

IT Services

Cross currency headwinds, Chennai disruption add to usual Dec weakness

- Chennai disruption coupled with cross currency headwinds (40-70 bps) will add the usual December seasonality resulting in a likely modest Dec'15 quarter performance
- We expect the YoY US\$ revenue growth trajectory for the TWITCH group to slip to 8.9% YoY in Dec'15 quarter (V/s a 10.2% in Sep'15 quarter) marking the 9th quarter in a row of moderating revenue growth trajectory for the sector
- Current revenue growth expectations for Mar'16 imply that that the declining YoY revenue growth trajectory could reverse from next quarter, however we look forward to more qualitative/quantitative indications on client spending and demand trends in Financial Services/Retail/Europe to be sure of a modest turnaround
- Expect strong reported operating performance from Firstsource, MPS and Persistent due to consolidation of acquisitions. HCL Tech remains the lone BUY rated stock in the Tier I universe while NIIT Tech, eClerx and Hexaware are our preferred bets in the mid-tier coverage universe

Seasonal weakness, Chennai disruptions and Cross currency headwinds to further pull down the overall sector growth trajectory

The seasonal weakness of the December quarter(read: lower number of working days), disruptions to delivery operations out of Chennai for nearly a week and cross currency headwinds (40-70 bps) will further pull down the revenue growth trajectory for the sector as a whole. **We expect the YoY US\$ revenue growth trajectory for the TWITCH group (or the Tier I group) to slip to 8.9% YoY in Dec'15 quarter (V/s a 10.2% YoY in Sep'15 quarter and 12.1% YoY in Dec'14 quarter), marking the 9th quarter in a row of moderating revenue growth trajectory. While our current revenue growth expectations for Mar'16 quarter imply that this declining revenue growth trajectory could reverse starting next quarter, we look forward to more qualitative and quantitative indications on client budgeting, demand trends in key verticals like Financial Services/Manufacturing/Retail and geos like Europe to be sure of a modest turnaround here. We continue to remain sanguine about the revenue growth prospects for the sector and believe factors like 'Onshoring/Local delivery', 'Re-emergence of Captives/Insourcing' and 'Increasing Digital related spending' will continue to impair the offshore tech demand in the near/medium term. HCL Tech remains the lone BUY rated stock in our Tier I coverage universe. NIIT Tech, eClerx and Hexaware are our positive rated stocks in the mid-tier coverage universe.**

Financial Snapshot (Consolidated)

(Rs mn)	EPS		EV/EBIT		P/E	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Infosys	66.2	74.5	10.9	9.5	16.7	14.8
TCS	135.7	152.5	12.6	11.0	17.8	15.9
Wipro	41.4	44.7	10.3	9.0	13.4	12.5
HCL Tech	61.2	67.3	10.6	9.4	13.8	12.6
Tech Mahindra	35.1	41.8	8.3	7.0	14.8	12.4
Mindtree	84.7	97.4	1.4	8.8	17.0	14.8
eClerx	89.1	102.8	10.5	9.0	16.0	13.9
Hexaware	16.2	17.9	10.7	9.5	15.0	13.5
Persistent Systems	42.9	51.2	8.0	6.4	15.1	12.7
NIIT Tech	49.0	54.7	5.5	4.7	11.8	10.6
Mphasis	38.5	43.8	7.4	6.3	12.9	11.3
Firstsource	4.9	5.4	6.1	5.0	9.0	8.1
MPS	43.2	51.6	11.3	9.2	18.5	15.5
NIIT Ltd	5.7	6.8	17.3	14.1	17.5	14.5

TCS	HOLD
CMP	Target Price
2,416	2,450
Infosys	HOLD
CMP	Target Price
1,105	1,200
Wipro	HOLD
CMP	Target Price
556	610
HCL Tech	BUY
CMP	Target Price
846	980
Tech Mahindra	HOLD
CMP	Target Price
520	570
Mindtree	REDUCE
CMP	Target Price
1,442	1,450
Hexaware Tech	ACCUMULATE
CMP	Target Price
243	290
eClerx Services	ACCUMULATE
CMP	Target Price
1,426	1,520
Persistent Systems	SELL
CMP	Target Price
649	630
Mphasis	HOLD
CMP	Target Price
496	440
Firstsource	ACCUMULATE
CMP	Target Price
43	50
NIIT	BUY
CMP	Target Price
99	120
MPS	ACCUMULATE
CMP	Target Price
801	1020

