

India Equity Analytics

Results Preview Q3FY19- Technology



Analyst

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CMP 619
Target 781
Upside 26%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	16.9	18.1	19.0	19.2
Roce%	18.4	18.8	21.0	21.7
PE	15.5	19.2	14.6	12.7
PB	2.5	3.3	2.6	2.3
EV/EBITDA	9.6	13.1	9.0	7.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues (USD m)	538	607	669	746	152	169	167
Segment revenue (in crore)							
<i>Mfg and industrial</i>	1,942	2,060	2,463	2,821	532	613	630
<i>Utilities,geo and comm</i>	1,300	1,460	1,663	1,930	373	413	428
<i>DLM</i>	365	398	568	621	79	161	139
Total	3,607	3,918	4,693	5,372	983	1,187	1,197
Financials							
Sales	3,586	3,914	4,693	5,372	983	1,187	1,197
<i>Sales Gr</i>	16%	9%	20%	14%	7%	23%	22%
Ebdita	477	535	656	764	141	161	174
<i>Ebdita Gr</i>	13%	12%	23%	16%	16%	15%	23%
Net Profits	340	403	473	550	87	127	125
<i>Profit Gr%</i>	4%	18%	18%	15%	-7%	-26%	43%
EbditaM%	13.3%	13.7%	14.0%	14.2%	14.3%	13.6%	14.5%
Net Mgn%	9.5%	10.3%	10.2%	10.2%	8.9%	10.7%	10.4%

Conso/ Fig in Rs Cr

□ The management has maintained its outlook for FY19 with double-digit revenue growth in services, 20% organic growth in DLM (35% including B&F) and 50 bps improvement in margins

□ 3QFY19 normally sees seasonality due to furloughs and higher leave. Sales are expected to largely remain flat due to cyclicity in Aerospace and defense segment and softness in Utilities and Geospatial. However communication and transport segment to see growth in 3QFY19 due to strong pipeline.

□ Other income for 3QFY19 will include incentives that the company is expected to get from getting merchandise and engineering service in 2HFY19 (21 crore approx).

□ Margin is expected to improve by 80 to 90 BPS led by operational efficiency (stable indirect cost) and currency benefit of 50 bps however investment in NBA is likely to offset the some portion.

□ The Company hedged 70% of forward contract for the next 12-month, they would get benefit of INR depreciation in operating side (50-70bps) but it may be offset by lower other income(due to forex loss of \$2.6mn for next 12 months)..

□ For FY19 tax is likely to be in range of 26%. However tax for 3QFY19 is expected to be 25% including the one off .

Key Trackable this Quarter

□ Aerospace & defense to see growth of 10% in FY19.

□ Margin expected to improve 50 bps for FY19.

□ Improved in organic business.

We value the stock at 16x FY20E. BUY

HCLT IN

CMP 963
Target 1252
Upside 30%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	31.5	31.8	33.7	32.5
Roce%	31.0	28.1	30.5	29.1
PE	14.5	15.5	12.8	11.6
PB	3.8	3.7	3.2	2.5
EV/EBITDA	11.2	11.7	9.1	7.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Software Ser Rev \$mn	4,051	4,589	4,980	5,504	1,185	1,230	1,252
IMS Rev. \$mn	2,767	2,959	3,070	3,366	730	755	770
Software Service	27139	29611	35170.266	39904.601	7631	8711	9017.4762
IMS	18,543	19,095	21,680	24,400	4,703	5,343	5,542
BPO Service	1,886	1,863	3,287	3,789	475	806	861
Total	47,568	50,569	60,137	68,094	12,809	14,860	15,420
<i>Financials</i>							
Sales	47,568	50,569	60,137	71,289	12809	14,860	15,420
<i>Sales Gr</i>	53%	6%	19%	19%	8%	20%	20%
Ebdita	10,385	11,246	13,999	17,383	2789	3,463	3,624
<i>Ebdita Gr</i>	56%	8%	25%	24%	7%	19%	20%
Net Profits	8,606	8,722	10,153	11,323	2,075	2,534	2,622
<i>Profit Gr%</i>	54%	1%	16%	12%	1%	26%	30%
<i>EbditaM%</i>	21.8%	22.2%	23.3%	24.4%	22%	23.3%	23.5%
<i>Net Mgn%</i>	18.1%	17.2%	16.9%	15.9%	16%	17%	17.0%

Conso/ Fig in Rs Cr

□ 3QFY19 sales are expected to improve 2% QoQ in usd term and 2.5% in cc term led by robust deal wins, contribution from new acquisitions and continued growth momentum in the ER&D .

