

Technology

Mar'18 Results Preview

Guidance for FY19 holds key

	CMP (₹)	3M ret. (%)	Yearly (%)
Index Returns			
Nifty	10,402	(2)	13
CNX IT	12,577	4	22
Large-Caps			
TCS	2,938	5	21
INFO	1,113	6	17
WPRO	286	(12)	13
HCLT	948	4	14
TECHM	626	16	41
Mid-Caps			
MTCL	828	33	87
MPHL	910	28	63
HEXW	404	11	92
ECLX	1,245	(18)	(10)
KPIT	221	7	71
NITEC	886	23	107
CYL	636	9	34
PSYS	671	(10)	19

4QFY18E preview – We expect FY2019 to be a better year on account of better deal flows and wins. We expect companies to give a conservative revenue guidance and then eventually increase it as the year pans out. The margins for the IT Large Caps are expected to remain flattish. Rupee has remained flat QoQ against the US\$ but depreciated against other currencies which will provide cross-currency tailwind of 50-130 bps. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 1%, 1.3%, 1.8% and 1.5%, 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 give a cc revenue growth guidance of 6-8% for FY19 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%, 1.3%, 1.8% and 1.5%, respectively. Tech Mahindra & Mphasis are expected to show US\$ growth of 2.5% and 3.5% respectively. We expect Infosys to give a cc revenue growth guidance of 6-8% for FY19 and maintain EBIT margin guidance. We expect HCLT to guide for cc revenue growth guidance of 9-11% 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 weak revenue trajectory helped by INR depreciation against non-US\$ currencies. On the positive front, TCS (operational efficiencies), Tech Mahindra (higher utilization, operational efficiencies), Hexaware & NIIT Technologies (strong revenue trajectory) and on the negative front, Persistent Systems (IP revenue to drop US\$8mn QoQ) and Mphasis (business investments).

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 pricing pressure. Progress in SMAC vertical determine ability to offset pressure on traditional business.

Top Picks – Tech Mahindra, HCLT and NITEC.

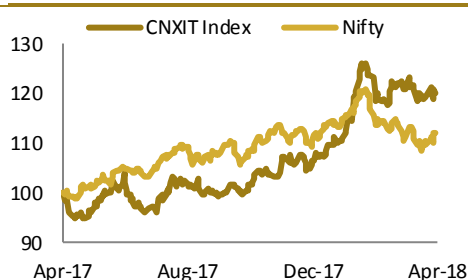
Exhibit 1: Key Financials for quarter ending Mar 2018

(₹ mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
TCS	317,621	2.8	86,289	4.1	67,327	2.9
INFO	181,957	2.3	49,404	2.6	37,168	(27.5)
WPRO	139,234	1.9	28,558	1.6	21,795	12.5
HCLT	132,426	3.4	30,402	2.6	22,543	2.7
TECHM	80,188	3.1	13,316	5.3	9,185	(2.6)
MTCL	14,351	4.2	2,189	5.5	1,430	1.0
MPHL	16,837	1.4	2,752	0.4	2,207	2.6
HEXW	10,358	3.1	1,772	4.8	1,269	4.8
ECLX	3,435	1.1	946	5.1	679	18.0
KPIT	9,245	1.3	1,062	7.4	661	7.2
NITEC	7,734	2.2	1,361	5.0	806	6.4
CYL	10,578	7.6	1,492	4.4	1,062	(2.1)
PSYS	7,656	(3.3)	1,078	(21.6)	660	(28.0)

Source: Trust

	Rating	FDEPS (₹)	
		FY19E	FY20E
TCS	Hold	149.0	161.9
INFO	Buy	71.6	76.1
WPRO	Hold	20.6	22.4
HCLT	Buy	69.2	75.2
TECHM	Buy	40.1	43.2
MTCL	Buy	35.1	41.6
MPHL	Sell	45.8	50.8
HEXW	Hold	18.1	20.5
ECLX	Hold	72.4	83.1
KPIT	Hold	14.4	17.0
NITEC	Buy	52.9	60.3
CYL	Buy	41.4	46.4
PSYS	Hold	49.4	56.5

Nifty vs CNX IT



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Exhibit 2: Results preview for quarter ending Mar' 2018