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Focus on management commentaries on early CY16 client budgeting trends, demand from key verticals like Financial Services/Retail and Europe

We look forward to management commentary on early CY16 client budgeting trends (likely allocation to Digital is increasing, are we seeing increased offshore penetration in Digital related spending etc.), spending in Financial Services (players like Infosys and Wipro had spoken about some sporadic furloughs in BFS clients in Dec'15 quarter, is Insourcing a threat after the most recent Deutsche Bank CEO comment, [read his comment here](#)). Further we also would want to assess if the mid/high teens local currency revenue growth trajectory from Europe as some of the cross currency related headwinds abate on a YoY level and could support the overall US\$ revenue growth trajectory ahead (if current exchange rates hold)

HCL Tech remains the lone BUY rated name in the Tier I space; NIIT Tech, eClerx and Hexaware the preferred bets in the Tier II space

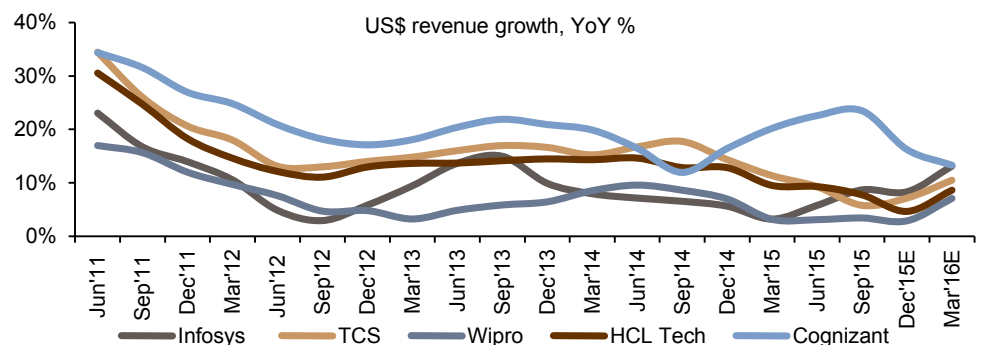
HCL Tech is our lone BUY rated stock in the Tier I space given relatively inexpensive valuations (<14x FY17E P/E, greater confidence on low teens revenue growth estimates on account of service portfolio mix and recent Volvo transaction (which could support FY17E revenue growth by 400-500 bps). We believe that even Infosys could offer near term positive stock returns if Dec'15 quarter operating performance surprises positively akin to H1FY16. NIIT Tech, eClerx and Hexaware are our preferred bets in the Tier I coverage universe although reported operating performance from Persistent, Firstsource (acquisitions for Persistent and people take over deal for Firstsource) and MPS will remain strong aided by acquisitions and seasonality.

Exhibit 1: Emkay IT services coverage Dec'15 quarter estimates

Co Name	Revenues	Revenue growth		EBITDA	EBITDA growth		EBITDA margins (bps)		Net profits	Net Profits growth	
	(in US\$ mn)	QoQ	YoY	(in Rs mn)	QoQ	YoY	QoQ	YoY	(in Rs mn)	QoQ	YoY
IT Services companies											
Infosys	2,402	0.4	8.3	44,025	1.2	11.3	-11	-94	33,735	-0.7	3.8
TCS	4,212	1.3	7.1	80,308	2.7	13.9	-12	-11	60,566	0.0	11.3
Wipro*	1,847	0.8	2.9	24,776	0.1	-4.9	23	-250	23,425	4.8	6.8
HCL Tech	1,560	1.0	4.6	22,660	2.5	-2.3	8	-301	18,342	6.4	-4.3
Tech M	1,020	0.9	10.4	11,714	6.4	1.0	73	-279	7,239	-7.8	-10.1
eClerx	50	0.5	29.7	1,172	-7.5	44.5	-290	159	840	-13.7	38.2
Hexaware	125	-0.4	8.8	1,369	-6.2	-3.5	-119	-327	1,025	-8.1	17.5
NIIT Tech	106	1.3	10.4	1,266	6.0	46.8	53	366	742	8.6	53.9
Mindtree Ltd	181	0.6	22.8	2,168	0.2	16.2	-33	-230	1,485	-6.2	5.4
Persistent	88	5.8	10.4	1,182	16.2	18.7	164	24	798	11.0	7.0
Mphasis	235	-1.4	3.4	13,313	0.0	3.3	-0	0	1,750	-7.9	6.0
Other companies											
Firstsource	126	5.8	4.4	1,156	17.5	23.5	116	112	762	23.0	31.9
MPS Ltd	11	14.2	8.1	279	33.0	14.6	499	-11	197	12.6	14.7
NIIT Ltd**	2,551	-6.4	2.8	195	-23.1	235.5	-166	529	195	-6.7	875.2

