

Information Technology

Encore

Following the 'decade-best' 3Q growth, we expect an encore with the sector (coverage universe) set to post decade-best 4Q sequential performance. The pandemic has evidently accelerated the digital transformation agenda and key lead indicators remain positive. Over the 5% QoQ posted in 3QFY21 (and 6% in 2Q), we expect the sector to deliver 3.9% QoQ. Ramp-up of large deals, broad-based momentum and positive cross currency will support growth. While growth print is expected to be homogenously positive, divergence in operational performance dashboard is driven by (1) wage increase schedule (deferred earlier), (2) accelerated pace of hiring resulting in varying trends in utilisation/attrition (while offshoring continues to be strong). Recent commentary on the sector at our conference (*IT sector: onwards and upwards*) was buoyant on demand trends (deal funnel, bookings, cloud opportunity, large deals) as well as sustaining supply-side scenario (training efforts, lower sub-contracting dependence, offshore delivery), mitigating some rise/drop in attrition/utilisation.

Deal activity (TCS-Vodafone/ThreeUK/Skanska; INFY-Siemens/Toyota/Newmont; HCLT-Airbus; WPRO & TECHM-Telefonica; Mindtree-Knauf) remained strong in 4Q with evidence of uptick in Manufacturing and Communication verticals. Read-through from global peers remains positive including Accenture's outlook, Capgemini's medium-term (CY25) growth outlook and GlobalLogic's acquisition by Hitachi. The alignment with large cloud providers is improving and growth of SaaS, hyperscalers continues to be robust.

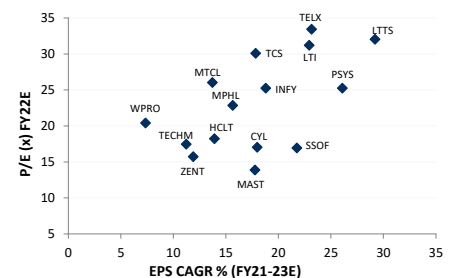
- Revenue outperformance led by TCS, INFY and ER&D companies:** In 4QFY21E, we expect TCS and INFY to lead the growth at 3.5% QoQ CC each, supported by ramp-up of large deals (PBS, Prudential, Rolls Royce). HCLT/WPRO/TECHM are expected to post 2.5/2.7/1.0%. Within mid-tiers, ER&D is expected to post strong growth with TELX/LTTS/CYL at 6.5/5.0/3.0% QoQ (USD terms). MTCL and LTI are expected to post 4.5% and 4.3% QoQ, while ZENT will lag at -2.2% QoQ. In terms of margin, TCS is expected to outperform within tier-1s. ER&D companies are expected to outperform operationally too in 4Q within the mid-tier universe.
- Key monitorables:** (1) Guidance: INFY/HCLT revenue/margin guidance for FY22, WPRO's 1Q revenue guidance, LTTS' FY22 revenue guidance; (2) Deal wins & TCW and deal pipeline; (3) Margin performance (scope for outperformance) and performance/outlook on cost of delivery (wage hike cycle for FY22, utilisation, hiring, attrition, offshoring, sub-contracting); (4) Trends in large deals (closure timelines, profitability) and pricing in digital; (5) Performance & outlook on key verticals; (6) Capital allocation (inorganic) stance in light of stronger cash generation (FY21E).
- Maintain positive stance:** Our EPS estimate tweaks are largely due to USD-INR reset and our estimates remain ahead of consensus (~4% for FY23E). We selectively raise target multiples (PSYS, MTCL, MPHL, LTTS) to reflect high visibility/sustainability of growth. Despite the sector's valuation at 1.5x historical multiples, we remain constructive and our preferred picks checks for (1) growth outperformance, (2) greater visibility of growth and (3) upside risk to base case. Our positive stance on the sector is premised on the longevity of high-growth (and strong BS) supported by multi-year industry tailwind from shift to cloud, increasing competitive advantage leading to continued market-share gains. Key risks remain macro recovery upending and unfavourable USD-INR. **Preferred picks are Infosys, HCL Tech, Tata Elxsi and Persistent Systems.**

Company	CMP* (INR)	RECO	TP (INR)
TCS	3,178	ADD	3,460
Infosys	1,368	BUY	1,580
HCL Tech	983	BUY	1,100
Wipro	414	ADD	450
TechM	991	BUY	1,120
LTI	4,054	ADD	4,220
Mindtree	2,084	ADD	2,160
Mphasis	1,777	BUY	1,950
LTTS	2,654	REDUCE	2,370
Tata Elxsi	2,693	BUY	3,290
Persistent	1,922	BUY	2,280
Cyient	647	ADD	700
Zensar	274	ADD	310
Sonata	509	BUY	585
Mastek	1,220	BUY	1,540

EXCHANGES & STAFFING

Company	CMP* (INR)	RECO	TP (INR)
MCX	1,513	ADD	1,700
CDSL	656	BUY	720
Teamlease	3,772	BUY	4,100
BSE	571	BUY	750

*CMP as on 31st Mar 2021



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Exchanges and Staffing

- Within exchanges, MCX is expected to post a 5.0% QoQ decline in revenue due to a 4.2% QoQ decline in ADTV, led by a decline in bullion volume. Energy/Metals volume has recovered by +5/7% QoQ but index derivative volumes were flat sequentially. Margins will contract 494bps QoQ to 43.3% due to non-linearity and wage increase. MCX volume growth has stagnated over the last two quarters and pickup in index derivative contracts is slower than expected.
- BSE witnessed recovery in its core business performance (cash volume up 50% QoQ) and cash market share recovered to 7.4% (+176bps QoQ). BSE market share in the derivative segment stood at 6.1%, where NSE is a dominant player. The net cash (excluding SGF and clearing cash) is ~70% of the market cap and the value of CDSL stake after 25% discount is INR 227/share. We maintain BUY with a target price of INR 750, based on 10x core FY23 PAT + net cash + CDSL stake.
- CDSL will continue its strong performance in 4Q with +6.1/53% QoQ/YoY growth. Transaction charges will continue to register healthy growth (2.7x in 9MFY21) led by market activity and pledge revenue. Annual issuer charges/online data charges (e-KYC)/IPO & corporate action will grow +5.2/2.0/6.0% QoQ. The EBITDA margin will expand by 73bps QoQ to 65.8% and PAT will increase 3.9 % QoQ to Rs 0.56bn. CDSL continues to gain BO account market share and has crossed 30mn accounts in the quarter. BO accounts grew ~50% YoY and CDSL's market share stood at 59.8% (Feb-21) with 85% incremental market share.
- Within staffing, Teamlease will post a strong quarter with +6.0% QoQ growth in revenue, led by growth in core staffing (+6.4% QoQ). The growth is led by a gradual opening up of the economy and a strong recovery in NETAP additions (Manufacturing). Specialised staffing is expected to grow +1.4% QoQ led by a recovery in IT hiring and stability in Telecom staffing. The EBITDA margin will improve by 9bps QoQ to 2.0%, led by higher productivity, improving business mix (high-margin specialised staffing) and cost control initiatives.