□ Mode 3 which mainly constitutes of intellectual property-related businesses will see strong growth in 3QFY19 due to seasonality (OCT to DEC tends to be the best).

□ IMS which is HCLT's key growth driver prior to FY18 (which was 25-30% YOY CC growth 6-7 quarters ago)is expected to improve in 3QFY19, however it is expected to be in 10% range for FY19 and expected to reach same level(25%YoY)in FY20 as the deal size increases.

□ Benefit from INR depreciation , strong growth in product business and other operational efficiencies to play out in 3QFY19.However the management intent to re invest money back into the business (both on the Mode-3 and Mode-2 side on an organic basis) will offset the major portion of the margin expansion. Thus we expect overall margin for 3QFY19 to improve by 20bps.

□ The recent acquisition (IBM product) by HCLT's worth of \$1.8Bn is expected to start reflecting in revenue numbers from 2QFY20 (after the deal closure).It is expected to aid \$625mn in FY20E and \$650 mn in FY21E.

Key Trackable this Quarter

- Organic growth outlook and commentary on ER&D business .
- Continued deal wins and update on products acquisition from IBM
- CC revenue growth of 9.5-11.5% for FY19.

We value the stock at 15x FY20E EPS. BUY

INFO IN

CMP 660
Target 836
Upside 27%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	20.8	24.7	23.7	24.5
Roce%	25.7	25.4	28.8	30.9
PE	16.3	15.5	17.6	15.8
PB	3.4	3.8	4.2	3.9
EV/EBITDA	13.8	14.1	14.6	12.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenue USD mn	10,206	10,936	11,686	12,671	2,755	2,921	2,949
Revenue by industry							
Financial services		23,214	26,558	29,889	5,890	6,636	6,887
Manufacturing		6,682	7,982	8,734	1,690	1,978	2,074
Energy, Utilities, Resources & Services		8,289	10,219	11,359	2,135	2,535	2,631
Retail		11,333	13,966	16,216	2,883	3,462	3,629
Life Sciences		4,689	5,251	5,485	1,157	1,319	1,342
Hi Tech		5,112	6,185	6,892	1,263	1,546	1,596
Communication		8,851	10,172	11,248	2,207	2,535	2,592
Other		2,323	2,411	2,678	569	598	626
Financials							
Sales	68,485	70,522	82,756	92,501	17,794	20,609	21,377
<i>Sales Gr</i>	10%	3%	17%	12%	3%	17%	20%
Ebdita	18,605	19,011	21,450	24,455	4,817	5,357	5,606
<i>Ebdita Gr</i>	9%	2%	13%	14%	1%	14%	16%
Net Profits	14,353	16,029	16,410	18,264	5,129	4,110	4,268
<i>Profit Gr%</i>	5%	12%	2%	11%	38%	10%	-17%
EbditaM%	27.2%	27.0%	25.9%	26.4%	27.1%	26.0%	26.2%
Net Mgn%	21.0%	22.7%	19.8%	19.7%	28.8%	19.9%	20.0%

Conso/ Fig in Rs Cr

□ 3QFY19 is seasonally soft quarter for the industry due to furlough and lower working days, thus the sales are expected to improve by 1% QoQ in USD term led by continued growth in verticals both in Americas as well as in Europe.

□ Financial service which is major contributor to revenue (~33%) is expected to be improving in HFY19 and FY20 after declining for 2 to 3 quarters as spending by US banks is expected to continue for the next few quarters. However 3QFY19 is expected to be soft because of seasonality.

□ Margin are expected to improve in 3QFY19 by 30 bps led by currency benefit (50bps) and operational efficiency however as stated by management as certain additional investments in compensation and localization will offset some portion.

□ As per the plan, Management will do higher investment in 2HFY19 than 1HFY19.

□ Attrition will be major concern (21%) however management is taking specific measures and is expect to come down gradually.

□ Net profit includes benefit of APA agreement in 3QFY18.

Key Trackable this Quarter

□ Financial services to be better in FY19.

□ Outlook on multi-year deal wins and increased TCV wins for FY19.