Mn		Mar'18	Mar'17	YoY (%)	Dec'17	QoQ (%)	Comments
TCS	Revenues (US\$)	4,909	4,452	10.3	4,787	2.6	Expect a cc growth of 1.3% QoQ and cross currency tailwind of ~130bps.
	Revenues	317,621	296,420	7.2	309,040	2.8	We expect margins to be up 35bps QoQ - operational efficiencies & INR depreciation (other than US\$)
	EBITDA	86,289	81,330	6.1	82,880	4.1	OI to be lower after completion of Rs160bn buyback last quarter.
	PAT	67,327	66,220	1.7	65,450	2.9	Will lookout for commentary on 2018 budgets, large deal wins and margin outlook
Infosys	Revenues (US\$)	2,812	2,569	9.5	2,755	2.1	Expect a cc revenue growth of 1% QoQ and cross currency tailwind of ~110bps.
	Revenues	181,957	171,200	6.3	177,940	2.3	We expect margins to be flattish QoQ - operational efficiencies to be dented by weak revenue growth
	EBITDA	49,404	46,580	6.1	48,170	2.6	FY18 revenue guidance expected to be retained at 6-8% in cc terms while EBIT margin guidance to be at 23-25%
	PAT	37,168	36,030	3.2	51,290	(27.5)	Will lookout for (1) Digital strategy, (2) business strategy for outsourcing business (3) Deal TCVs (4) CEO Roadmap
Wipro	Revenues (US\$) - IT	2,066	1,955	5.7	2,013	2.6	We expect cc revenues growth of 1.5% QoQ, aided by cross currency tailwind (~100bps).
	Revenues	139,234	139,875	(0.5)	136,690	1.9	We expect EBIT margins to be up flat QoQ
	EBITDA	28,558	28,182	1.3	28,104	1.6	We expect Wipro to guide for a 0-2% sequential revenue growth
	PAT	21,795	22,611	(3.6)	19,371	12.5	Will lookout for update in the turnaround strategy, new account growth and new deal wins, integration of acqs.
HCL Tech	Revenues (US\$)	2,047	1,817	12.7	1,988	3.0	Expect a cc growth of 1.8% QoQ (1.1% organic). Growth will be aided by IBM IP partnership & Urban Fulfillment
	Revenues	132,426	120,530	9.9	128,080	3.4	EBITDA margins to be flat QoQ, INR depreciation against non-US\$ currencies dented by IP partnerships.
	EBITDA	30,402	26,490	14.8	29,640	2.6	Expect HCLT to retain cc revenue growth guidance of 9-11% and EBIT margin guidance at 19.5-20.5%
	PAT	22,543	23,280	(3.2)	21,940	2.7	Will lookout for commentary on demand outlook, competitive intensity in IMS and profitability.
Tech Mahindra	Revenues (US\$)	1,239	1,131	9.6	1,209	2.5	We expect cc revenue growth of 1.2%. Rest on account of cross currency movements. Enterprise Vertical to be robust.
	Revenues	80,188	74,950	7.0	77,760	3.1	EBITDA margin to be up 30bps QoQ; operational efficiencies and better utilisations
	EBITDA	13,316	8,987	48.2	12,647	5.3	OI to be lower compared to both QoQ and YoY
	PAT	9,185	5,879	56.2	9,431	(2.6)	Would look out for - roadmap for improvement in margins and turnaround strategy for LCC and Comviva
MphasiS	Revenues (US\$)	260	222	17.5	251	3.5	We expect traction in Direct International business, while DR would decline.
	Revenues	16,837	15,059	11.8	16,607	1.4	Margins to be down 20bps QoQ - strong growth and cc movements
	EBITDA	2,752	2,384	15.5	2,742	0.4	
	PAT	2,207	1,841	19.9	2,150	2.6	Lookout for commentary on - HP Enterprise, HP Non-Enterprise and the Direct Channel ramp-up going forward.
Hexaware	Revenues (US\$)	160	145	10.6	156	2.6	Expect cc revenue growth of 2%. Rest on account of cross currency movements. Growth on account of new deal wins.
	Revenues	10,358	9,605	7.8	10,048	3.1	Expect margins to be up 30bps QoQ - strong revenue trajectory and operational efficiencies to help
	EBITDA	1,772	1,677	5.7	1,691	4.8	
	PAT	1,269	1,139	11.4	1,211	4.8	Management commentary on (1) progress in IMS vertical, (2) deal wins and demand outlook, (3) Top client's outlook