IT Services: 4QFY21E Quarterly Financial Summary

Company	Net Sales (USD mn)			Net Sales (INR bn)			EBIT (INR bn)			EBIT Margin (%)			APAT (INR bn)			Adj. EPS (INR)		
	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	QoQ (bps)	YoY (bps)	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	3Q FY21	4Q FY20
TCS	5,957	4.5	9.4	433.70	3.2	8.6	115.35	3.1	15.1	26.6	-2	150	88.27	1.4	9.7	23.9	23.5	21.8
Infosys	3,665	4.2	14.6	266.78	2.9	14.7	62.34	-5.4	26.5	23.4	-205	219	47.86	-7.9	10.9	11.3	12.2	10.2
HCLT	2,706	3.4	6.4	196.96	2.0	6.0	42.37	-4.0	9.2	21.5	-136	64	33.05	-3.7	4.8	12.2	12.7	11.6
Wipro	2,144	3.5	3.4	161.25	2.9	2.6	32.62	(1.9)	30.5	20.2	-99	432	29.96	1.0	28.8	5.3	5.2	4.1
Tech M	1,332	1.8	2.9	96.97	0.5	2.2	15.11	-1.7	59.1	15.6	-35	558	13.40	2.3	66.7	15.2	14.9	9.1
Tier-1 IT	15,804	3.9	8.6	1,155.65	2.7	8.0	267.79	-1.0	20.2	23.2	-86	235	212.54	-1.6	14.0			
L&T Infotech	446	4.3	8.9	32.49	3.1	7.9	6.05	-6.9	20.2	18.6	-200	191	4.77	-8.1	11.6	27.4	29.8	24.6
Mindtree	286	4.5	2.8	20.84	3.0	1.7	3.78	-4.6	47.7	18.1	-145	565	2.82	-29.6	36.6	17.1	24.3	12.5
Mphasis	346	3.8	8.2	25.21	1.9	7.4	4.13	2.0	7.8	16.4	2	5	3.32	2.1	6.9	17.8	17.5	16.7
L&T Tech	200	5.0	2.2	14.53	3.7	0.5	2.32	8.6	5.4	15.9	71	74	1.86	3.9	-0.7	17.8	17.1	17.9
Tata Elxsi	69	6.5	13.8	5.02	5.2	14.4	1.42	7.0	45.0	28.2	46	596	1.22	15.9	48.6	19.6	16.9	13.2
Persistent	151	3.6	19.2	11.03	2.5	19.0	1.34	-1.6	56.6	12.2	-52	292	1.25	3.8	43.6	16.4	15.8	11.4
Cyient	146	3.0	-2.4	10.60	1.5	-1.3	1.23	5.8	36.3	11.6	47	320	1.00	4.6	32.4	9.1	8.7	6.8
Zensar	120	-2.2	-11.0	8.74	-3.6	-10.5	1.25	-13.6	22.1	14.3	-165	380	0.97	-1.8	36.7	4.2	4.3	3.1
Sonata	42	3.5	-4.4	11.86	-15.1	27.7	0.93	-8.2	25.6	7.8	59	-13	0.74	-2.2	-0.7	7.1	7.3	7.2
Mastek	63	4.6	34.8	4.58	3.3	35.9	0.94	2.0	86.1	20.5	-27	554	0.62	8.3	20.6	21.8	22.2	20.2
Mid-Tier IT	1,870	3.8	5.9	144.90	0.7	7.0	23.38	-2.1	25.5	16.1	-45	237	18.57	-6.1	18.0			
Aggregate	17,674	3.9	8.3	1,300.55	2.4	7.9	291.17	-1.1	20.6	22.4	-80	236	231.11	-2.0	14.3			

Source: HSIE Research, Wipro USD Rev is IT services, Sonata USD rev is IITS

Exchanges & Staffing: 4QFY21E Quarterly Financial Summary

Company	Net Sales (USD mn)			Net Sales (INR bn)			EBITDA (INR bn)			EBITDA Margin (%)			APAT (INR bn)			Adj. EPS (INR)		
	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	QoQ (bps)	YoY (bps)	4Q FY21E	QoQ (%)	YoY (%)	4Q FY21E	3Q FY21	4Q FY20
MCX	NA	NA	NA	0.96	(5.0)	(8.9)	0.42	(14.7)	2.0	43.3	-494	465	0.63	(11.8)	(3.3)	12.4	14.1	12.8
CDSL	NA	NA	NA	0.91	6.1	52.7	0.60	7.3	73.9	65.8	73	801	0.56	3.9	49.3	5.3	5.1	3.6
TeamLease	NA	NA	NA	13.52	6.0	1.6	0.28	11.1	38.3	2.0	9	54	0.25	9.0	23.1	13.5	12.6	14.9
BSE	NA	NA	NA	1.33	9.9	10.9	0.20	68.7	NA	15.2	528	NA	0.47	11.6	84.9	10.4	9.3	5.6
Aggregate				16.72	5.6	3.5	1.49	5.6	49.6	8.9	-0	275	1.91	0.3	28.6			

Source: HSIE Research

IT Services: valuation metrics

Company	MCap (INR bn)	CMP (INR)	TP (INR)	RECO	EPS (INR)				P/E (x)				RoE (%)				\$ Rev CAGR% FY21-23E	EPS CAGR% FY21-23E
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
TCS	11,755	3,178	3,460	ADD	87.4	89.0	105.6	123.6	36.3	35.7	30.1	25.7	37.3	40.0	47.1	51.1	12.9	17.8
Infosys	5,815	1,368	1,580	BUY	38.6	44.9	54.2	63.3	35.4	30.5	25.2	21.6	25.2	27.6	30.0	31.4	14.4	18.8
HCL Tech	2,667	983	1,100	BUY	40.8	47.2	53.9	61.2	24.1	20.8	18.2	16.1	23.8	23.1	23.1	23.0	12.4	13.9
Wipro	2,279	414	450	ADD	17.0	19.7	20.3	22.7	24.3	21.1	20.4	18.3	17.3	19.7	20.3	21.8	11.6	7.3
TechM	957	991	1,120	BUY	48.3	53.3	56.8	65.9	20.5	18.6	17.4	15.0	20.2	20.6	20.2	21.4	8.3	11.2
Tier-1 IT Median									24.3	21.1	20.4	18.3	23.8	23.1	23.1	23.0	12.4	13.9
LTI	706	4,054	4,220	ADD	87.3	107.4	129.9	162.3	46.4	37.8	31.2	25.0	29.5	31.0	30.5	30.8	17.9	22.9
Mindtree	343	2,084	2,160	ADD	40.5	69.7	80.0	90.1	51.5	29.9	26.0	23.1	19.5	31.1	29.9	27.3	14.4	13.7
Mphasis	331	1,777	1,950	BUY	61.3	66.1	77.8	88.4	29.0	26.9	22.8	20.1	20.6	20.1	21.4	21.6	12.1	15.6
L&T Tech	277	2,654	2,370	REDUCE	72.0	59.2	82.8	98.9	36.9	44.8	32.0	26.8	28.6	20.0	23.2	23.6	15.5	29.2
Tata Elxsi	168	2,693	3,290	BUY	43.6	60.2	80.6	91.3	61.8	44.7	33.4	29.5	26.7	31.2	34.2	32.1	21.4	23.1
Persistent	147	1,922	2,280	BUY	47.0	57.4	76.1	91.2	40.9	33.5	25.2	21.1	14.4	17.3	20.2	20.7	16.7	26.1
Cyient	71	647	700	ADD	33.9	32.8	38.0	45.6	19.1	19.8	17.0	14.2	14.5	13.7	14.9	16.8	10.7	18.0
Zensar	63	274	310	ADD	11.5	15.6	17.4	19.5	23.8	17.6	15.7	14.0	12.7	15.9	16.2	16.6	7.3	11.9
Sonata	53	509	585	BUY	26.7	24.7	30.1	36.6	19.1	20.6	16.9	13.9	38.5	36.1	38.7	40.9	14.6	21.8
Mastek	35	1,220	1,540	BUY	51.5	74.1	88.0	102.7	23.7	16.5	13.9	11.9	17.4	24.2	24.0	23.4	14.3	17.8
Mid-Tier IT AVG									32.3	26.8	21.5	18.3	20.9	22.8	24.1	24.4	14.4	20.9
Mid-Tier IT Median									29.0	26.9	22.8	20.1	19.5	20.1	23.2	23.4	14.4	21.8

Source: HSIE Research, CMP as on 31st Mar 2021

Global IT Peers: valuation metrics

Company	MCap (USD bn)	CMP USD	TP	RECO	EPS (USD)				P/E (x)				RoE (%)				\$ Rev CAGR% FY21-23E	EPS CAGR% FY21-23E
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
Accenture	185.3	279	NA	NR	7.5	8.5	9.4	10.3	37.3	32.8	29.7	27.0	32.5	30.5	29.7	29.1	7.2	10.2
Cognizant	41.7	79	NA	NR	4.0	3.4	4.0	4.4	19.7	23.0	19.8	17.9	16.4	12.7	17.3	16.7	6.3	13.2
Capgemini^	24.8	147	NA	NR	6.8	7.3	7.6	8.6	21.7	20.2	19.4	17.1	10.8	13.2	17.5	17.8	5.2	8.7
EPAM	21.6	384	NA	NR	5.4	6.3	7.4	9.2	70.8	60.5	51.7	41.6	18.3	18.3	19.6	20.3	22.2	20.7
Globant	7.9	199	NA	NR	2.3	2.5	3.2	3.9	87.0	81.3	62.4	51.2	13.9	8.2	13.6	14.3	24.4	26.0
TietoEVRY^	3.1	27	NA	NR	1.7	2.2	2.3	2.5	15.4	12.3	11.4	10.6	7.3	5.7	12.1	15.1	2.6	7.7
Global IT AVG									42.0	38.3	32.4	27.6	16.5	14.8	18.3	18.9	11.3	14.4
Global IT Median									29.5	27.9	24.7	22.5	15.2	13.0	17.4	17.3	6.7	11.7

