

Technology

Dec'18 Results Preview

Steady performance, seasonally weak quarter

	CMP (₹)	3M ret. (%)	Yearly (%)
Index Returns			
Nifty	10,855	4	2
CNX IT	14,326	(7)	21
Large-Caps			
TCS	1,888	(9)	40
INFO	676	(6)	30
WPRO	329	3	5
HCLT	940	(12)	5
TECHM	694	(1)	29
Mid-Caps			
MTCL	823	(18)	30
MPHL	904	(17)	28
HEXW	329	(19)	(10)
ECLX	1,046	1	(31)
KPIT	208	7	4
NITEC	1,162	(0)	60
CYL	604	(15)	5
PSYS	565	(20)	(21)

3QFY19E 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 outlook. The margins for the IT Large Caps are expected to increase on account of INR depreciation and wage hike normalization. Rupee has depreciated 1.2% QoQ against the US\$, however other currencies will provide cross-currency headwind of 70-90 bps. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth of 1.8%, 1.9%, 3% and 1.8%, 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 tighten its FY19 US\$ revenue guidance to 7-8% (from 6-8%) and HCL Tech to maintain revenue and margin guidance.

Normal quarter for tier I companies, no unusual impact of furloughs. We expect Infosys, TCS, HCLT and Wipro to report organic cc growth 1.8%, 1.9%, 3% and 1.8%, respectively. Tech Mahindra is expected to show 2.9% cc QoQ revenue growth on account of strong Telecom vertical growth. We expect Infosys to tighten its FY19 US\$ revenue guidance to 7-8% (from 6-8%) and HCL Tech to maintain revenue. Both companies are expected to maintain their margin guidance.

EBITDA margins – expect margins to increase for tier I companies QoQ. EBITDA margins of Tier-1 IT companies expected to increase QoQ primarily on account of wage hikes normalization, INR depreciation and some operational efficiencies. On the positive front, TCS, HCL Tech, Tech Mahindra, Mindtree, NIIT Tech, Cyient and eClerx (INR depreciation, operational efficiencies and wage hike normalization). On the negative front, Infosys (S&M expense, curb attrition), Wipro (investments) and Mphasis (wage hikes and G&A expenses) and KPIT (merger expenses).

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.

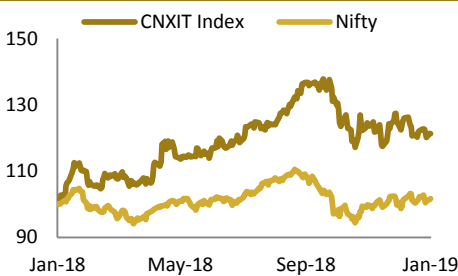
Exhibit 1: Key Financials for quarter ending Dec'18

(₹ mn)	Revenue	QoQ (%)	EBITDA	QoQ (%)	PAT	QoQ (%)
TCS	375,403	1.9	106,983	4.1	82,229	3.7
INFO	210,361	2.1	54,242	1.3	41,164	0.2
WPRO	152,047	4.6	26,069	(0.2)	23,378	24.0
HCLT	154,994	4.3	36,963	5.6	25,847	1.8
TECHM	88,726	2.8	17,071	5.5	11,009	3.5
MTCL	17,869	1.8	2,801	3.8	1,930	(6.5)
MPHL	20,156	5.3	3,407	2.3	2,667	(1.6)
HEXW	12,478	3.2	2,061	(2.7)	1,555	(9.6)
ECLX	3,663	2.9	927	11.4	687	(1.8)
KPIT	10,945	1.5	1,537	(6.2)	882	(11.2)
NITEC	9,593	5.7	1,762	7.8	1,158	3.6
CYL	11,958	0.7	1,731	6.4	1,261	(0.8)
PSYS	8,692	4.0	1,510	5.2	882	0.1

Source: Trust

	Rating	FDEPS (₹)	
		FY19E	FY20E
TCS	Hold	82.1	90.8
INFO	Buy	37.7	41.0
WPRO	Hold	19.2	21.2
HCLT	Buy	73.4	81.5
TECHM	Buy	47.5	52.9
MTCL	Buy	46.2	53.3
MPHL	Sell	56.3	64.0
HEXW	Hold	21.1	23.3
ECLX	Hold	68.5	70.7
KPIT	Hold	16.0	21.2
NITEC	Buy	65.2	73.1
CYL	Buy	42.1	48.9
PSYS	Hold	46.5	54.3

