

RESULT PREVIEW (1Q FY19E)**INFORMATION TECHNOLOGY (IT)**

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Currency benefit further aiding to better performance in seasonally strong 1Q

We expect the top IT companies to show revenue growth of 2% to 5%QoQ in usd terms(INFY 2% QoQ, TCS 2.5% QoQ ,HCLTECH 1.6% QoQ, CYIENT 3%, PERSISTENT 3.5%QoQ)in Q1FY19.As the quarter saw INR depreciation which is likely to benefit the margin by 100 bps however higher visa costs and wage hikes(200bps) are likely to offset benefits of INR depreciation, resulting in QoQ margin dip for some companies like Infosys and TCS. The banking vertical will continue to see a challenge in 1QFY19 and spending is expected to start in 2HFY19E onwards. Despite many challenges , Companies like TCS, LTI and PERSISTENT expects to show double digit growth in revenue FY19E on account of deal wins & pipeline, demand in BFSI & retail and traction in digital business.we expect IT companies to show better performance in FY19 than previous year.

Revival in Banking vertical expected in 2HFY19 onwards

Demand trend in BFS (which is one of the major contributor in total revenue of the IT companies) will continue to see challenges in 1QFY19.Mainly Insourcing and ramp-up of India captive centers by large US and Swiss banks had impacted the revenues of IT companies .we believe banking vertical will continue to see challenge for next two quarters and we expect IT spending to start in 2HFY19E onwards. Spending in the rest of the verticals is robust except retail which will continued to faces challenges in FY19.

Wage hikes and visa costs likely to offset INR depreciation benefit

Many IT companies (TCS, Infosys, Hcltech, Persistent, Cyient) have announced wage hike in June quarter which will Impact the margin by 200bps . Also H-1B visa applications are filed which will further reduce the margin . However, with INR depreciation (which is estimated to aid 100bps margin expansion) will help to offset some impact during the quarter.

Outlook :BFS continues to see softness in 1QFY19E

Post a mixed revenue and margin performance by IT sector(TCS , INFOSYS, CYIENT and PERSISTENT) in 2018 ,mainly impacted by weakness in BFSI /Retail vertical ,softness in North America and Tax issue , FY19 looks promising for most of the IT companies. Companies like TCS, LTI and PERSISTENT are expected to show double digit growth in revenue FY19E.With Improving macro in the US like low unemployment, rising interest rate ,Tax rebate , increased retail spending, higher outsourcing from European clients and rising digital proportion will lead to positive outlook for the IT sector as an whole. However, revenue growth in Q1FY19 will be mixed for our coverage companies as the banking vertical will continue to be a challenge and we expect to see upswing in growth to start towards 2HFY19E. We expect margins to fall marginally as wage hikes and visa costs are envisaged, however it is expected to be partially offset by INR depreciation and operational efficiencies.

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RESULT PREVIEW (1Q FY19E)

(Rs in Crore)

INFOSYS	1Q FY19E	4Q FY18	QoQ Gr %	1Q FY18	Yoy Gr %
Revenues	19139	18083	6%	17078	12%
Revenues (USD mn)	2857	2806	2%	2652	8%
EBITDA	5031	4930	2%	4561	10%
EBITDA margin (%)	26.3	27	-1	27	-0.4
PAT	3788	3690	3%	3483	9%

Key Highlights

We estimate Infosys to post 2% growth QoQ in constant currency mainly impacted by 90bps due to cross currency headwinds. EBIT margin is expected to decline 100 bps due to wage revision and higher visa costs. However, INR depreciation benefit will offset by wage hikes. Going forward, growth in digital services, increase in the spending in BFSI & retail, deal wins and large deal renewals will be key growth drivers for the company in FY19E. Company is working to address the Agile Digital market worth US\$160-200 billion, which is growing at 15% will be keenly tracked. Even the Management has guided for FY19E USD revenue growth at 7-9% (6-8% in CC terms) and margin at 22-24%, owing to investments in business on digital, increasing localisation of US staff and reskilling employees which is expected to be maintained.

TCS	1Q FY19E	4Q FY18	QoQ Gr %	1Q FY18	Yoy Gr %
Revenues	34234	32075	7%	29584	16%
Revenues (USD mn)	5094	4972	2%	4591	11%
EBITDA	8901	8652	3%	7413	20%
EBITDA margin (%)	26.0	27	-1	25.1	0.9
PAT	7042	6925	2%	5950	18%

Key Highlights

We estimate TCS to post revenue growth of 2.5% in USD terms mainly led by ramp ups in large deals won in 2HFY18 and seasonal strengths. Momentum is expected to remain strong in all industry verticals, except BFSI, which we expect to turnaround in 2QFY19. EBIT margin is expected to be impacted by wage revision (200bps). However, some portion will be offset by INR depreciation. Going forward, management expects revival in revenue growth from BFS and Retail in North America as issue has been bottomed out and spending would pick up in 2QFY19 onwards. Also Digital is expected to continue its growth trajectory as deal size increases.