Source: HSIE Research, CMP as on 31st Mar 2021, ^ in EUR

Exchanges and Staffing: valuation metrics

Company	MCap (INR bn)	CMP (INR)	TP (INR)	RECO	EPS (INR)				P/E (x)				RoE (%)				INR Rev CAGR% FY21-23E	EPS CAGR% FY21-23E
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
MCX	77	1,513	1,700	ADD	45.7	49.2	50.8	61.3	33.1	30.7	29.8	24.7	17.8	18.2	18.2	21.4	18.0	11.6
CDSL Ltd	69	656	720	BUY	12.0	19.4	21.4	24.6	54.6	33.8	30.6	26.7	17.3	24.3	23.4	23.4	13.5	12.6
TeamLease	64	3,772	4,100	BUY	49.5	50.9	78.0	107.6	76.2	74.1	48.4	35.1	15.2	14.1	18.4	20.8	26.4	45.4
BSE	26	571	750	BUY	31.3	40.1	47.2	54.1	18.2	14.2	12.1	10.6	5.8	7.5	8.8	10.1	15.1	16.1
Median									43.9	32.3	30.2	25.7	16.3	16.2	18.3	21.1	16.6	14.4

Source: HSIE Research, CMP as on 31st Mar 2021

IT Services stock performance (%)

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)	10Yr (%)
TCS	9.1	7.0	24.9	75.1	114.2	138.2	418.2
Infosys	10.5	11.1	37.4	121.1	138.7	112.3	224.1
HCL Tech	9.5	5.9	22.7	137.7	100.4	133.5	727.4
Wipro	1.9	4.3	27.9	117.7	80.1	65.0	97.4
TechM	10.7	3.5	28.7	93.5	57.4	115.2	1055.2
LTI	15.6	13.7	63.8	210.9	215.4	NA	NA
Mindtree	33.1	30.7	59.2	151.9	177.3	215.4	2260.4
Mphasis	8.1	12.0	28.9	178.1	105.5	213.6	272.1
LTTS	2.8	13.0	64.0	126.2	119.1	NA	NA
Tata Elxsi	1.2	45.2	109.1	346.1	173.1	185.2	2000.1
Persistent	16.1	25.5	43.3	250.0	164.6	143.1	893.1
Cyient	-1.3	25.1	67.9	196.6	-9.5	44.2	297.9
Zensar	-7.8	13.7	41.5	227.8	51.4	46.8	810.6
Sonata	5.8	27.1	61.0	210.7	61.7	246.9	1087.4
Mastek	2.5	3.6	42.6	587.1	140.0	821.8	820.5
NSE IT	5.2	4.0	24.8	101.1	110.8	120.3	296.5
Nifty 50	2.5	5.9	28.8	81.1	59.9	118.3	218.0

Source: Bloomberg, HSIE Research, CMP as on 30th Mar 2021

Exchanges and Staffing stock performance (%)

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)	10Yr (%)
MCX	1.2	-12.9	-11.2	47.8	129.2	83.5	17.9
CDSL	4.7	24.5	35.4	214.7	131.2	NA	NA
Teamlease	8.1	44.9	67.7	145.0	65.7	NA	NA
BSE	-2.6	-7.1	3.7	94.9	-37.4	NA	NA
Nifty 50	2.5	5.9	28.8	81.1	59.9	118.3	218.0

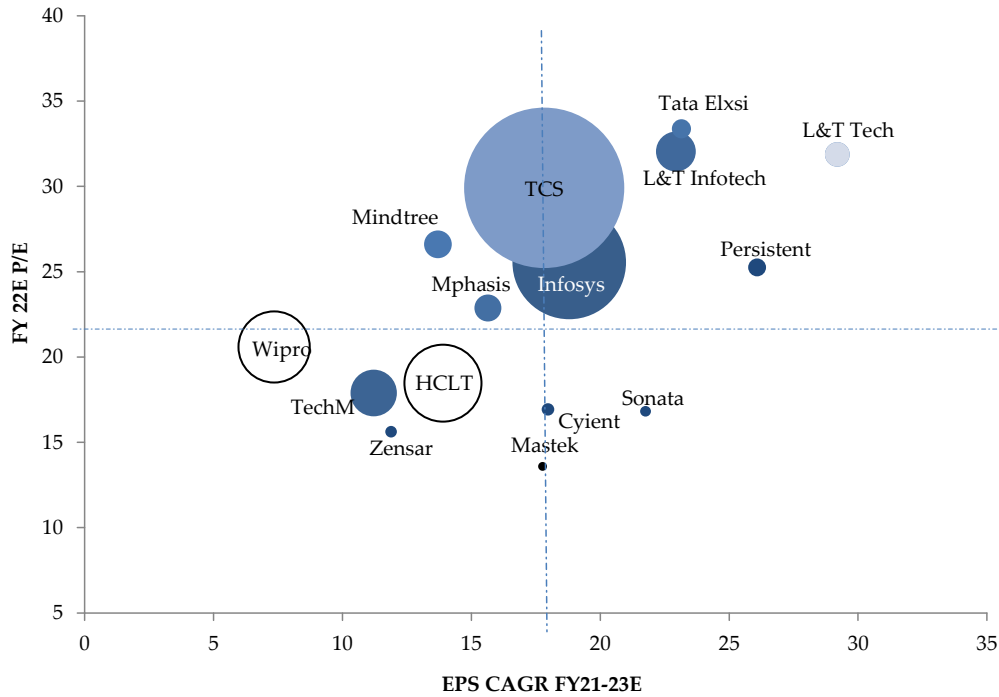
Source: Bloomberg, HSIE Research, CMP as on 30th Mar 2021

Note:

Green indicates out-performance to Nifty 50 during the respective period

Red indicates under-performance to Nifty 50 during the respective period

IT Sector P/E and EPS Growth



Source : Company, HSIE Research, Size of the bubble denotes market cap

Revenue-Mix by Verticals

Verticals	TCS	Infosys	HCLT	Wipro	TechM	LTI
BFSI	31.9%	33.1%	21.4%	30.5%	16.0%	45.7%
Retail & CPG	14.6%	14.7%	10.5%	16.4%	7.9%	10.9%
Hi-Tech	8.9%	8.2%	17.8%	12.6%	9.4%	10.6%
Communication & Media	6.5%	12.4%	8.3%	5.2%	39.7%	NA
Manufacturing	9.4%	9.3%	18.1%	8.3%	16.3%	16.9%
Healthcare	9.8%	7.1%	13.6%	13.9%	NA	NA
E&U	NA	12.5%	10.4%	13.1%	NA	10.0%
Travel & Transportation	NA	NA	NA	NA	NA	NA

Verticals	Mphasis	Mindtree	LTTS	Cyient	Zensar
BFSI	63.0%	19.5%	NA	NA	28.9%
Retail & CPG	NA	21.6%	NA	NA	15.3%
Hi-Tech	12.9%	49.8%	NA	5.3%	39.6%
Communication & Media	NA	NA	22.9%	29.5%	NA
Manufacturing	NA	NA	34.0%	38.2%	12.3%
Healthcare	NA	NA	12.7%	2.9%	NA
E&U	NA	NA	NA	10.3%	NA
Travel & Transportation	NA	8.9%	30.4%	13.8%	NA

Source: Company, HSIE Research; NA also implies data not disclosed separately, Note: Data as per 3QFY21