Nifty vs CNX IT



ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in



Exhibit 2: Results preview for quarter ending Dec' 2018

Mn		Dec'18E	Dec'17	YoY (%)	Sep'18 QoQ (%)	Comments
TCS	Revenues (US\$)	5,273	4,787	10.1	5,215	1.1 Expect a cc growth of 1.9% QoQ and cross currency headwind of ~80bps
	Revenues	375,403	309,040	21.5	368,540	1.9 Expect margins to be up 60bps QoQ - wage hike normalization & operational efficiencies
	EBITDA	106,983	82,880	29.1	102,780	4.1 PAT to be up ~26% YoY on account of INR depreciation and strong revenue trajectory
	PAT	82,229	65,450	25.6	79,270	3.7 Will lookout for commentary on demand, large deal wins and margin outlook
Infosys	Revenues (US\$)	2,955	2,755	7.2	2,921	1.1 Expect a cc revenue growth of 1.8% QoQ and cross currency headwind of ~70bps.
	Revenues	210,361	177,940	18.2	206,090	2.1 Expect margins to be down 20bps QoQ - to curb attrition and investments in S&M
	EBITDA	54,242	48,170	12.6	53,570	1.3 FY18 revenue guidance expected to be raised to 7-8% in cc terms while EBIT margin guidance to be at 22-24%
	PAT	41,164	51,290	(19.7)	41,100	0.2 Will lookout for (1) Digital strategy, (2) business strategy for outsourcing business (3) Deal TCVs (4) CEO Roadmap
Wipro	Revenues (US\$) - IT	2,030	2,013	0.9	2,041	(0.5) Wipro moved out of Government business, which contributed ~1.5%. Adjusted for this revenue growth to be 1.8% cc
	Revenues	152,047	136,690	11.2	145,410	4.6 EBIT margin will decline 50 bps due to investments
	EBITDA	26,069	24,929	4.6	26,112	(0.2) We expect Wipro to guide for a 1-3% sequential revenue growth
	PAT	23,378	19,371	20.7	18,856	24.0 Will lookout for update in the turnaround strategy, new account growth and new deal wins, integration of acqs.
HCL Tech	Revenues (US\$)	2,168	1,988	9.1	2,099	3.3 Expect an organic cc growth of 3%. Contribution from H&D acquisition of US\$22mn, cc headwind of 80bps
	Revenues	154,994	128,080	21.0	148,610	4.3 Margins to be up 30bps QoQ, Benefit of IP business and strong revenue trajectory.
	EBITDA	36,963	29,640	24.7	34,990	5.6 Expect HCLT to retain cc revenue growth guidance of 9.5-11.5% and EBIT margin guidance at 19.5-20.5%
	PAT	25,847	21,940	17.8	25,400	1.8 Will lookout for commentary on demand outlook, competitive intensity in IMS and profitability.
Tech Mahindra	Revenues (US\$)	1,246	1,209	3.1	1,218	2.3 We expect cc revenue growth of 2.9%. Telecom vertical to show growth. Enterprise vertical to be flattish.
	Revenues	88,726	77,760	14.1	86,298	2.8 EBITDA margin to be up 40bps QoQ due to operational efficiencies
	EBITDA	17,071	12,647	35.0	16,186	5.5 OI to be lower compared to both QoQ and YoY
	PAT	11,009	9,431	16.7	10,642	3.5 Would look out for - roadmap for improvement in margins and turnaround strategy for LCC and Comviva
MphasiS	Revenues (US\$)	283	251	12.6	276	2.7 We expect traction in Direct International business and Blackstone portfolio companies
	Revenues	20,156	16,607	21.4	19,149	5.3 Margins to be down 50bps QoQ - on wage hikes, normalization of G&A expenses
	EBITDA	3,407	2,742	24.3	3,329	2.3
	PAT	2,667	2,150	24.0	2,709	(1.6) Lookout for commentary on - HP Enterprise, HP Non-Enterprise and the Direct Channel ramp-up going forward.
Hexaware	Revenues (US\$)	175	156	11.8	171	2.0 Expect cc revenue growth of 2.7%. Rest on account of cross currency movements. Growth on account of IMS.
	Revenues	12,478	10,048	24.2	12,096	3.2 Expect margins to be down 100bps QoQ - on account of business investments
	EBITDA	2,061	1,691	21.9	2,117	(2.7)
	PAT	1,555	1,211	28.4	1,721	(9.6) Management commentary on (1) progress in IMS vertical, (2) deal wins and demand outlook, (3) Top client's outlook



