

Technology

Sep'18 Results Preview

Currency acts joker, seasonally strong quarter

	CMP (₹)	3M ret. (%)	Yearly (%)
Index Returns			
Nifty	10,460	(4)	4
CNX IT	15,143	6	41
Large-Caps			
TCS	2,044	9	66
INFO	700	8	51
WPRO	316	17	10
HCLT	1,052	7	17
TECHM	699	7	50
Mid-Caps			
MTCL	1,005	(3)	106
MPHL	1,079	(5)	74
HEXW	404	(17)	45
ECLX	1,056	(19)	(13)
KPIT	205	(28)	56
NITEC	1,193	7	97
CYL	679	(8)	31
PSYS	695	(19)	5

2QFY19E 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 increase on account of INR depreciation, wage hike normalization and absence of visa costs. Rupee has depreciated 4.5% QoQ against the US\$ and against other currencies which will provide cross-currency headwind of 70-110 bps. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 2.9%, 3.9%, 1.5% and 2.3%, 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.

Strong quarter for tier I companies. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 2.9%, 3.9%, 1.5% and 2.3%, respectively. Tech Mahindra is expected to show a flattish in US\$ revenue on account of weak Enterprise vertical. We expect Infosys and HCL Tech to maintain revenue and margin guidance.

EBIDTA margins – expect margins to increase QoQ. EBITDA margins of Tier-1 & Tier-2 IT companies expected to increase QoQ primarily on account of wage hikes normalization, INR depreciation, absence of visa costs. On the positive front, TCS, Infosys, Wipro, Mindtree, NIIT Tech and eClerx (INR depreciation, operational efficiencies and wage hike normalization). On the negative front, Persistent Systems (wage hikes, weak revenue trajectory), KPIT (wage hikes) and Hexaware (business investments).

Business outlook – cautious - (1) Investors will focus on CY19 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.

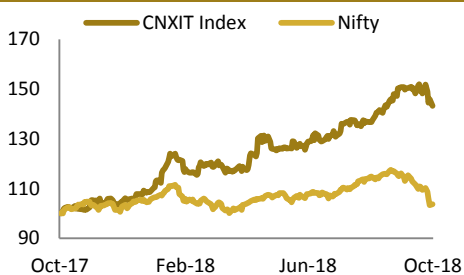
Exhibit 1: Key Financials for quarter ending Sep'18

	(₹ mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
TCS		366,208	6.9	102,474	13.0	79,886	8.8
INFO		204,063	6.7	54,211	9.0	41,054	5.8
WPRO		144,718	3.5	26,652	9.5	21,305	1.8
HCLT		147,226	6.1	34,805	7.9	25,125	4.5
TECHM		85,815	3.7	15,125	11.5	9,900	10.3
MTCL		17,633	7.6	2,732	18.3	1,958	23.8
MPHL		19,448	6.8	3,494	9.2	2,730	5.7
HEXW		12,332	8.5	2,022	8.2	1,555	1.2
ECLX		3,689	4.8	887	15.2	638	6.3
KPIT		10,782	6.4	1,312	(1.8)	950	7.7
NITEC		9,060	9.8	1,508	15.4	910	6.1
CYL		11,888	10.1	1,542	17.2	1,076	30.4
PSYS		8,579	2.8	1,346	(3.9)	835	(4.4)

Source: Trust

	Rating	FDEPS (₹)	
		FY19E	FY20E
TCS	Hold	79.3	86.4
INFO	Buy	73.4	79.2
WPRO	Hold	19.4	21.1
HCLT	Buy	69.9	76.0
TECHM	Buy	44.9	48.2
MTCL	Buy	43.6	50.7
MPHL	Sell	54.8	61.2
HEXW	Hold	19.2	21.6
ECLX	Hold	60.6	64.7
KPIT	Hold	16.2	18.4
NITEC	Buy	56.6	66.9
CYL	Buy	39.0	45.2
PSYS	Hold	47.1	54.6

Nifty vs CNX IT



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Exhibit 2: Results preview for quarter ending Sep' 2018