Change in estimates

IT Services

Company	Revenue USD bn (NEW)			Change (%)			EBIT % (NEW)			Change (bps)			EPS (Rs) NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	22,142	25,430	28,207	0.1%	0.1%	0.3%	25.8	26.3	27.4	-11	-49	10	89.0	105.6	123.6	-0.7%	-4.0%	-2.6%
Infosys	13,694	15,881	17,937	0.2%	0.0%	0.0%	24.2	23.9	24.5	-15	-26	1	44.9	54.2	63.3	-0.8%	-3.3%	-3.1%
HCL Tech	10,186	11,594	12,864	0.1%	0.8%	1.2%	21.6	21.6	21.6	0	-5	-34	47.2	53.9	61.2	-0.5%	-1.5%	-3.1%
Wipro	8,129	9,398	10,128	0.1%	0.3%	0.3%	19.3	17.3	17.7	-10	-1	9	19.7	20.3	22.7	-0.8%	-1.7%	-1.6%
Tech Mahindra	5,114	5,510	6,000	-0.1%	-0.5%	-0.5%	14.0	13.8	14.5	5	-43	-24	53.3	56.8	65.9	0.1%	-4.2%	-2.2%
LTI	1,669	1,988	2,321	-0.4%	-1.9%	-0.7%	19.1	18.7	19.5	-33	-72	-50	107.4	129.9	162.3	-2.3%	-7.4%	-5.4%
Mindtree	1,075	1,244	1,406	0.4%	2.6%	4.0%	17.2	17.9	17.6	-20	10	-10	69.7	80.0	90.1	-1.1%	0.6%	0.0%
Mphasis	1,313	1,495	1,649	0.0%	0.4%	0.9%	16.1	16.5	16.5	5	-4	-1	66.1	77.8	88.4	-0.1%	-2.3%	-2.0%
LTTS	739	866	986	0.2%	0.5%	1.6%	14.3	16.0	17.0	-14	-73	-33	59.2	82.8	98.9	0.6%	-4.0%	-3.2%
Tata Elxsi	245	308	361	0.1%	0.2%	0.2%	25.6	26.5	25.0	22	53	-1	60.2	80.6	91.3	0.0%	0.7%	-1.2%
Persistent	565	663	769	0.2%	0.8%	3.2%	11.9	12.9	13.3	19	50	-29	57.4	76.1	91.2	1.8%	4.8%	1.4%
Cyient	553	606	677	0.1%	0.5%	0.5%	9.8	11.4	12.3	-2	53	53	32.8	38.0	45.6	0.2%	1.2%	2.8%
Zensar	494	521	569	-1.0%	-2.6%	-2.1%	13.8	13.9	14.0	1	22	-15	15.6	17.4	19.5	-0.9%	-2.8%	-4.1%
Sonata	159	182	209	-0.1%	-0.5%	-0.5%	7.8	7.5	7.7	-3	-19	-4	24.7	30.1	36.6	1.5%	-1.0%	0.8%
Mastek	229	266	299	0.4%	1.3%	1.3%	18.7	17.6	18.0	22	7	-8	74.1	88.0	102.7	-1.1%	-0.4%	-1.2%

Source: Company, HSIE Research

Companies	M-cap (INR bn)	CMP (INR)	TP Old (INR)	New TP (INR)	Old Rating	New Rating	Old multiple (x)	New multiple (x)	5Y Avg (x)	10Y Avg (x)
TCS	11,755	3,178	3,550	3,460	ADD	ADD	28	28	22	21
INFY	5,815	1,368	1,630	1,580	BUY	BUY	25	25	18	17
HCLT	2,667	983	1,140	1,100	BUY	BUY	18	18	14	14
WPRO	2,279	414	460	450	ADD	ADD	20	20	15	15
TECHM	957	991	1,145	1,120	BUY	BUY	17	17	14	13
LTI	706	4,054	4,460	4,220	ADD	ADD	26	26	18	NA
MTCL*	343	2,084	1,985	2,160	ADD	ADD	22	24	18	16
MPHL*	331	1,777	1,800	1,950	BUY	BUY	20	22	16	13
LTTS*	277	2,654	2,250	2,370	REDUCE	REDUCE	22	24	20	NA
TELX	168	2,693	3,330	3,290	BUY	BUY	36	36	23	19
PSYS*	147	1,922	1,980	2,280	BUY	BUY	22	25	15	14
CYL	71	647	710	700	ADD	ADD	16	16	13	12
ZENT	63	274	325	310	ADD	ADD	16	16	13	10
SSOF	53	509	580	585	BUY	BUY	16	16	12	9
MAST	35	1,220	1,560	1,540	BUY	BUY	15	15	11	8

Source: HSIE Research, * PE multiple increased, TP based on Mar-23E EPS

Exchanges and Staffing

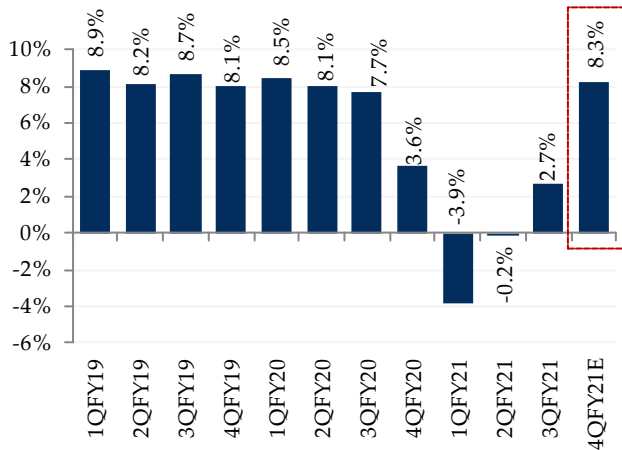
Company	Revenue INR bn (NEW)			Change (%)			EBITDA % (NEW)			Change (bps)			EPS (INR) NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
MCX	3.9	4.5	5.4	-3.9%	-7.0%	-8.9%	46.8	49.9	54.3	82	-23	-93	49.2	50.8	61.3	7.5%	-4.5%	-9.4%
CDSL	3.3	3.8	4.3	1.2%	5.9%	7.5%	62.8	64.4	65.9	52	219	261	19.4	21.4	24.6	1.6%	7.9%	9.8%
Teamlease	48.9	62.9	78.2	0.3%	1.1%	0.9%	2.0	2.3	2.5	0	-2	-2	50.9	78.0	107.6	1.6%	-0.7%	-2.1%
BSE	4.8	5.6	6.4	0.1%	-1.3%	-1.2%	9.6	16.9	21.7	10	-107	-91	40.1	47.2	54.1	-0.1%	-2.3%	-2.0%

Source: Company, HSIE Research

Companies	M-cap (INR bn)	CMP (INR)	TP Old (INR)	New TP (INR)	Old Rating	New Rating	Old multiple (x)	New multiple (x)	5Y Avg (x)	10Y Avg (x)
MCX	77	1,513	1,770	1,700	ADD	ADD	30	30^	28	25
CDSL*	69	656	580	720	BUY	BUY	30	33^	25	NA
Teamlease*	64	3,772	3,850	4,100	BUY	BUY	35	38	35	35
BSE	26	571	700	750	BUY	BUY	10	10^	17	NA

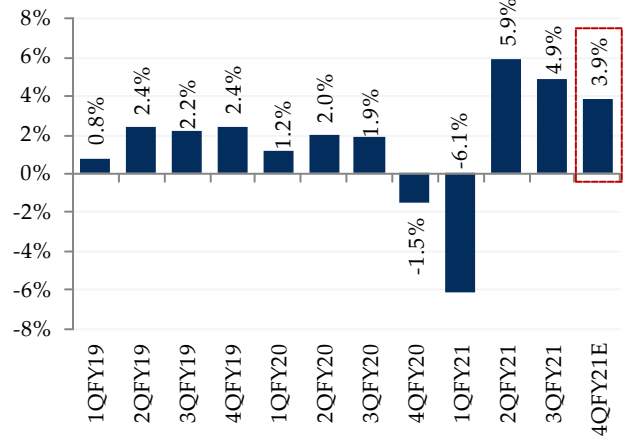
Source: Company, HSIE Research, ^ represents core PAT multiples, * PE multiple increased

IT Sector USD Revenue Growth (% YoY)



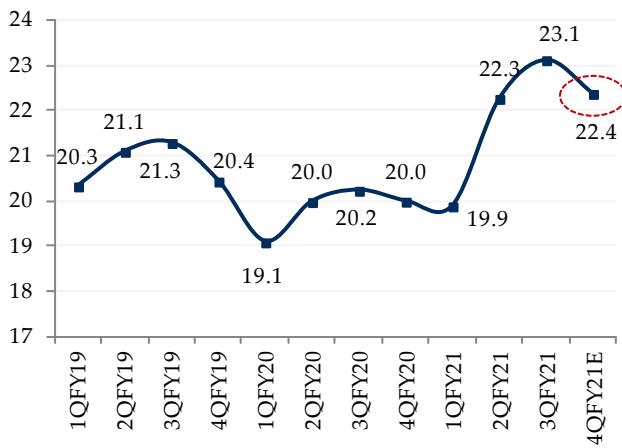
Source: Company, HSIE Research

IT Sector USD Revenue Growth (% QoQ)