HCLTECH	1Q FY19E	4Q FY18	QoQ Gr %	1Q FY18	Yoy Gr %
Revenues	13866	13178	5%	12149	14%
Revenues (USD mn)	2070	2037	2%	1884	10%
EBITDA	3134	3022	4%	2694	16%
EBITDA margin (%)	23%	23%	-0.002	22%	0.002
PAT	2292	2230	3%	2210	4%

Key Highlights

We estimate HCLTECH to post revenue growth of 1.6% USD revenue growth QoQ, contribution from C3i acquisition of US\$40 mn (200bps). However, cc headwinds (140bps impact) will bring down the USD growth rate to 2.4%. EBIT margin is largely expected to be flat. Benefit from INR depreciation against non-USD currencies to be offset by lower margin profile of acquisitions and weak growth. Going forward, Management is expected to maintain revenue growth and margin guidance for FY19. Traction in ER&D business, new acquisitions, update on IP deals and outlook on IMS business are key trackable.

RESULT PREVIEW (1Q FY19E)

(Rs in Crore)

CYIENT	1Q FY19E	4Q FY18	QoQ Gr %	1Q FY18	Yoy Gr %
Revenues	1075	1061	1%	907	19%
Revenues (USD)	160	165	-3%	141	13%
EBITDA	148	141	5%	113	31%
EBITDA margin (%)	13.8	13	0.5	13	1.3
PAT	116	120	-3%	88	32%

Key Highlights

We estimate CYIENT's Revenues to decline 3% in USD terms majorly due to seasonally weak quarter for DLM business. DLM is expected to decline 18% QoQ. Margins is expected to expand 50bps QoQ as INR depreciation benefit and efficiencies will be offset by partial wage hikes and visa costs. Going forward, with demand in ER&D and traction in DLM business to be key growth driver for the company in FY19.

PERSISTENT	1Q FY19E	4Q FY18	QoQ Gr %	1Q FY18	Yoy Gr %
Revenues	810	753	8%	728	11%
Revenues (USD)	121	117	3%	113	7%
EBITDA	124	108	15%	104	19%
EBITDA margin (%)	14.8	14.4	0.4	14.3	0.5
PAT	84	74	14%	75	12%

Key Highlights

We estimate PERSISTENT 's USD revenues to grow 3.4% QoQ in USD terms (impacted by cross currency headwinds). Margins expected to expand 50bps QoQ on account of INR depreciation and operational efficiencies. Going forward, improvement in IP revenues, traction in digital, will be the key growth driver in FY19. Despite the weak exit to FY18, management reiterated its expectation of better performance than the NASSCOM's industry outlook of 7-9%.

MINDTREE	1Q FY19E	4Q FY18	QoQ Gr %	1Q FY18	Yoy Gr %
Revenues	1567	1465	7%	1290	21%
Revenues (USD)	234	226	4%	200	17%
EBITDA	221	236	-6%	144	53%
EBITDA margin (%)	14.1%	16%	-0.02	11.10%	0.03
PAT	156	182	-14%	122	28%

Key Highlights

We estimate MINDTREE 's USD revenues to grow 3.5% QoQ in USD terms. Growth will likely be broad-based, a sharp contrast to the past where top client drove most of the incremental revenues. EBIT margin is expected to decline due to wage revision and visa costs. This will be offset by rupee depreciation. Going forward, we expect healthy TCV signings led by conversion of deals in the pipeline. Also BFSI is expected to join the party from 1QFY19. Mindtree is stepping up usage of automation and use of tools to reduce efforts for the same volume, which is likely to lead to a sustainable improvement in pricing in FY19.

RESULT PREVIEW (1Q FY19E)

LTI	1Q FY19E	4Q FY18	QoQ Gr %	1Q FY18	Yoy Gr %
Revenues	2117	2001	6%	1671	27%
Revenues (USD mn)	316	309	2%	259	22%
EBITDA	383	289	33%	267	43%
EBITDA margin (%)	18.1%	15%	0.035	16.70%	0.014
PAT	309	289	7%	267	16%

Key Highlights

We expect LTI's USD revenue to grow at 2.3%. Depreciation of rupee, South African rand, AUD and other currencies against USD will lead to high cross-currency headwind. Margins are expected to expand QoQ on account of operational efficiencies and INR depreciation. Going forward, BFS (28%) in which the company delivered 23.5% growth in FY18, management sees that Tech spending will expand in FY19. Based on the large deal momentum, new wins and current momentum, the management expects to deliver top quartile growth in FY19 as well.

Peer Comparison

Companies	Sales		PAT		P/E		ROE		ROCE		EV/EBITDA	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
TCS	144,203	162,007	30,588	34,081	24.8	21.0	35.1	33.8	41.7	40.5	19.6	16.3
Infosys	79,112	86,205	15,789	16,937	16.8	15.7	23.5	23.3	27.9	28.3	11.5	10.4
HCLTECH	57,723	64,442	9,599	10,580	13.3	12.1	31.6	30.4	27.4	24.9	9.1	7.9
Cyient	4,604	5,377	505	582	16.8	14.6	20.1	20.1	20.5	21.3	11.7	9.4
Persistent	3,429	3,988	373	455	21.4	17.5	16.5	17.8	16.7	18.3	10.4	8.6
MindTree	6,630	7,588	706	820	23.5	20.2	21.7	21.2	22.9	22.7	16.7	14.3
LTI	8,963	10,424	1,320	1,581	21.1	17.3	31.6	30.7	31.3	30.6	18.7	15.2

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