

Technology

Jun'18 Results Preview

Mid-caps to have a stronger quarter

	CMP (₹)	3M ret. (%)	Yearly (%)
Index Returns			
Nifty	10,773	4	11
CNX IT	14,016	12	39
Large-Caps			
TCS	1,913	30	64
INFO	1,284	15	38
WPRO	263	(7)	2
HCLT	944	(1)	13
TECHM	635	3	67
Mid-Caps			
MTCL	993	19	85
MPHL	1,109	21	86
HEXW	450	10	89
ECLX	1,300	5	0
KPIT	268	19	101
NITEC	1,072	19	92
CYL	732	13	41
PSYS	837	23	25

1QFY19E preview – We expect FY19 to be a better year on account of better deal flows and wins. We expect companies to maintain their conservative revenue guidance and then eventually increase it as the year pans out. The margins for the IT Large Caps are expected to dip on account of wage hikes and visa costs. Rupee has depreciated 3.9% QoQ against the US\$ and against other currencies which will provide cross-currency headwind of 80-170 bps. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 2.6%, 3.6%, 3.4% 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 and HCL Tech to maintain revenue and margin guidance.

Mixed quarter for tier I companies. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 2.6%, 3.6%, 3.4% and -1.1%, respectively. Tech Mahindra is expected to show a decline in US\$ revenue on account of weak Telecom vertical and seasonally weak Comviva business. We expect Infosys and HCL Tech to maintain revenue and margin guidance.

EBIDTA margins – expect margins to dip QoQ. EBITDA margins of Tier-1 & Tier-2 IT companies expected to dip QoQ primarily on account of wage hikes, visa costs partially helped by INR depreciation against US\$. On the positive front, KPIT (operational efficiencies), eClerx (higher utilization, operational efficiencies), Persistent Systems (revenue traction, operational efficiencies). On the negative front, TCS, Infosys, Mindtree (wage hikes, visa costs), Tech Mahindra (wage hikes, visa costs, Comviva weakness) and NIIT Tech (weak revenue trajectory).

Business outlook – cautious - (1) Investors will focus on CY18 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.

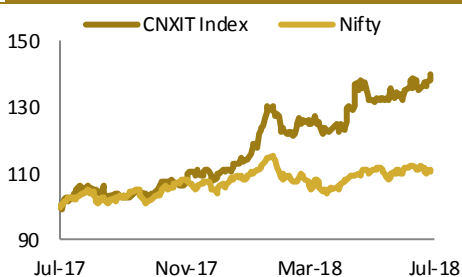
Exhibit 1: Key Financials for quarter ending Jun'18

(₹ mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
TCS	341,671	6.5	89,072	2.9	69,486	0.6
INFO	191,494	5.9	50,294	2.0	37,701	2.2
WPRO	139,118	1.0	25,282	3.1	19,602	8.9
HCLT	139,350	5.7	32,092	5.7	23,042	3.4
TECHM	81,915	1.7	13,170	(6.7)	8,884	(27.3)
MTCL	15,702	7.3	2,291	(2.7)	1,530	(16.0)
MPHL	18,281	4.8	3,218	4.0	2,623	10.4
HEXW	11,395	8.6	1,873	8.9	1,440	7.1
ECLX	3,629	0.5	860	5.7	633	(2.2)
KPIT	10,247	6.0	1,248	13.7	808	6.4
NITEC	8,091	2.6	1,282	(9.6)	743	(13.7)
CYL	10,867	2.3	1,494	0.1	1,119	(7.7)
PSYS	8,174	8.6	1,350	24.5	874	18.6

Source: Trust

	Rating	FDEPS (₹)	
		FY19E	FY20E
TCS	Hold	75.8	82.2
INFO	Buy	71.9	76.1
WPRO	Hold	19.0	21.5
HCLT	Buy	68.3	75.1
TECHM	Buy	44.7	49.3
MTCL	Buy	37.4	44.7
MPHL	Sell	49.0	54.5
HEXW	Hold	18.5	21.0
ECLX	Hold	66.5	72.8
KPIT	Hold	16.2	19.3
NITEC	Buy	55.6	64.7
CYL	Buy	41.9	46.9
PSYS	Hold	47.0	51.4

Nifty vs CNX IT



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Exhibit 2: Results preview for quarter ending Jun' 2018