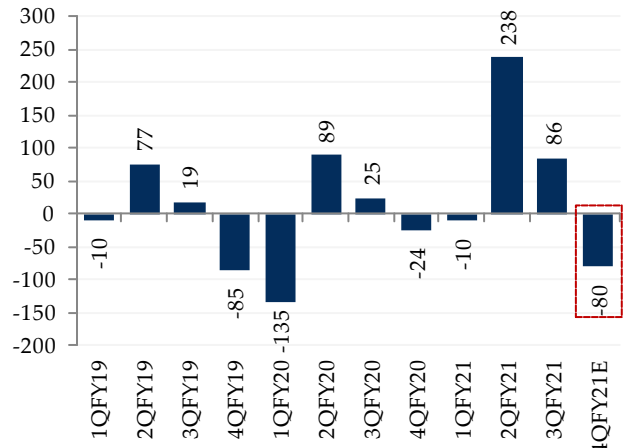
Source: Company, HSIE Research

IT Sector EBIT Margin Trend (%)



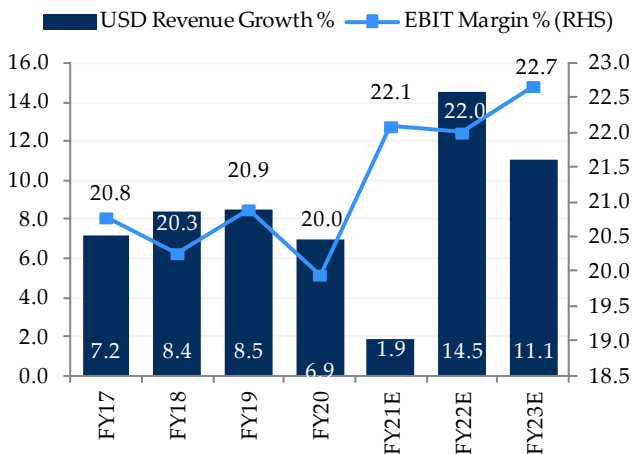
Source: Company, HSIE Research

IT Sector EBIT Margin Change (QoQ bps)



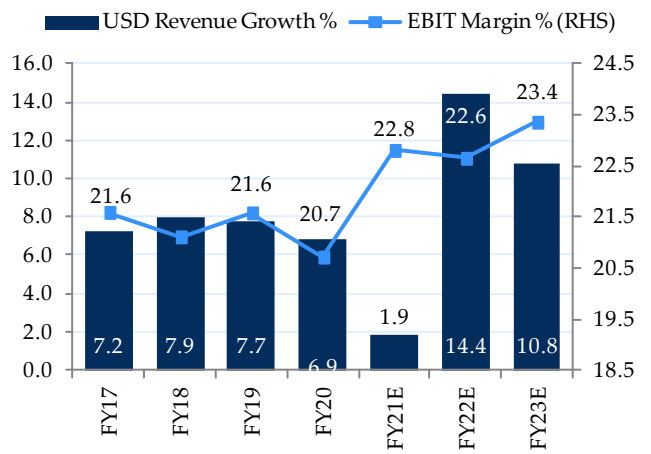
Source: Company, HSIE Research

IT Sector Aggregate Revenue growth and Margin trend



Source: Company, HSIE Research

Tier 1 Revenue growth and Margin trend



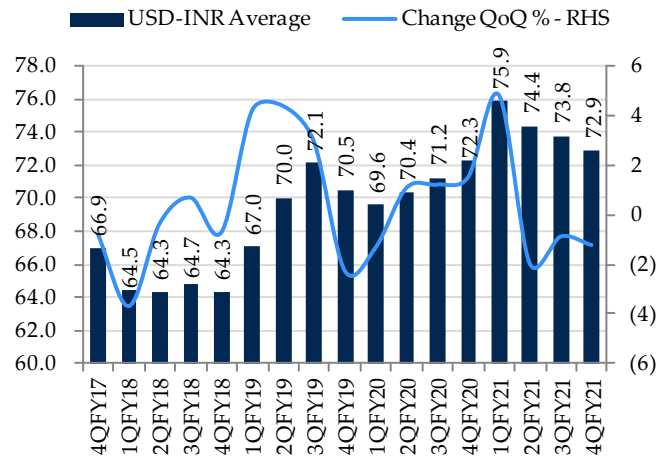
Source: Company, HSIE Research

Currency movements

Unfavourable movement of USD-INR (-1.2% QoQ) offset by positive cross currency movement

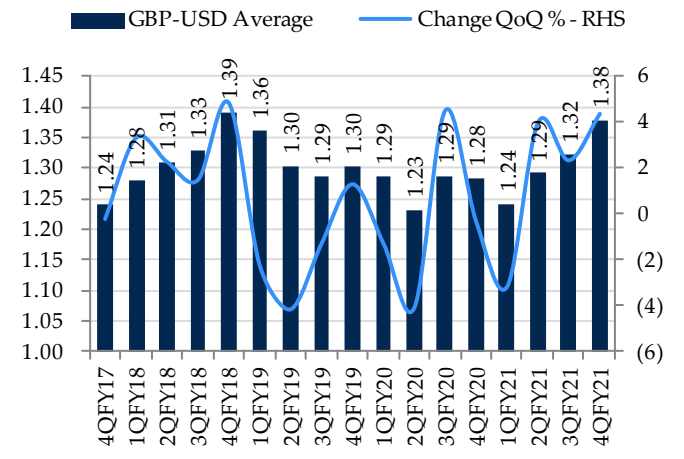
Positive cross-currency impact in the range of 30 to 100bps in 4QFY21 due to appreciation of GBP, EUR and AUD