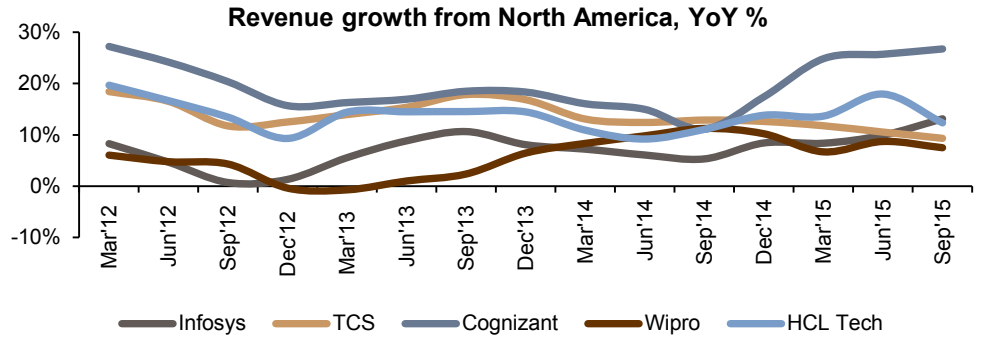
Source: Emkay Research. Note: * EBITDA refers to IT services EBIT. ** Revenue in Rs mn.

Exhibit 2: YoY US\$ revenue growth trajectory for the TWITCH group (or the Tier I group) to slip to 8.9% YoY in Dec'15 quarter (Vs a 10.2% YoY in Sep'15 quarter and 12.1% YoY in Dec'14 quarter), marking the 9th quarter in a row of moderating revenue growth trajectory



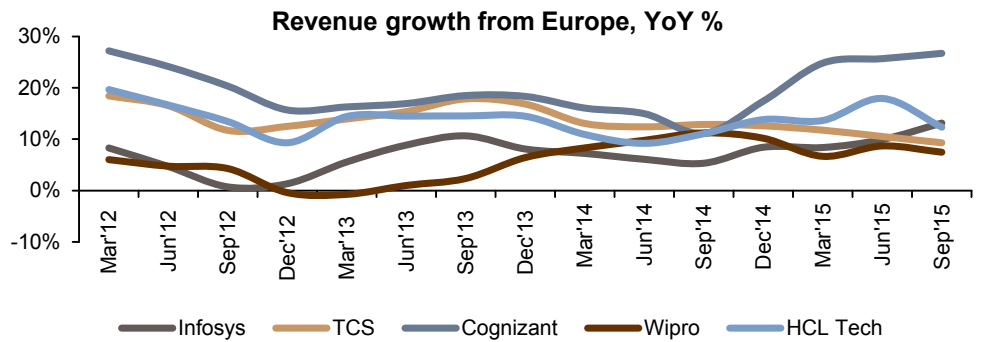
Source: Company, Emkay Research

Exhibit 3: Despite optimistic commentary revenue growth from North America has been subdued in recent quarters



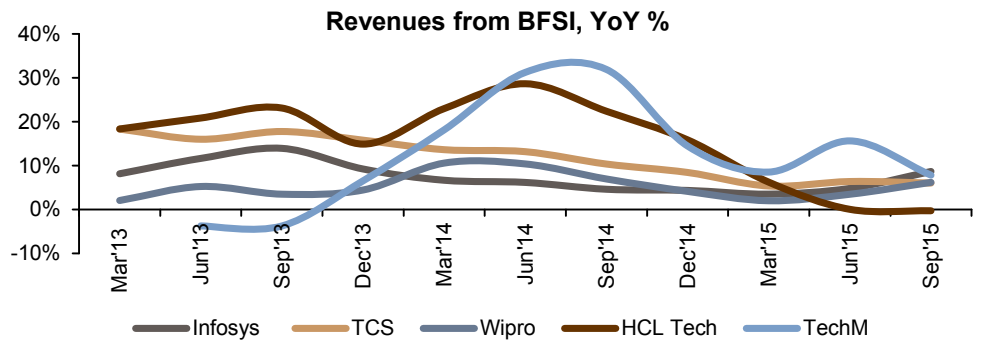
Source: Company, Emkay Research

Exhibit 4: At prevailing exchange rates for GBP and Euro, US\$ revenue growth trajectory could start improving from next quarter