Mn		Mar'18	Mar'17	YoY (%)	Dec'17	QoQ (%)	Comments
MindTree	Revenues (US\$)	222	196	13.4	214	3.5	We expect organic cc growth of 2.8% due to ramp up of large deals, Rest on account of cross currency movements
	Revenues	14,351	13,181	8.9	13,777	4.2	EBITDA margin to increase 20bps on account of INR movement and strong revenue trajectory
	EBITDA	2,189	1,641	33.4	2,074	5.5	We expect strong TCV signings led by rebid wins and conversion of deals in the pipeline
	PAT	1,430	972	47.1	1,415	1.0	We would lookout for commentary on the 2 business channels - IT Services and PES business going forward.
KPIT	Revenues (US\$)	143	128	11.4	141	1.2	We expect a cc increase of 1% QoQ.
	Revenues	9,245	8,585	7.7	9,128	1.3	EBITDA margin to be up 70bps QoQ due of operational efficiencies and better revenue mix.
	EBITDA	1,062	870	22.1	989	7.4	
	PAT	661	537	23.2	617	7.2	Will look out for sustainability of revenue, profitability in various segments.
NIIT Tech	Revenues (US\$)	120	111	8.2	117	2.5	Expect cc US\$ revenue growth of 2.1% QoQ. Growth will mainly be led by GIS business - seasonally strong quarter.
	Revenues	7,734	7,447	3.9	7,565	2.2	EBITDA margin to be up 50bps QoQ due of operational efficiencies and better revenue mix.
	EBITDA	1,361	1,524	(10.7)	1,296	5.0	
	PAT	806	1,003	(19.7)	757	6.4	Will lookout for fresh order intake in USA , EMEA regions and orders to be executable in the next 12 months.
eClerx	Revenues (US\$)	50	48	4.0	49	1.8	Revenue growth to be 1.5% QoQ in cc terms
	Revenues	3,435	3,315	3.6	3,399	1.1	EBITDA margin expected to expand 80bps on tighter execution and return in revenue growth
	EBITDA	946	1,023	(7.5)	900	5.1	
	PAT	679	750	(9.5)	575	18.0	We will keep a look on the Demand outlook from top 5 clients and ramp-up in the core business
Cyient	Revenues (US\$)	163	141	16.0	152	7.5	Revenue growth of 6.7% in cc terms driven by DLM. Services business to be flat QoQ
	Revenues	10,578	9,409	12.4	9,833	7.6	EBITDA margin to be down 40bps QoQ dented by seasonal weakness in Services business.
	EBITDA	1,492	1,248	19.6	1,430	4.4	
	PAT	1,062	1,046	1.5	1,085	(2.1)	Commentary on deal pipeline, demand outlook and margin improvement needs to be seen.
Persistent Systems	Revenues (US\$)	118	109	8.5	123	(3.4)	USD revenues expected to decline 3.4% QoQ on account of US\$8mn dip in IP revenues
	Revenues	7,656	7,271	5.3	7,919	(3.3)	
	EBITDA	1,078	1,302	(17.2)	1,375	(21.6)	EBITDA margins to be down 330bps QoQ due to unfavourable revenue trajectory
	PAT	660	728	(9.4)	917	(28.0)	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 Dec'17	1.33	1.18	112.9	0.77	64.6
31 Mar'18	1.40	1.23	107.5	0.78	64.7
% change (QoQ)	5.5	4.3	4.8	1.7	(0.1)

Source: Bloomberg

Exhibit 4: Appreciation of the Rupee against other currencies

	INR/GBP	INR/Euro	Yen/INR	INR/AUD
31 Dec'17	85.9	76.2	1.7	49.7
31 Mar'18	90.6	79.6	1.7	50.7
% change (QoQ)	(5.2)	(4.2)	(5.0)	(1.8)

Source: Bloomberg

Exhibit 5: Valuation details

	Rating	PER (x)		EV/EBITDA (x)		RoE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
TCS	Hold	19.7	18.1	15.4	13.7	31.7	29.0
INFO	Buy	15.6	14.6	10.6	9.4	24.2	22.8
WPRO	Hold	13.9	12.8	9.7	8.4	17.4	16.6
HCLT	Buy	13.7	12.6	9.2	7.8	19.8	18.3
TECHM	Buy	15.6	14.5	9.4	8.1	18.2	17.2
MTCL	Buy	23.6	19.9	14.0	11.9	20.4	21.2
MPHL	Sell	19.8	17.9	16.3	14.2	16.8	17.1
HEXW	Hold	22.3	19.7	14.5	12.4	26.9	26.6
ECLX	Hold	17.2	15.0	9.3	8.1	17.8	17.3
KPIT	Hold	15.3	13.0	9.3	7.1	15.2	16.0
NITEC	Buy	16.8	14.7	7.9	6.5	16.8	16.7
CYL	Buy	15.4	13.8	9.5	8.1	18.9	19.0
PSYS	Hold	13.6	11.9	7.5	6.4	17.0	17.2

Source: Bloomberg



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