Mn		Jun'18E	Jun'17	YoY (%)	Mar'18 QoQ (%)	Comments
TCS	Revenues (US\$)	5,084	4,591	10.7	4,972	2.3 Expect a cc growth of 3.6% QoQ and cross currency headwind of ~130bps.
	Revenues	341,671	295,840	15.5	320,750	6.5 Expect margins to be down 90bps QoQ - wage hike partially offset by operational efficiencies & INR depreciation
	EBITDA	89,072	74,120	20.2	86,520	2.9 OI to be lower after completion of Rs160bn buyback 2 quarters back and dividend payout last quarter
	PAT	69,486	59,450	16.9	69,040	0.6 Will lookout for commentary on 2018 budgets, large deal wins and margin outlook
Infosys	Revenues (US\$)	2,850	2,651	7.5	2,805	1.6 Expect a cc revenue growth of 2.6% QoQ and cross currency headwind of ~100bps.
	Revenues	191,494	170,780	12.1	180,830	5.9 We expect margins to be down 100bps QoQ - wage hike, visa costs partially offset by INR depreciation
	EBITDA	50,294	45,610	10.3	49,300	2.0 FY18 revenue guidance expected to be retained at 6-8% in cc terms while EBIT margin guidance to be at 22-24%
	PAT	37,701	35,540	6.1	36,900	2.2 Will lookout for(1) Digital strategy, (2) business strategy for outsourcing business (3) Deal TCVs (4) CEO Roadmap
Wipro	Revenues (US\$) - IT	2,015	1,972	2.2	2,062	(2.3) We expect cc revenues decline of 1.1% QoQ, dented by cross currency headwind (~120bps).
	Revenues	139,118	136,261	2.1	137,686	1.0 We expect EBIT margins to be up 30 bps QoQ
	EBITDA	25,282	26,683	(5.3)	24,530	3.1 We expect Wipro to guide for a 0-2% sequential revenue growth
	PAT	19,602	20,766	(5.6)	18,006	8.9 Will lookout for update in the turnaround strategy, new account growth and new deal wins, integration of acqs.
HCL Tech	Revenues (US\$)	2,074	1,884	10.1	2,038	1.7 Expect a cc growth of 3.4% QoQ (1.5% organic). Growth will be aided by C3i acquisition
	Revenues	139,350	121,490	14.7	131,790	5.7 EBITDA margins to be flat QoQ, INR depreciation to be dented by lower margin of acquisitions
	EBITDA	32,092	26,810	19.7	30,360	5.7 Expect HCLT to retain cc revenue growth guidance of 9.5-11.5% and EBIT margin guidance at 19.5-20.5%
	PAT	23,042	21,710	6.1	22,290	3.4 Will lookout for commentary on demand outlook, competitive intensity in IMS and profitability.
Tech Mahindra	Revenues (US\$)	1,219	1,138	7.1	1,244	(2.0) We expect cc revenue decline of 1%. Telecom vertical remains weak. Enterprise Vertical to be robust.
	Revenues	81,915	73,361	11.7	80,545	1.7 EBITDA margin to be down 140bps QoQ; wage hikes, visa costs, seasonal weakness in Comviva
	EBITDA	13,170	9,347	40.9	14,119	(6.7) OI to be lower compared to both QoQ and YoY
	PAT	8,884	7,987	11.2	12,221	(27.3) Would look out for - roadmap for improvement in margins and turnaround strategy for LCC and Comviva
Mphasis	Revenues (US\$)	272	231	17.8	264	3.0 We expect traction in Direct International business and Blackstone portfolio companies
	Revenues	18,281	15,360	19.0	17,445	4.8 Margins to be flat QoQ - on account of aggressive hedging strategy
	EBITDA	3,218	2,295	40.2	3,095	4.0
	PAT	2,623	1,872	40.1	2,376	10.4 Lookout for commentary on - HP Enterprise, HP Non-Enterprise and the Direct Channel ramp-up going forward.
Hexaware	Revenues (US\$)	170	153	11.1	162	4.5 Expect cc revenue growth of 5%. Rest on account of cross currency movements. Growth on account of new deal wins.
	Revenues	11,395	9,836	15.8	10,490	8.6 Expect margins to be flat QoQ - strong revenue trajectory to be dented by business investments
	EBITDA	1,873	1,719	8.9	1,719	8.9
	PAT	1,440	1,224	17.6	1,344	7.1 Management commentary on (1) progress in IMS vertical, (2) deal wins and demand outlook, (3) Top client's outlook