Source: Company, Emkay Research

Exhibit 5: Revenue growth from Financial Services vertical continues to moderate for the Offshore IT Services players



Source: Company, Emkay Research

Exhibit 6: Changes in earnings estimates

(in Rs/sh)	FY16E			FY17E		
	Old	New	% change	Old	New	% change
Tier I IT Services companies						
TCS	123.3	121.6	-1.5%	140.5	135.7	-3.4%
Infosys	57.5	58.0	0.8%	66.5	66.2	-0.6%
Wipro	38.2	37.7	-1.4%	42.1	41.4	-1.6%
HCL Tech	53.7	52.8	-1.8%	61.8	61.2	-0.9%
Tech Mahindra	33.2	33.3	0.2%	40.1	40.1	0.0%
Tier II IT Services companies						
Mindtree	72.0	71.8	-0.3%	84.7	84.7	0.0%
eClerx	3,365.0	3,346.9	-0.5%	3,675.0	3,674.8	0.0%
NIIT Tech	45.6	45.8	0.5%	49.2	49.0	-0.4%
Persistent	37.7	37.8	0.5%	43.3	42.9	-0.8%
Hexaware	13.3	13.0	-1.9%	16.5	16.2	-1.9%
Mphasis	35.6	34.9	-2.1%	38.6	38.5	-0.2%
Other companies						
NIIT Ltd	4.5	4.5	0.5%	5.7	5.7	-0.5%
Firstsource	4.0	4.1	2.6%	4.4	4.8	9.3%
MPS Ltd	36.7	37.3	1.5%	43.2	43.2	0.0%

Source: Emkay Research

Exhibit 7: Emkay IT Services valuation summary

Co Name	CMP	Recco.	Target Price	US\$ revenue growth %			EPS			P/E			EV/EBIT			ROE		
				FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Infosys	1,105	Hold	1,200	9.0	12.6	12.1	58	66	75	19.1	16.7	14.8	13.8	11.7	10.1	23.0	23.9	24.3
TCS	2,416	Hold	2,450	8.1	12.0	11.9	122	136	152	19.9	17.8	15.9	15.3	13.4	11.7	37.3	34.4	32.4
Wipro	556	Hold	610	4.1	10.3	9.4	38	41	45	14.8	13.4	12.5	11.7	10.2	9.0	21.3	20.7	19.8
HCL Tech**	846	Buy	980	7.3	11.3	9.2	53	61	67	16.0	13.8	12.6	13.2	11.2	9.9	28.7	27.8	26.1
Tech Mahindra	520	Hold	570	11.0	10.8	13.0	33	40	48	15.6	13.0	10.9	12.6	9.6	8.0	21.6	22.3	22.6
Mindtree	1,442	Reduce	1,450	20.4	15.8	13.0	72	85	97	20.1	17.0	14.8	16.1	1.6	10.1	25.7	23.2	20.9
eClerx	1,426	Accumulate	1,520	29.2	14.3	14.4	81	89	103	17.6	16.0	13.9	13.5	11.8	10.0	42.6	39.0	37.7
Hexaware*	243	Accumulate	290	15.1	13.2	12.2	13	16	18	18.6	15.0	13.5	13.9	11.5	10.2	29.9	35.0	36.2
Persistent Systems	649	Sell	630	9.8	12.9	13.6	38	43	51	17.2	15.1	12.7	12.2	10.1	7.8	18.6	19.4	20.9
NIIT Tech	578	Accumulate	600	8.6	11.3	12.0	46	49	55	12.6	11.8	10.6	8.6	7.2	6.1	19.1	17.7	17.4
Mphasis	496	Hold	440	0.4	7.5	10.1	35	39	44	14.2	12.9	11.3	9.4	8.0	6.7	12.9	13.4	14.3
Firstsource	43	Accumulate	50	-0.9	8.6	8.0	4.2	4.9	5.4	10.5	8.9	8.0	9.0	7.1	5.9	12.3	12.8	12.5

Source: Company, Bloomberg, Emkay Research. Prices as on 1st Jan 2015. Note:* FY15 refers to FYDec'14 for Hexaware and so on, ** FY15 refers to FY ending June'15 for HCL Tech and so on.