Mn		Sep'18E	Sep'17	YoY (%)	Jun'18 QoQ (%)	Comments
TCS	Revenues (US\$)	5,194	4,739	9.6	5,051	2.8 Expect a cc growth of 3.9% QoQ and cross currency headwind of ~110bps.
	Revenues	366,208	305,410	19.9	342,610	6.9 Expect margins to be up 150bps QoQ - wage hike normalization & INR depreciation
	EBITDA	102,474	81,640	25.5	90,710	13.0 PAT to be up ~24% YoY on account of INR depreciation and strong revenue trajectory
	PAT	79,886	64,460	23.9	73,400	8.8 Will lookout for commentary on demand, large deal wins and margin outlook
Infosys	Revenues (US\$)	2,895	2,728	6.1	2,831	2.2 Expect a cc revenue growth of 2.9% QoQ and cross currency headwind of ~70bps.
	Revenues	204,063	175,670	16.2	191,280	6.7 We expect margins to be up 60bps QoQ - wage hike for senior employees to partially offset INR depreciation gains
	EBITDA	54,211	47,020	15.3	49,730	9.0 FY18 revenue guidance expected to be retained at 6-8% in cc terms while EBIT margin guidance to be at 22-24%
	PAT	41,054	37,260	10.2	38,820	5.8 Will lookout for(1) Digital strategy, (2) business strategy for outsourcing business (3) Deal TCVs (4) CEO Roadmap
Wipro	Revenues (US\$) - IT	2,027	2,014	0.7	2,027	0.0 Expect cc revenue increase of 2.3% QoQ. Growth will be aided by US\$12.5mn of Alight deal in Sep 2018
	Revenues	144,718	134,234	7.8	139,777	3.5 EBIT margin will improve 110 bps to 16.8% aided by Rupee depreciation
	EBITDA	26,652	27,788	(4.1)	24,343	9.5 We expect Wipro to guide for a 0-2% sequential revenue growth
	PAT	21,305	21,895	(2.7)	20,936	1.8 Will lookout for update in the turnaround strategy, new account growth and new deal wins, integration of acqs.
HCL Tech	Revenues (US\$)	2,100	1,928	8.9	2,055	2.2 Expect an organic cc growth of 1.5%. Contribution from Actian acquisition of US\$18-20mn
	Revenues	147,226	124,340	18.4	138,780	6.1 Margins to be up 40bps QoQ, Benefit of INR depreciation to be offset by seasonal weakness in IP business, wage rev.
	EBITDA	34,805	27,590	26.2	32,260	7.9 Expect HCLT to retain cc revenue growth guidance of 9.5-11.5% and EBIT margin guidance at 19.5-20.5%
	PAT	25,125	21,880	14.8	24,040	4.5 Will lookout for commentary on demand outlook, competitive intensity in IMS and profitability.
Tech Mahindra	Revenues (US\$)	1,226	1,179	4.0	1,224	0.1 We expect cc revenue growth of 1.1%. Telecom vertical to show growth. Enterprise vertical to be flattish.
	Revenues	85,815	76,064	12.8	82,763	3.7 EBITDA margin to be up 120bps QoQ; INR depreciation, lower visa wage costs, operational efficiencies
	EBITDA	15,125	11,057	36.8	13,569	11.5 OI to be lower compared to both QoQ and YoY
	PAT	9,900	8,362	18.4	8,979	10.3 Would look out for - roadmap for improvement in margins and turnaround strategy for LCC and Comviva
MphasiS	Revenues (US\$)	276	239	15.4	269	2.7 We expect traction in Direct International business and Blackstone portfolio companies
	Revenues	19,448	16,047	21.2	18,202	6.8 Margins to be up 40bps QoQ - on account of INR depreciation offset by aggressive hedging strategy
	EBITDA	3,494	2,493	40.1	3,201	9.2
	PAT	2,730	1,977	38.1	2,583	5.7 Lookout for commentary on - HP Enterprise, HP Non-Enterprise and the Direct Channel ramp-up going forward.
Hexaware	Revenues (US\$)	175	154	13.6	168	3.9 Expect cc revenue growth of 4.4%. Rest on account of cross currency movements. Growth on account of IMS.
	Revenues	12,332	9,931	24.2	11,367	8.5 Expect margins to be flat QoQ - strong revenue trajectory to be dented by business investments
	EBITDA	2,022	1,816	11.4	1,869	8.2
	PAT	1,555	1,423	9.3	1,536	1.2 Management commentary on (1) progress in IMS vertical, (2) deal wins and demand outlook, (3) Top client's outlook