USD-INR Trend



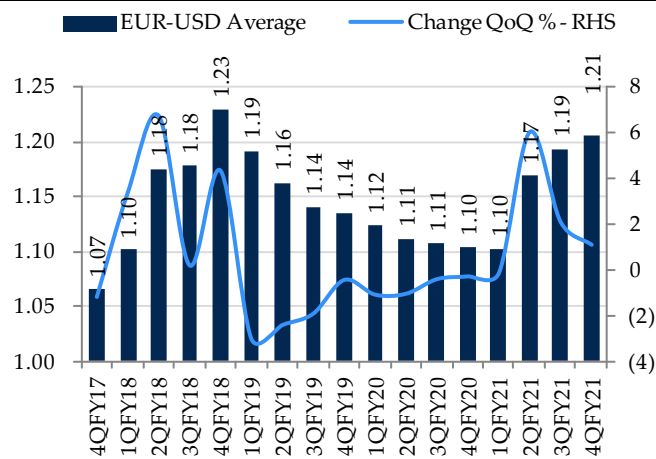
Source: NSE, Bloomberg, HSIE Research

GBP-USD Trend



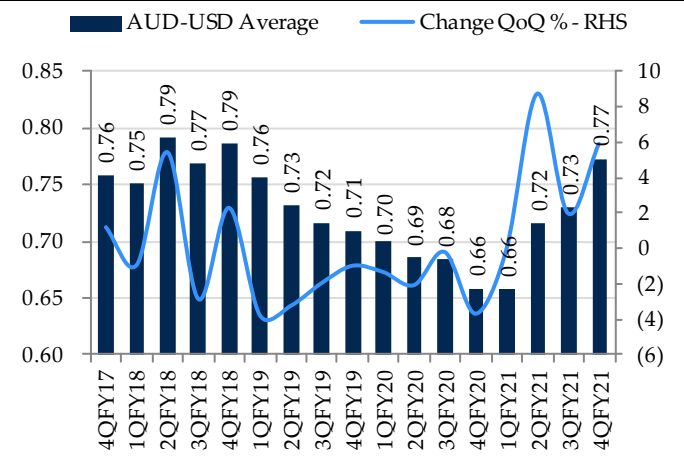
Source: NSE, Bloomberg, HSIE Research

EUR-USD Trend



Source: NSE, Bloomberg, HSIE Research

AUD-USD Trend



Source: NSE, Bloomberg, HSIE Research

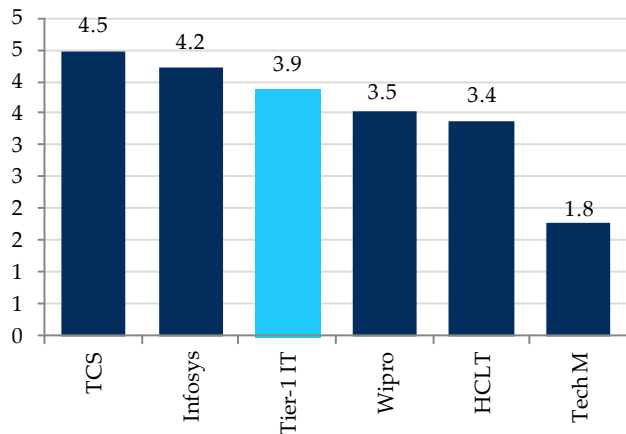
Cross Currency impact on USD Revenue

Tier 1 Companies	QoQ % (CC terms)	Cross currency impact (bps)	QoQ % (USD terms)
TCS	3.5	+100	4.5
INFY	3.5	+70	4.2
HCLT	2.5	+90	3.4
WPRO	2.7	+80	3.5
TECHM	1.0	+80	1.8
Mid-Tier Companies	QoQ % (CC terms)	Cross currency impact (bps)	QoQ % (USD terms)
LTI	4.0	+30	4.3
MPHL	3.5	+35	3.8
MTCL	4.2	+30	4.5
LTS	4.6	+40	5.0
PSYS	3.3	+30	3.6
CYL	2.5	+50	3.0
ZENT	-2.8	+55	-2.2

Source: HSIE Research

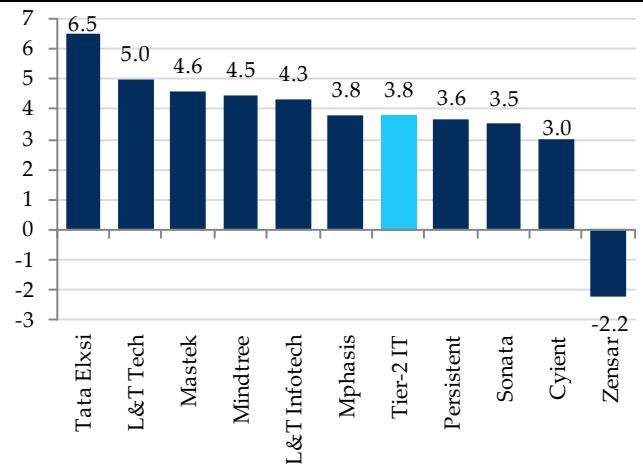
Revenue and margin performance (4QFY21E)

Tier-1 IT Revenue Performance (QoQ %)



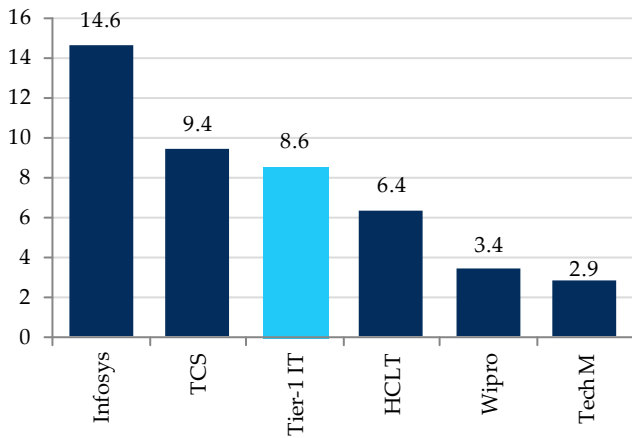
Source: HSIE Research

Mid-Tier IT Revenue Performance (QoQ %)



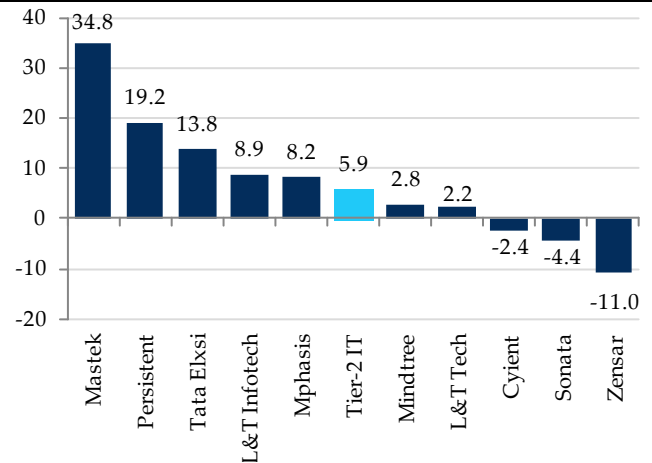
Source: HSIE Research

Tier-1 IT Revenue Performance (YoY %)



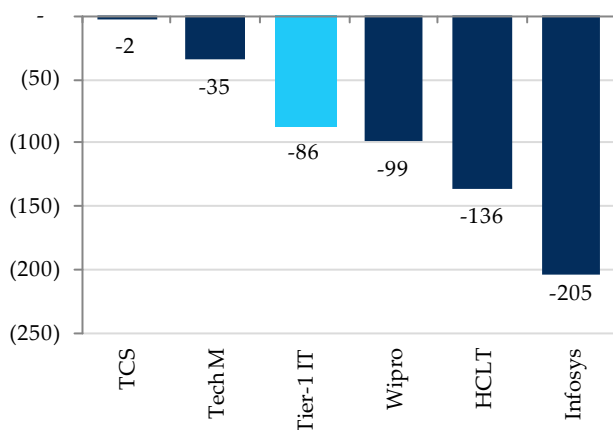
Source: HSIE Research

Mid-Tier IT Revenue Performance (YoY %)



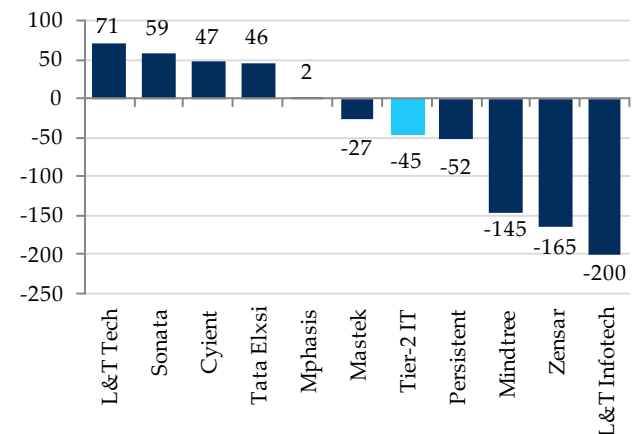
Source: HSIE Research

Tier-1 IT Margin Performance (QoQ bps)



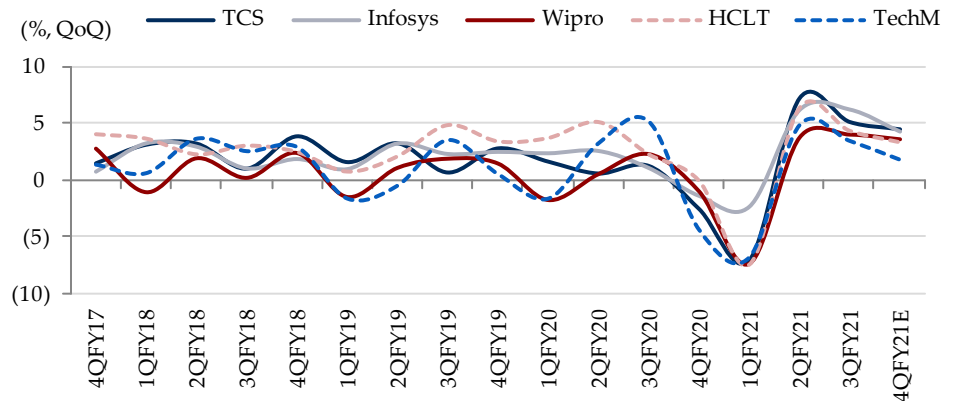
Source: HSIE Research

Mid-Tier IT Margin Performance (QoQ bps)