Exhibit 8: IT Services Dec'15 quarter estimates

Name			Dec'15	Sep'15	Dec'14	YoY chg	QoQ chg	Comments
Infosys								
CMP(Rs)	1,160	Net Sales (Rs mn)	1,58,799	1,56,350	1,37,960	15.1%	1.6%	We build in 0.4% QoQ US\$ revenue growth and 1.1% QoQ constant currency growth with ~70 bps headwinds from Chennai disruption (35 bps) and cross currency (35 bps). We expect EBITDA margins to be largely flat sequentially at 27.7% (down 10bps QoQ). Net profits expected at Rs 33.7bn (-0.7% QOQ). Expect Investors to focus on (1) growth in top clients (2) performance in key verticals (3) outlook on demand from key verticals/geographies and (4) constant currency revenue growth outlook (management in investor forums has indicated significant confidence on achieving full year revenue growth outlook of 10-12% YoY in constant currency terms).
Mkt Cap (Rs bn)	2,603	EBITDA (Rs mn)	44,025	43,510	39,540	11.3%	1.2%	
Reco	Hold	EBITDA Margin (%)	27.7	27.8	28.7	-94 bps	-11 bps	
Target Price (Rs)	1,180	PAT (Rs mn)	33,735	33,980	32,500	3.8%	-0.7%	
% Upside	2%	EPS (Rs)	14.8	14.9	14.2	3.8%	-0.7%	
TCS								
CMP(Rs)	2,705	Net Sales (Rs mn)	2,80,070	2,71,655	2,45,011	14.3%	3.1%	We build in US\$ revenue growth of 1.3% QoQ US\$ revenue growth with ~60 bps cross currency headwinds. EBITDA margins expected to be nearly flat QoQ. Reported Profits expected to be flat QoQ. We are not building in any forex gains/losses in Dec'15 quarter as compared to Rs2bn forex gains in Sep'15 quarter. Key things to watch out for (1) outlook on CY16 client budgeting , (2) outlook on business from key verticals like Financial Services and medium term margin outlook , (3) TCS's commentary on client captive activity and positioning with regards to the Digital Demand.
Mkt Cap (Rs bn)	5,229	EBITDA (Rs mn)	80,308	78,224	70,531	13.9%	2.7%	
Reco	Accumulate	EBITDA Margin (%)	28.7	28.8	28.8	-11 bps	-12 bps	
Target Price (Rs)	2,750	PAT (Rs mn)	60,566	60,551	54,440	11.3%	0.0%	
% Upside	2%	EPS (Rs)	30.9	30.9	27.8	11.3%	0.0%	
CMP(Rs)	2,705	Net Sales (Rs mn)	2,80,070	2,71,655	2,45,011	14.3%	3.1%	
Wipro**								
CMP(Rs)	588	Net Sales (Rs mn)	1,30,961	1,25,668	1,20,851	8.4%	4.2%	Building in a 0.8% QoQ US\$ revenue growth with ~60 bps cross currency headwinds. IT Services EBIT margins estimated at 20.5% on account of modest revenue growth and one-time costs related to Chennai disruption. Profits expected to be up 4.8% QoQ at Rs 23.4 bn. Key things to watch out for (1) Mar'16 quarter revenue guidance (we expect a 1-3% QoQ growth outlook), (2) outlook for business from key verticals/geographies and (3) revenue performance in top clients.
Mkt Cap (Rs bn)	1,454	EBITDA (Rs mn)	25,355	24,289	24,034	5.5%	4.4%	
Reco	Hold	EBITDA Margin (%)	19.4	19.3	19.9	-53 bps	3 bps	
Target Price (Rs)	630	PAT (Rs mn)	23,425	22,354	21,928	6.8%	4.8%	
% Upside	7%	EPS (Rs)	9.5	9.1	8.9	7.2%	4.8%	

**For Wipro, EBITDA number for Wipro corresponds to EBIT.

Exhibit 8: IT Services Dec'15 quarter estimates (Contd...)