Mn		Jun'18E	Jun'17	YoY (%)	Mar'18	QoQ (%)	Comments
MindTree	Revenues (US\$)	234	200	16.7	226	3.3	We expect organic cc growth of 3.9% due to ramp up of large deals, Rest on account of cross currency movements
	Revenues	15,702	12,895	21.8	14,640	7.3	EBITDA margin to decrease of 150bps on account of wage hikes and visa costs
	EBITDA	2,291	1,435	59.7	2,355	(2.7)	We expect strong TCV signings led by rebid wins and conversion of deals in the pipeline
	PAT	1,530	1,217	25.7	1,822	(16.0)	We would lookout for commentary on the 2 business channels - IT Services and PES business going forward.
KPIT	Revenues (US\$)	152	134	13.5	150	1.5	We expect a cc increase of 2.2% QoQ, driven by Engineering segment
	Revenues	10,247	8,704	17.7	9,664	6.0	EBITDA margin to be up 80bps QoQ due of operational efficiencies and INR depreciation
	EBITDA	1,248	795	57.1	1,098	13.7	
	PAT	808	555	45.8	760	6.4	Will look out for sustainability of revenue, profitability in various segments.
NIIT Tech	Revenues (US\$)	120	110	9.6	122	(1.5)	Expect cc US\$ revenue growth of 0.5% QoQ. Growth will impacted due to lower revenue from Morris and NITL
	Revenues	8,091	7,089	14.1	7,888	2.6	EBITDA margin to be down 240bps QoQ due of lower revenue from segments that had higher profitability
	EBITDA	1,282	1,108	15.7	1,418	(9.6)	
	PAT	743	513	44.8	861	(13.7)	Will lookout for fresh order intake in USA , EMEA regions and orders to be executable in the next 12 months.
eClerx	Revenues (US\$)	51	49	5.5	52	(1.7)	Revenue decline to be 1% QoQ in cc terms
	Revenues	3,629	3,332	8.9	3,611	0.5	EBITDA margin expected to expand 120bps on tighter execution and INR depreciation
	EBITDA	860	990	(13.1)	814	5.7	
	PAT	633	792	(20.1)	647	(2.2)	We will keep a look on the Demand outlook from top 5 clients and ramp-up in the core business
Cyient	Revenues (US\$)	162	141	15.0	165	(1.8)	Revenue growth of 3.1% in cc terms driven by Services. DLM business to decline 30% QoQ
	Revenues	10,867	9,070	19.8	10,618	2.3	EBITDA margin to be down 40bps QoQ dented by weakness in DLM business.
	EBITDA	1,494	1,160	28.8	1,492	0.1	
	PAT	1,119	877	27.5	1,212	(7.7)	Commentary on deal pipeline, demand outlook and margin improvement needs to be seen.
Persistent Systems	Revenues (US\$)	122	113	7.7	117	4.0	USD revenues expected to increase 4.5% in cc QoQ on account of healthy growth in Digital business
	Revenues	8,174	7,280	12.3	7,525	8.6	
	EBITDA	1,350	1,044	29.3	1,084	24.5	EBITDA margins to be up 190bps QoQ due to strong revenue trajectory & operational efficiencies
	PAT	874	751	16.4	737	18.6	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 Mar'18	1.41	1.23	108.4	0.79	64.5
30 Jun'18	1.36	1.19	109.2	0.76	67.2
% change (QoQ)	(3.6)	(3.2)	(0.7)	(4.3)	(3.9)

Source: Bloomberg

Exhibit 4: Appreciation of the Rupee against other currencies

	INR/GBP	INR/Euro	Yen/INR	INR/AUD
31 Mar'18	90.9	79.3	1.7	51.0
30 Jun'18	91.3	80.0	1.6	50.8
% change (QoQ)	(0.4)	(0.8)	(3.3)	0.3

Source: Bloomberg

Exhibit 5: Valuation details

	Rating	PER (x)		EV/EBITDA (x)		RoE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
TCS	Hold	25.2	23.3	20.1	17.9	30.3	27.9
INFO	Buy	17.9	16.9	12.7	11.3	23.1	22.5
WPRO	Hold	13.8	12.2	9.1	7.6	16.4	16.0
HCLT	Buy	13.9	12.6	9.1	7.6	23.5	21.5
TECHM	Buy	14.2	12.9	7.2	6.4	19.2	19.0
MTCL	Buy	26.6	22.3	15.7	13.2	20.9	21.9
MPHL	Sell	22.6	20.3	19.0	16.7	16.6	17.1
HEXW	Hold	24.3	21.4	16.8	14.5	27.5	27.1
ECLX	Hold	19.6	17.9	12.1	9.8	17.7	16.3
KPIT	Hold	16.6	13.9	9.7	7.4	15.8	16.4
NITEC	Buy	19.2	16.5	9.2	7.8	18.5	19.0
CYL	Buy	17.5	15.6	11.7	10.1	19.0	19.0
PSYS	Hold	17.8	16.2	10.7	9.1	16.7	16.2

Source: Bloomberg



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