Mn		Dec'18E	Dec'17	YoY (%)	Sep'18	QoQ (%)	Comments
MindTree	Revenues (US\$)	250	214	16.8	246	1.6	We expect organic cc growth of 2.3% due to ramp up of missed revenue last quarter
	Revenues	17,869	13,777	29.7	17,554	1.8	EBITDA margin to increase of 30bps on account of stable margin guidance
	EBITDA	2,801	2,074	35.0	2,699	3.8	We expect strong TCV signings led by rebid wins and conversion of deals in the pipeline
	PAT	1,930	1,415	36.4	2,063	(6.5)	We would lookout for commentary on the 2 business channels - IT Services and PES business going forward.
KPIT	Revenues (US\$)	154	141	8.9	153	0.8	We expect a cc increase of 1.3% QoQ, driven by Engineering segment
	Revenues	10,945	9,128	19.9	10,789	1.5	EBITDA margin to be down 120bps QoQ due to merger expenses with Birlasoft, business headwinds in IT Services
	EBITDA	1,537	989	55.4	1,638	(6.2)	
	PAT	882	617	42.9	993	(11.2)	Will look out for sustainability of revenue, profitability in various segments.
NIIT Tech	Revenues (US\$)	135	117	15.5	131	2.9	Expect cc US\$ revenue growth of 3.8% QoQ. Growth to be helped on sustained large deals
	Revenues	9,593	7,565	26.8	9,074	5.7	EBITDA margin to be up 40bps QoQ due to operational efficiencies
	EBITDA	1,762	1,296	35.9	1,634	7.8	
	PAT	1,158	757	53.0	1,118	3.6	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	5.2	50	2.5	Revenue increase to be 3% QoQ in cc terms
	Revenues	3,663	3,399	7.8	3,559	2.9	Expect EBITDA margin to expand 190bps on higher offshoring, operational efficiencies and INR depreciation
	EBITDA	927	900	3.0	832	11.4	
	PAT	687	575	19.5	700	(1.8)	We will keep a look on the Demand outlook from top 5 clients and ramp-up in the core business
Cyient	Revenues (US\$)	168	152	10.5	169	(0.6)	Revenue decline of 0.6% in driven by weak DLM business. Services to increase 2.3% QoQ
	Revenues	11,958	9,833	21.6	11,870	0.7	EBITDA margin to be up 80bps QoQ on account of INR depreciation and operational efficiencies
	EBITDA	1,731	1,430	21.1	1,627	6.4	
	PAT	1,261	1,085	16.2	1,272	(0.8)	Commentary on deal pipeline, demand outlook and margin improvement needs to be seen.
Persistent Systems	Revenues (US\$)	122	123	(0.4)	118	3.3	Expect digital business to post strong growth , modest momentum would continue in the services business
	Revenues	8,692	7,919	9.8	8,356	4.0	
	EBITDA	1,510	1,375	9.8	1,436	5.2	EBITDA margins to be up 20bps QoQ: operational efficiencies
	PAT	882	917	(3.8)	881	0.1	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 Sep'18	1.31	1.17	111.8	0.73	70.5
31 Dec'18	1.28	1.14	112.2	0.71	71.3
% change (QoQ)	(2.6)	(2.3)	(0.3)	(2.5)	(1.2)

Source: Bloomberg

Exhibit 4: Appreciation of the Rupee against other currencies

	INR/GBP	INR/Euro	Yen/INR	INR/AUD
30 Sep'18	92.4	82.2	1.6	51.6
31 Dec'18	91.0	81.1	1.6	50.8
% change (QoQ)	1.5	1.4	(0.8)	1.4

Source: Bloomberg

Exhibit 5: Valuation details

	Rating	PER (x)		EV/EBITDA (x)		RoE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
TCS	Hold	23.0	20.8	18.0	15.5	32.5	29.9
INFO	Buy	17.9	16.5	12.9	11.4	24.8	25.1
WPRO	Hold	17.1	15.5	13.1	11.1	16.6	15.7
HCLT	Buy	12.8	11.5	8.7	7.1	24.8	22.3
TECHM	Buy	14.6	13.1	7.1	6.2	20.3	20.0
MTCL	Buy	17.8	15.4	11.3	9.3	25.3	24.7
MPHL	Sell	16.1	14.1	13.9	12.0	19.7	21.0
HEXW	Hold	15.6	14.1	11.3	9.3	30.2	28.5
ECLX	Hold	15.3	14.8	9.4	7.6	19.0	16.5
KPIT	Hold	13.0	9.8	6.2	4.6	17.4	17.7
NITEC	Buy	17.8	15.9	9.5	8.0	21.3	20.7
CYL	Buy	14.3	12.4	9.4	7.9	19.1	19.8
PSYS	Hold	12.2	10.4	6.8	6.0	16.6	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
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
Research Team				
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

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :- Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.