Name			Dec'15	Sep'15	Dec'14	YoY chg	QoQ chg	Comments
HCL Tech								
CMP(Rs)	833	Net Sales (Rs mn)	1,03,113	1,00,970	92,830	11.1%	2.1%	We are building in a 1% QoQ US\$ revenue growth with ~150 bps revenue hit on account of cross currency (70 bps) and Chennai disruption (80 bps). EBITDA margins expected to be nearly flat QoQ at 22% (ex-adjustments of Sep'15 quarter). EBIT margins expected at 20.6%, flat QoQ and below management guidance of 21-22% range. Profits expected to be up 6.4% QoQ aided by absence of one off provisioning in Sep'15 quarter. Things to watch out for: 1) Outlook on FY16 growth and margins (HCL Tech had indicated of strong revenue growth prospects in H2FY16 aided by ramp ups on large transformational deals and 21-22% EBIT margins over the medium term) , (2) Outlook on business in Infra, Engg Services and Financial Services.
Mkt Cap (Rs bn)	1,149	EBITDA (Rs mn)	22,660	22,110	23,190	-2.3%	2.5%	
Reco	Buy	EBITDA Margin (%)	22.0	21.9	25.0	-301 bps	8 bps	
Target Price (Rs)	1,000	PAT (Rs mn)	18,342	18,437	19,160	-4.3%	-0.5%	
% Upside	20%	EPS (Rs)	13.0	13.1	13.6	-4.4%	-0.5%	
Tech Mahindra								
CMP(Rs)	569	Net Sales (Rs mn)	67,416	66,155	57,517	17.2%	1.9%	We build in 0.9% QoQ US\$ revenue growth with 70 bps cross currency headwinds. We expect operating margins to improve sequentially by ~80bps aided by currency depreciation and benefits from higher utilization and other cost optimization measures. Profits expected to decline by 8% QoQ despite a 6.4% sequential increase in operating profits on account of lower other income (Q2FY16 numbers included the dividend received from treasury shares). Key things to watch out for (1) outlook on growth in the Communications vertical (M& A related activity has led to slow decision making in the segment), (2) outlook on margins and (3) deal wins.
Mkt Cap (Rs bn)	545	EBITDA (Rs mn)	11,714	11,010	11,601	1.0%	6.4%	
Reco	Hold	EBITDA Margin (%)	17.4	16.6	20.2	-279 bps	73 bps	
Target Price (Rs)	570	PAT (Rs mn)	7,239	7,852	7,768	-6.8%	-7.8%	
% Upside	0%	EPS (Rs)	7.4	8.0	8.0	-8.6%	-7.8%	
eClerx Services								
CMP(Rs)	1,720	Net Sales (Rs mn)	3,334	3,240	2,416	38.0%	2.9%	We build in 1.2% QoQ constant currency growth with ~70bps cross currency headwinds. We expect EBITDA margins to decline by ~290bps sequentially (largely due to moderation in revenue growth rate and higher SG&A expenses. Profits expected to decline by 14% QoQ on account of a 7.5% QoQ decline in operating profits and lower other income (Sep'15 quarter had forex gains of Rs 98 mn and we estimate forex gains of Rs 34 mn in Dec'15 quarter). Key things to watch out for (1) growth in both top 5 and emerging clients, (2) progress on revenue synergies through the CLX acquisition and (3) margin outlook.
Mkt Cap (Rs bn)	52	EBITDA (Rs mn)	1,172	1,177	811	44.5%	-0.5%	
Reco	Accumulate	EBITDA Margin (%)	35.1	36.3	33.6	159 bps	-119 bps	
Target Price (Rs)	2,030	PAT (Rs mn)	840	884	608	38.2%	-5.0%	
% Upside	18%	EPS (Rs)	20.3	21.3	14.8	37.3%	-5.0%	

Exhibit 8: IT Services Dec'15 quarter estimates (Contd..)