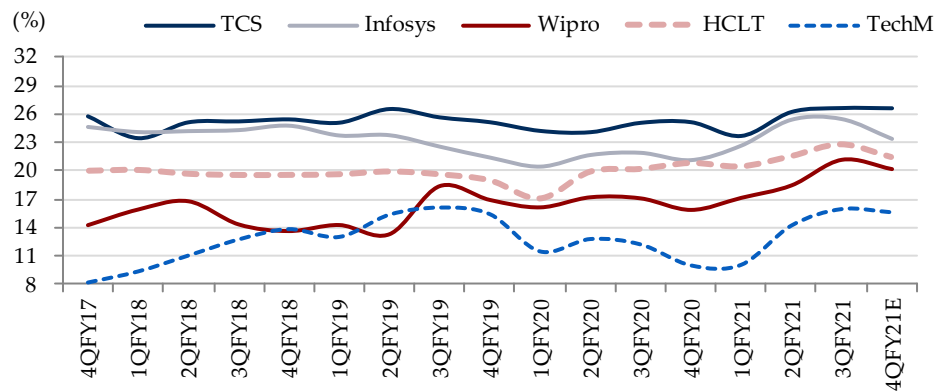
Source: HSIE Research

Tier-1 IT quarterly USD revenue growth trend (QoQ %)



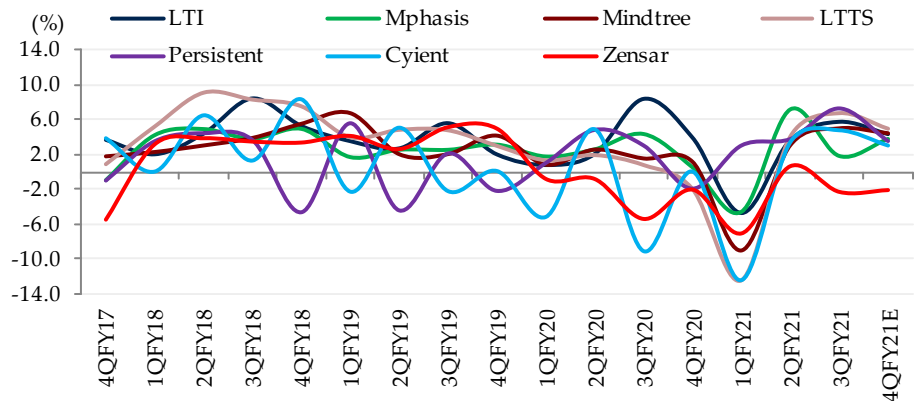
Source: Company, HSIE Research

Tier-1 IT quarterly EBIT Margin trend (%)



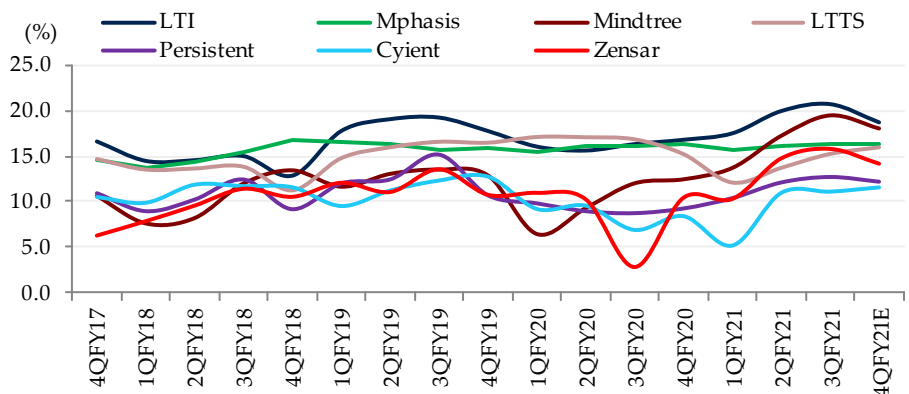
Source: Company, HSIE Research

Mid-Tier IT quarterly USD revenue growth trend (QoQ %)



Source: Company, HSIE Research

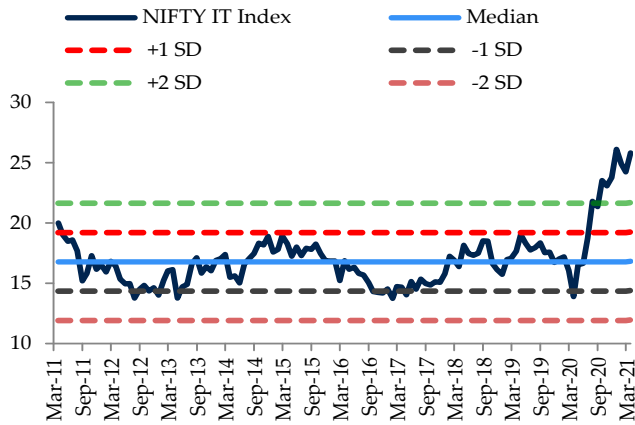
Mid-Tier quarterly EBIT Margin trend (%)



Source: Company, HSIE Research

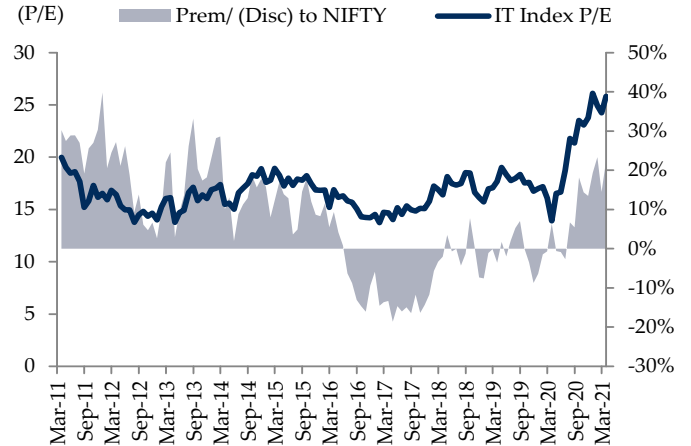
Valuation charts

NIFTY IT Index Valuation Trend (P/E 1-yr fwd)