Mn		Sep'18E	Sep'17	YoY (%)	Jun'18	QoQ (%)	Comments
MindTree	Revenues (US\$)	250	206	21.3	241	3.6	We expect organic cc growth of 4.2% due to ramp up of large deals, Rest on account of cross currency movements
	Revenues	17,633	13,316	32.4	16,395	7.6	EBITDA margin to increase of 140bps on account of INR depreciation, lower visa costs, absence of one-time costs
	EBITDA	2,732	1,541	77.3	2,310	18.3	We expect strong TCV signings led by rebid wins and conversion of deals in the pipeline
	PAT	1,958	1,247	57.0	1,582	23.8	We would lookout for commentary on the 2 business channels - IT Services and PES business going forward.
KPIT	Revenues (US\$)	153	142	7.9	151	1.6	We expect a cc increase of 2.4% QoQ, driven by Engineering segment
	Revenues	10,782	9,160	17.7	10,138	6.4	EBITDA margin to be flat QoQ due of operational efficiencies and INR depreciation offset by wage hikes
	EBITDA	1,312	903	45.4	1,336	(1.8)	
	PAT	950	597	59.1	882	7.7	Will look out for sustainability of revenue, profitability in various segments.
NIIT Tech	Revenues (US\$)	129	113	13.8	124	3.4	Expect cc US\$ revenue growth of 3.4% QoQ. Growth will impacted due to lower revenue from Morris and NITL
	Revenues	9,060	7,372	22.9	8,249	9.8	EBITDA margin to be up 80bps QoQ due of INR depreciation, normalization of wage hikes and lower visa costs
	EBITDA	1,508	1,190	26.7	1,307	15.4	
	PAT	910	671	35.6	858	6.1	Will lookout for fresh order intake in USA, EMEA regions and orders to be executable in the next 12 months.
eClerx	Revenues (US\$)	51	48	4.5	49	2.7	Revenue increase to be 3.5% QoQ in cc terms
	Revenues	3,689	3,309	11.5	3,519	4.8	Expect EBITDA margin to expand 210bp on higher offshoring, operational efficiencies and INR depreciation
	EBITDA	887	960	(7.6)	770	15.2	
	PAT	638	885	(27.9)	600	6.3	We will keep a look on the Demand outlook from top 5 clients and ramp-up in the core business
Cyient	Revenues (US\$)	169	150	12.3	161	4.9	Revenue growth of 5.7% in cc terms driven by Services. DLM business to increase 10% QoQ
	Revenues	11,888	9,654	23.1	10,800	10.1	EBITDA margin to be up 80bps QoQ on account of INR depreciation offset by partial wage hike
	EBITDA	1,542	1,410	9.4	1,316	17.2	
	PAT	1,076	1,115	(3.5)	825	30.4	Commentary on deal pipeline, demand outlook and margin improvement needs to be seen.
Persistent Systems	Revenues (US\$)	122	118	3.0	124	(1.5)	Expect digital business to post strong growth , modest momentum would continue in the services business
	Revenues	8,579	7,613	12.7	8,343	2.8	
	EBITDA	1,346	1,158	16.2	1,401	(3.9)	EBITDA margins to be down 90bps QoQ: INR depreciation (110bp) and efficiencies (40bp) will be offset by wage hike
	PAT	835	826	1.1	873	(4.4)	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\$
30 Jun'18	1.35	1.19	109.5	0.75	67.5
30 Sep'18	1.31	1.17	111.8	0.73	70.7
% change (QoQ)	(3.3)	(1.8)	(2.0)	(2.5)	(4.5)

Source: Bloomberg

Exhibit 4: Appreciation of the Rupee against other currencies

	INR/GBP	INR/Euro	Yen/INR	INR/AUD
30 Jun'18	91.2	80.3	1.6	50.6
30 Sep'18	92.3	82.6	1.6	51.7
% change (QoQ)	(1.2)	(2.7)	(2.5)	(2.0)

Source: Bloomberg

Exhibit 5: Valuation details

	Rating	PER (x)		EV/EBITDA (x)		RoE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
TCS	Hold	25.1	23.0	20.3	18.0	31.6	28.8
INFO	Buy	9.5	8.8	14.0	12.4	25.0	26.0
WPRO	Hold	16.3	15.0	12.9	11.0	16.8	15.7
HCLT	Buy	15.0	13.8	9.9	8.5	23.9	21.4
TECHM	Buy	15.5	14.5	7.9	7.0	19.3	18.5
MTCL	Buy	23.1	19.9	14.5	12.0	24.2	24.1
MPHL	Sell	19.7	17.6	17.0	14.6	18.4	18.7
HEXW	Hold	21.0	18.7	14.9	12.6	28.2	27.9
ECLX	Hold	17.3	16.2	10.0	8.4	16.4	15.0
KPIT	Hold	12.7	11.1	6.7	5.3	16.1	15.5
NITEC	Buy	21.1	17.9	10.8	9.0	18.8	19.6
CYL	Buy	17.4	15.0	11.0	9.4	17.8	18.6
PSYS	Hold	14.8	12.7	8.7	7.4	16.7	17.1

Source: Bloomberg



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