Name			Dec'15	Sep'15	Dec'14	YoY chg	QoQ chg	Comments
Hexaware Technologies								
CMP(Rs)	253	Net Sales (Rs mn)	8,223	8,184	7,118	15.5%	0.5%	We build in 0.4% QoQ decline in US\$ revenues as we factor in US\$2mn (or 160bps headwind) adverse impact due to Chennai rains. We estimate EBITDA margins to decline by ~120bps QoQ on account of weak revenues and Chennai heavy rains. We expect net profit to decline by 8% QoQ. Things to watch out for 1) Revenue traction led by ramp ups of recently won deals, (2) New deal wins in 'must have' accounts, 3) outlook on margins given investments in onshore/near-shore delivery capabilities, and (4) dividend policy.
Mkt Cap (Rs bn)	76	EBITDA (Rs mn)	1,369	1,460	1,418	-3.5%	-6.2%	
Reco	Accumulate	EBITDA Margin (%)	16.6	17.8	19.9	-327 bps	-119 bps	
Target Price (Rs)	315	PAT (Rs mn)	1,025	1,115	938	9.3%	-8.1%	
% Upside	24%	EPS (Rs)	3.4	3.7	3.1	8.4%	-8.1%	
Persistent Systems								
CMP(Rs)	651	Net Sales (Rs mn)	5,800	5,427	4,946	17.3%	6.9%	We build in 5.8% QoQ US\$ revenue growth with 2.8% QoQ organic US\$ revenue growth. We expect margins to improve by ~160bps QoQ aided by growth leverage, absence of wage increments and currency benefit. We expect net profit to increase 11% QoQ aided by ~20% sequential increase in operating profits. Things to watch-out for: 1) Performance in the linear business and the Platform business, (2) Outlook on margins, (3) Revenue growth outlook.
Mkt Cap (Rs bn)	52	EBITDA (Rs mn)	1,182	1,018	997	18.7%	16.2%	
Reco	Sell	EBITDA Margin (%)	20.4	18.7	20.1	24 bps	164 bps	
Target Price (Rs)	650	PAT (Rs mn)	798	718	746	7.0%	11.0%	
% Upside	0%	EPS (Rs)	10.0	9.0	9.3	7.0%	11.0%	
NIIT Tech								
CMP(Rs)	459	Net Sales (Rs mn)	6,978	6,779	5,953	17.2%	2.9%	We build in a 2.9% QoQ INR revenue growth given a seasonal December weakness. EBITDA margins are expected to improve by ~50 bps aided by mix change, absences of provisions in the GIS business and currency depreciation. We expect net profits at Rs 742 mn(+8.6% QoQ) aided by 6% sequential increase in in operating profits. Key things to watch out for (1) revenue/margin outlook, (2) order booking in key geographies like US, (3) cross sell synergies from the Incessant acquisition.
Mkt Cap (Rs bn)	28	EBITDA (Rs mn)	1,266	1,194	862	46.8%	6.0%	
Reco	Accumulate	EBITDA Margin (%)	18.1	17.6	14.5	366 bps	53 bps	
Target Price (Rs)	570	PAT (Rs mn)	742	683	482	53.9%	8.6%	
% Upside	24%	EPS (Rs)	12.5	11.4	7.9	58.3%	10.0%	

Source: Companies, Emkay Research

Exhibit 8: IT Services Dec'15 quarter estimates (Contd..)