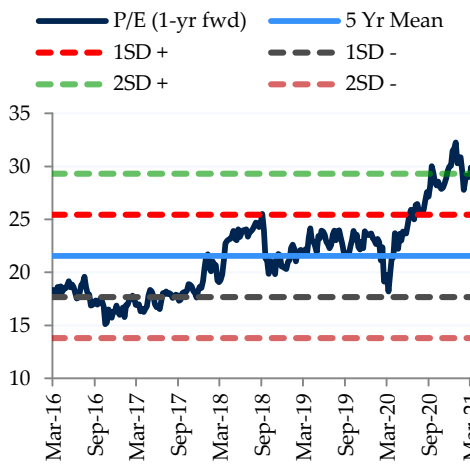
Source: Bloomberg, HSIE Research

IT Index Valuation Trend vs NIFTY



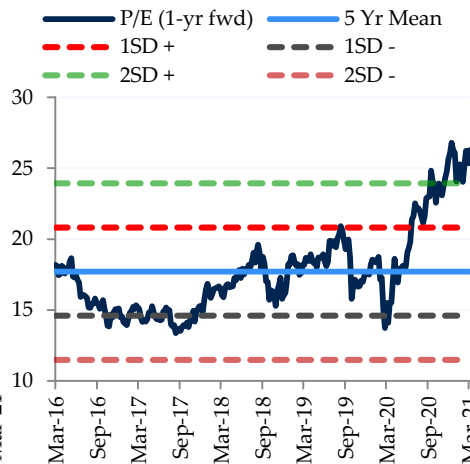
Source: Bloomberg, HSIE Research

TCS P/E (1-yr fwd) Trend

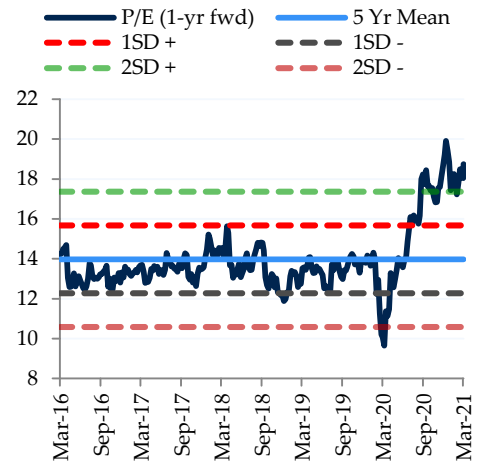


Source: Bloomberg, HSIE Research

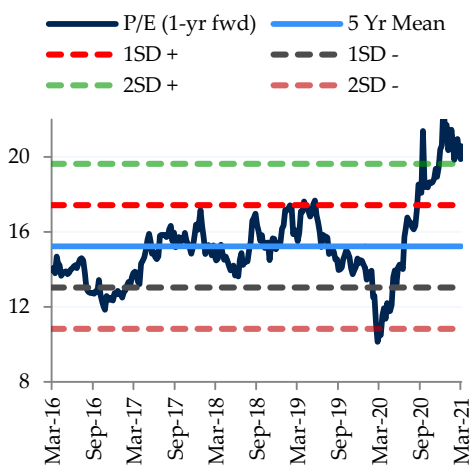
Infosys P/E (1-yr fwd) Trend



HCL Tech P/E (1-yr fwd) Trend

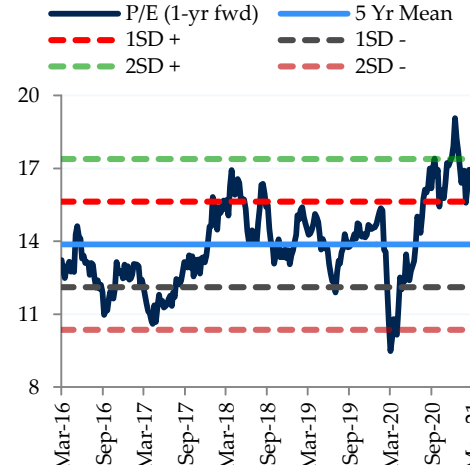


Wipro P/E (1-yr fwd) Trend

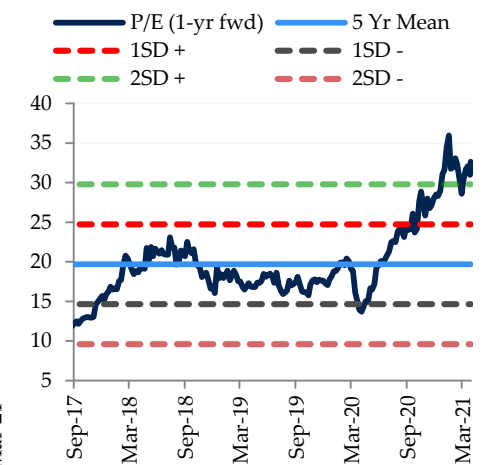


Source: Bloomberg, HSIE Research

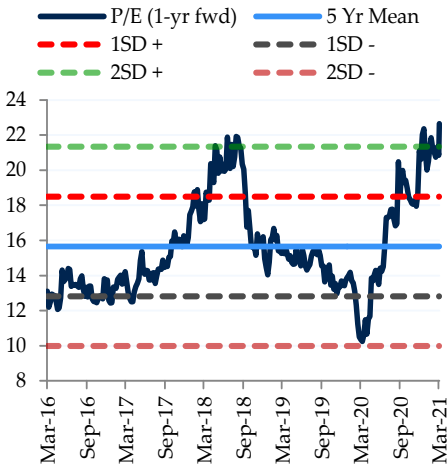
TECHM P/E (1-yr fwd) Trend



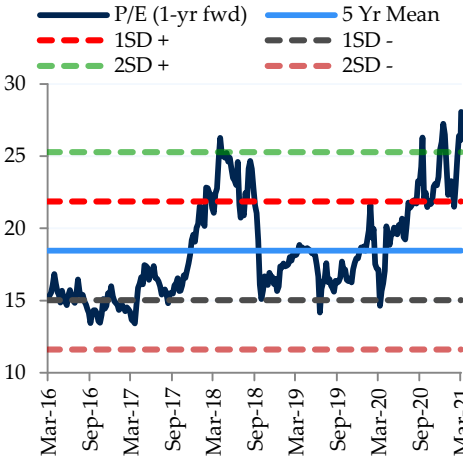
L&T Infotech P/E (1-yr fwd) Trend



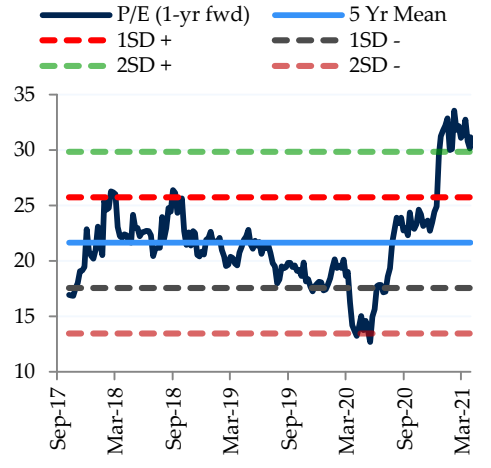
Mphasis P/E (1-yr fwd) Trend



Mindtree P/E (1-yr fwd) Trend

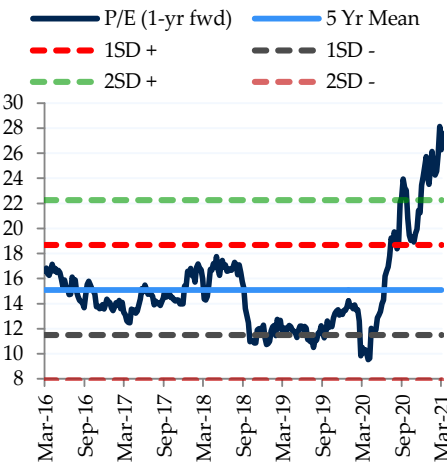


L&T Tech P/E (1-yr fwd) Trend

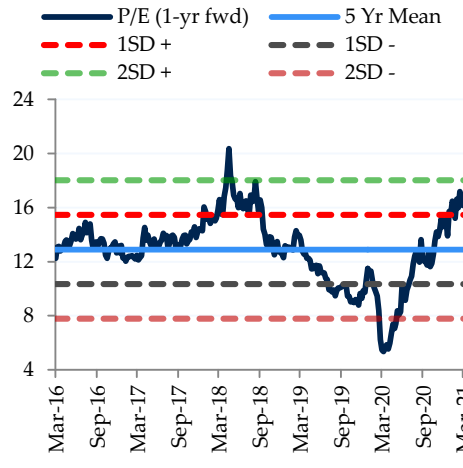


Source: Bloomberg, HSIE Research

Persistent P/E (1-yr fwd) Trend



Cyient P/E (1-yr fwd) Trend

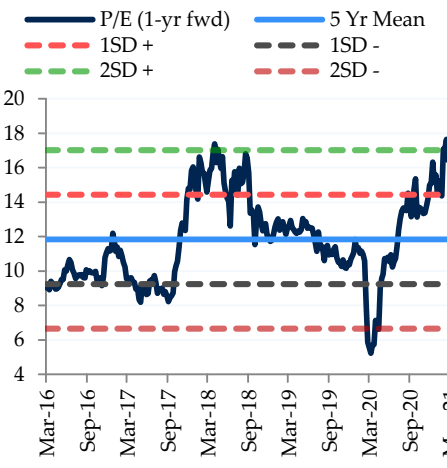


Zensar P/E (1-yr fwd) Trend

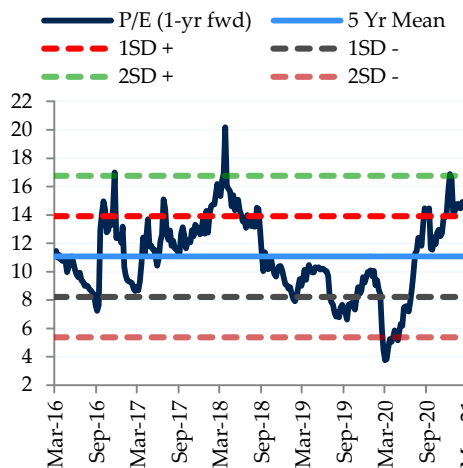


Source: Bloomberg, HSIE Research

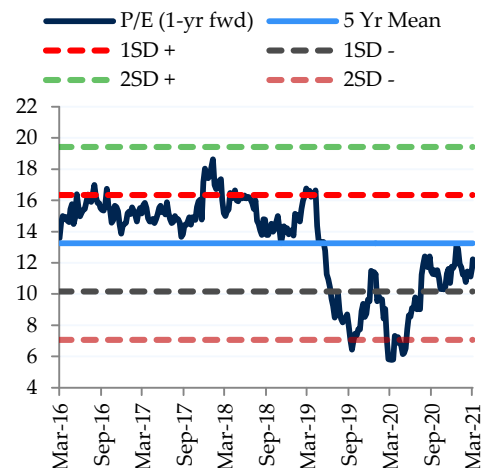
Sonata P/E (1-yr fwd) Trend



Mastek P/E (1-yr fwd) Trend



eClerx P/E (1-yr fwd) Trend



Source: Bloomberg, HSIE Research

Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

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