growth.
	EBITDA	82,696	82,290	0.5	81,640	1.3	OI to be lower after completion of Rs160bn buyback last quarter.
	PAT	64,750	68,140	(5.0)	64,460	0.4	Will lookout for commentary on workforce, TCS's initiatives in Digital Technologies, and discretionary spends
Infosys	Revenues (US\$)	2,761	2,551	8.2	2,728	1.2	Expect a cc revenue growth of 1.2% QoQ, negligible cross currency movement.
	Revenues	178,627	172,730	3.4	175,670	1.7	We expect margins to be down 20bps QoQ - wage hike normalisation to be dented by weak revenue growth
	EBITDA	47,535	47,670	(0.3)	47,020	1.1	FY18 revenue guidance expected to be retained at 5.5-6.5% in cc terms. EI to have a US\$225mn tax write back.
	PAT	36,179	37,080	(2.4)	37,260	(2.9)	Will lookout for(1) Digital strategy, (2) business strategy for outsourcing business (3) Deal TCVs
Wipro	Revenues (US\$) - IT	2,036	1,903	7.0	2,014	1.1	We expect cc revenues to be down 1.1% QoQ, aided by acquisitions (~20bps).
	Revenues	136,243	136,878	(0.5)	134,234	1.5	We expect EBIT margins to be up flat QoQ
	EBITDA	28,007	27,878	0.5	27,788	0.8	We expect Wipro to guide for a 0-2% sequential revenue growth
	PAT	21,370	21,094	1.3	21,895	(2.4)	Will lookout for update in the turnaround strategy, new account growth and new deal wins, integration of acqs.
HCL Tech	Revenues (US\$)	1,973	1,745	13.0	1,928	2.3	Expect a cc growth of 2.3% QoQ (1.4% organic). Growth will be aided by IBM IP partnership & Urban Fulfillment
	Revenues	127,628	118,140	8.0	124,340	2.6	EBITDA margins lower 20bps QoQ on account of wage revision helped by IP partnerships.
	EBITDA	28,100	26,280	6.9	27,590	1.8	Expect HCLT to retain cc revenue growth guidance of 10.5-12.5% and EBIT margin guidance at 19.5-20.5%
	PAT	21,523	20,710	3.9	21,880	(1.6)	Will lookout for commentary on demand outlook in view of Brexit, competitive intensity in IMS and profitability.
Tech Mahindra	Revenues (US\$)	1,196	1,116	7.2	1,179	1.4	We expect cc revenue growth of 1.5%. Rest on account of cross currency movements. Enterprise Vertical to be robust.
	Revenues	77,396	75,575	2.4	76,064	1.8	EBITDA margin to be up 70bps QoQ; operational efficiencies and better utilisation
	EBITDA	11,787	11,865	(0.7)	11,057	6.6	OI to be far lower compared to both QoQ and YoY due to minimal cross-currency movements
	PAT	7,702	8,558	(10.0)	8,362	(7.9)	Would look out for - roadmap for improvement in margins and turnaround strategy for LCC and Comviva
Mphasis	Revenues (US\$)	247	224	10.6	239	3.4	We expect traction in Direct International business, while DR would decline.
	Revenues	15,993	15,361	4.1	16,047	(0.3)	Margins to be down 20bps QoQ - strong growth and cc movements
	EBITDA	2,440	2,396	1.8	2,493	(2.1)	
	PAT	1,967	2,044	(3.8)	1,977	(0.5)	Lookout for commentary on - HP Enterprise, HP Non-Enterprise and the Direct Channel ramp-up going forward.
Hexaware	Revenues (US\$)	153	139	10.0	154	(0.8)	Expect a muted cc growth on account of loss of two clients. IMS/BPO to have a strong quarter
	Revenues	9,886	9,409	5.1	9,931	(0.5)	Expect margins to be down 110bps QoQ - wage hike, weak revenue trajectory offset by operational efficiencies
	EBITDA	1,709	1,679	1.8	1,816	(5.9)	Expect HEXW to guide for a 10-12% cc revenue growth for CY18.
	PAT	1,262	1,271	(0.7)	1,505	(16.2)	Management commentary on (1) progress in IMS vertical, (2) deal wins and demand outlook