Name			Dec'15	Sep'15	Dec'14	YoY chg	QoQ chg	Comments
Mindtree								
CMP(Rs)	1,519	Net Sales (Rs mn)	11,931	11,693	9,118	30.9%	2.0%	We expect a 0.6% QoQ US\$ revenue growth with ~50 bps cross currency headwinds. EBITDA margins estimated at 18.2%, down 30 bps QoQ on account of wage hikes for senior staff and fresher on barding despite slight benefit from currency depreciation. We estimate net profit to decline by 6.2% QoQ on account of lower other income. Key things to watch out for (1) growth outlook within key verticals like BFSI, Manufacturing and Retail/CPG (2) Outlook on margins (given the investments in account management and employee training etc.) (3) revenue cross sell at Blue fin Solutions
Mkt Cap (Rs bn)	127	EBITDA (Rs mn)	2,168	2,164	1,867	16.2%	0.2%	
Reco	Reduce	EBITDA Margin (%)	18.2	18.5	20.5	-230 bps	-33 bps	
Target Price (Rs)	1,450	PAT (Rs mn)	1,485	1,582	1,409	5.4%	-6.2%	
% Upside	-5%	EPS (Rs)	17.7	18.8	16.8	5.4%	-6.2%	
Mphasis								
CMP(Rs)	409	Net Sales (Rs mn)	15,498	15,575	14,108	9.9%	-0.5%	We build in 0.5% revenue decline for Mphasis in Dec'15 quarter as we estimate ~US\$1mn revenue impact due to Chennai heavy rains (and ~US\$5.7mn revenue loss due to sale of BPO operations (2 months revenues)) . We expect EBITDA margins to decline by ~100bps QoQ on account of Chennai rain while expect wage revision impact of ~170bps to be mitigated better revenue mix. Profits expected decline by ~8% QoQ. Things to watch out for: 1) Outlook on business within Direct Channel and Digital Risk, (2) Margins picture.
Mkt Cap (Rs bn)	86	EBITDA (Rs mn)	2,185	2,345	2,066	5.8%	-6.8%	
Reco	Hold	EBITDA Margin (%)	14.1	15.1	14.6	-55 bps	-96 bps	
Target Price (Rs)	420	PAT (Rs mn)	1,750	1,900	1,651	6.0%	-7.9%	
% Upside	3%	EPS (Rs)	8.3	9.0	7.8	6.2%	-7.9%	
Firstsource Solutions								
CMP(Rs)	27	Net Sales (Rs mn)	8,511	7,925	7,510	13.3%	7.4%	We expect INR revenues to increase by 7.4% QoQ aided by contribution from the UK BFSI lift off deal as well as strong growth from healthcare vertical. We expect operating margins to improve by ~120bps on back of growth leverage. Net profit is expected to increase by 23% QoQ on back of 22% QoQ growth in operating profits. Key things to look out for 1) Commentary on deal wins and 2) Revenue growth outlook especially with regards to revenue performance of top client.
Mkt Cap (Rs bn)	18	EBITDA (Rs mn)	1,156	984	936	23.5%	17.5%	
Reco	Accumulate	EBITDA Margin (%)	13.6	12.4	12.5	112 bps	116 bps	
Target Price (Rs)	36	PAT (Rs mn)	761	619	576	32.2%	23.1%	
% Upside	34%	EPS (Rs)	1.1	0.9	0.9	30.3%	23.1%	

Exhibit 8: IT Services Sep'15 quarter estimates (Contd..)

Name			Dec'15	Sep'15	Dec'14	YoY chg	QoQ chg	Comments
MPS Ltd.								We expect 14.2% QoQ US\$ revenue growth aided by seasonal strength in both the native business and TSI Evolve (expect revenues of ~US\$ 0.5 mn from TSI Evolve). We expect EBITDA margins to improve by ~500 bps to 38.4% aided by growth leverage. We expect Dec'15 quarter net profit to increase by ~15% YoY and ~13% QoQ aided by a 33% growth in operating profits. Key things to watch out for 1) Revenue performance of top clients 2) Progress on DigiCore platform and inorganic growth strategy.
CMP(Rs)	809	Net Sales (Rs mn)	726	627	632	14.9%	15.7%	
Mkt Cap (Rs bn)	15	EBITDA (Rs mn)	279	209	243	14.6%	33.0%	
Reco	Accumulate	EBITDA Margin (%)	38.4	33.4	38.5	-11 bps	499 bps	
Target Price (Rs)	1,020	PAT (Rs mn)	197	175	172	14.7%	12.6%	
% Upside	26%	EPS (Rs)	10.6	9.4	10.2	3.7%	12.6%	
NIIT Ltd								We expect revenues to grow by 1.8% YoY aided by ~11%/10% YoY growth in Corporate learning solutions/ Schools respectively while we expect revenues from Skills & career to decline by 2.3% YoY. We expect operating margins to improve by ~530bps YoY with 11.5%/1% EBITDA margins for Corporate learning Solutions and Skills & careers group. We expect net profit to post 875% YoY revenue growth aided by improving performance of both NIIT And NIIT Tech. We expect Rs17mn net profit for core business V/s losses of Rs94mn Dec'14 quarter.
CMP(Rs)	94	Net Sales (Rs mn)	2,551	2,725	2,482	2.8%	-6.4%	
Mkt Cap (Rs bn)	16	EBITDA (Rs mn)	195	253	58	235.5%	-23.1%	
Reco	Buy	EBITDA Margin (%)	7.6	9.3	2.3	529 bps	-166 bps	
Target Price (Rs)	110	PAT (Rs mn)	195	209	20	875.2%	-6.7%	
% Upside	17%	EPS (Rs)	1.2	1.3	0.1	866.0%	-6.7%	

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ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
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