Mn		Dec'17	Dec'16	YoY (%)	Sep'17	QoQ (%)	Comments
MindTree	Revenues (US\$)	211	192	10.0	206	2.5	We expect organic cc growth of 2.5% due to ramp up of large deals, Bluefin will be a drag
	Revenues	13,677	12,953	5.6	13,316	2.7	EBITDA margin to increase 90bps on account of non-recurrence of one-time costs
	EBITDA	1,707	1,740	(1.9)	1,541	10.8	We expect strong TCV signings led by rebid wins and conversion of deals in the pipeline
	PAT	1,086	1,031	5.4	1,247	(12.9)	We would lookout for commentary on the 2 business channels - IT Services and PES business going forward.
KPIT	Revenues (US\$)	141	123	14.9	142	(0.4)	We expect a cc decline of 0.4% QoQ on account of seasonal weakness
	Revenues	9,135	8,307	10.0	9,160	(0.3)	Margin is expected to decline 10bps on account of weak revenue trajectory helped by operational efficiencies
	EBITDA	900	846	6.4	903	(0.3)	
	PAT	526	736	(28.5)	597	(11.9)	Will look out for sustainability of revenue, profitability in various segments.
NIIT Tech	Revenues (US\$)	113	103	9.6	113	(0.2)	Expect QoQ USD revenue growth be down 0.2% QoQ.
	Revenues	7,291	6,938	5.1	7,372	(1.1)	EBITDA margin to be up 70bps QoQ due of operational efficiencies and better revenue mix.
	EBITDA	1,222	1,162	5.2	1,190	2.7	
	PAT	662	624	6.0	671	(1.4)	Will lookout for fresh order intake in USA , EMEA regions and orders to be executables in the next 12 months.
eClerx	Revenues (US\$)	50	47	5.3	48	2.8	Revenue growth to be 2.8% QoQ in cc terms
	Revenues	3,378	3,247	4.0	3,309	2.1	EBITDA margin to increase by 65bps on account of operational efficiencies and business tailwinds.
	EBITDA	999	1,043	(4.2)	960	4.1	
	PAT	729	860	(15.3)	885	(17.6)	We will keep a look on the Demand outlook from top 5 clients and ramp-up in the core business
Cyient	Revenues (US\$)	151	136	10.8	150	0.3	Revenue growth of 0.5% in cc terms driven by DLM. Seasonal furloughs to hit services business
	Revenues	9,738	9,171	6.2	9,654	0.9	EBITDA margin to be down 50bps QoQ dented by seasonal weakness in Services business.
	EBITDA	1,375	1,228	12.0	1,410	(2.5)	
	PAT	993	940	5.6	1,115	(11.0)	Commentary on deal pipeline, demand outlook and margin improvement needs to be seen.
Persistent Systems	Revenues (US\$)	123	110	11.6	118	4.0	Growth to be driven by growth in IoT, stability in Digital and Alliance segment.
	Revenues	7,945	7,455	6.6	7,613	4.4	
	EBITDA	1,251	1,187	5.4	1,158	8.1	EBITDA margins to be up 50bps QoQ due to favourable revenue mix partly offset by wage hikes
	PAT	827	819	1.0	826	0.2	Commentary on IT budgets, discretionary spend, Watson platform and IP-led revenue funnel needs to be seen.

Source: Company, Trust

**Exhibit 3: Depreciation of currencies against the US Dollar**

	US\$/£	US\$/Euro	¥/US\$	US\$/AU\$	Rs/US\$
31 Sep'17	1.32	1.18	114.0	0.79	64.5
31 Dec'17	1.34	1.18	113.0	0.78	64.7
% change (QoQ)	1.2	0.1	0.7	(1.7)	(0.5)

Source: Bloomberg

**Exhibit 4: Appreciation of the Rupee against other currencies**

	INR/GBP	INR/Euro	Yen/INR	INR/AUD
31 Sep'17	85.0	76.3	1.7	51.2
31 Dec'17	86.5	76.5	1.7	50.0
% change (QoQ)	(1.7)	(0.4)	(0.6)	1.3

Source: Bloomberg

**Exhibit 5: Valuation details**

	Rating	PER (x)		EV/EBITDA (x)		RoE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
TCS	Hold	20.8	18.9	16.6	14.7	30.1	31.3
INFO	Buy	16.1	14.7	11.2	9.8	20.3	20.2
WPRO	Hold	18.2	17.2	12.2	11.1	16.7	16.5
HCLT	Buy	14.6	13.4	10.3	8.9	24.5	23.6
TECHM	Buy	15.5	13.7	9.7	8.2	18.3	18.1
MTCL	Hold	20.4	18.3	14.3	11.9	18.6	18.7
MPHL	Sell	17.8	16.0	15.4	13.5	13.8	16.4
HEXW	Hold	21.5	20.6	14.6	13.2	29.6	27.3
ECLX	Hold	20.5	18.1	13.0	11.0	21.9	20.2
KPIT	Hold	17.5	14.6	10.3	8.6	14.0	15.0
NITEC	Buy	17.0	13.9	7.6	6.3	15.3	16.6
CYL	Buy	15.8	14.1	10.3	8.5	18.4	18.5
PSYS	Hold	18.0	15.5	11.5	9.4	16.5	17.2

Source: Bloomberg



## 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>Sales</b>				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
<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	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

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