We value the stock at 20x FY20E. BUY

LTI IN

CMP 1725
Target 1970
Upside 14%
Rating ACCUMULATE

	FY17	FY18	FY19	FY20
Roe%	36.8	31.8	34.7	30.3
Roce%	39.6	29.5	38.5	34.9
PE	12.5	20.7	19.4	17.5
PB	3.9	6.0	6.0	4.8
EV/EBITDA	9.6	19.1	15.9	13.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues (\$ m)	972	1,132	1,327	1,535	293	328	336
<i>BFSI</i>	3,073	3,451	4,493	5,248	881	1,112	1,157
<i>Manufacturing</i>	1,189	1,227	1,436	1,573	325	357	368
<i>CPG,Retail,Pharma,Oth</i>	824	990	1,387	1,798	256	351	365
<i>Energy& Utilities</i>	722	856	998	1,223	222	249	261
<i>Hi tech, Media</i>	694	782	1,052	1,278	201	262	270
Total	6,503	7,306	9,366	11,018	1,884	2,331	2,420
<i>Financials</i>							
Sales	6,501	7,307	9,381	11,129	1,884	2,331	2,420
<i>Sales Gr</i>	11%	12%	28%	19%	13%	33%	28%
Ebdita	1,230	1,188	1,847	2,115	322	479	479
<i>Ebdita Gr</i>	20%	-3%	56%	14%	7%	63%	49%
Net Profits	971	1,113	1,531	1,694	283	400	402
<i>Profit Gr%</i>	16%	15%	38%	11%	14%	47%	42%
EbditaM%	18.9%	16.3%	19.7%	19.0%	17.1%	20.5%	19.8%
Net Mgn%	14.9%	15.2%	16.3%	15.2%	15.0%	17.2%	16.6%

Conso/ Fig in Rs Cr

☐ Sales are expected to improve 2.3%QoQ in USD term in 3QFY19 as large deals are expected to accelerate BFSI and continued growth expected in Retail, CPG & Pharma segment.

☐ BFSI segment (contributes 31% of revenue) saw dip QoQ in 2QFY19 after posting strong growth in last 4 quarters. We expect the growth momentum in BFSI to ramp up again in 3QFY19 as tech spending continue in this sector and continued growth in deal pipeline.

☐ Margins are expected to decline by 75 bps in 3QFY19 due to impact of lesser working days. However, on a full year basis the EBIT margin is expected to improve by 260bps mainly led by improvement in realized rate, strong cross-currency tailwind and pass-through revenues.

☐ For FY19 we expect LTI to deliver top quartile growth led by the large deal momentum (net-new TCV of USD 55mn), increase in digital penetration (now contributing 37% QoQ) and continued increase in revenue concentration from top 11 to 20 accounts

☐ We expect verticals like retail and BFS to grow above company average for FY19.

Key Trackable this Quarter

- ☐ Management guidance of top quartile growth in FY19.
- ☐ Continued strength in BFS & Energy and continued deal wins to foster future growth.
- ☐ Outlook on margin going forward.

We value the stock at 20x FY20E. ACCUMULATE

MAST IN

CMP 454
Target 571
Upside 26%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	7.4	10.8	12.5	25.4
Roce%	10.1	15.2	17.9	18.7
PE	11.5	16.5	10.6	8.7
PB	0.9	2.1	1.4	1.3
EV/EBITDA	8.3	11.3	7.6	5.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenue by industry							
UK	465	563	758	929	143	186.29	194
US	62	237	270	309	62	66.61	69
Others	35	17	17	16	4	4.17	4
TOTAL	562	817	1,045	1,254	210	257	266
UK Growth		21.2%	34.4%	22.7%	25.1%	36.6%	35.5%
US Growth		283.1%	13.9%	14.5%	0.0%	14.4%	10.0%
Financials							
Sales	562	817	1,045	1,254	210	257	267
Sales Gr	7%	45%	28%	20%	66%	30%	4%
Ebdita	53	100	131	161	26	31	33
Ebdita Gr	191%	89%	31%	23%	79%	32%	30%
Net Profits	37	70	100	121	18	25	26
Profit Gr%	169%	90%	43%	21%	53%	44%	40%
EbditaM%	9.4%	12.2%	12.5%	12.8%	12.3%	12.2%	12.5%
Net Mgn%	6.6%	8.6%	9.6%	9.7%	8.8%	9.8%	9.7%

Conso/ Fig in Rs Cr

□ Mastek 3QFY19 sales are expected to improve 3.6% QoQ mainly led by robust order book, continued growth in the mature market and strong traction from public sector.

□ The company has strongly positioned in the UK market for long time, continued growth in UK quarter on quarter (grew 7%QoQ in 2QFY19) and strong pipeline gives us confidence strong performance in 3QFY19 and for rest of the year too

□ On macro aspect, the management expects Brexit will result in higher deal flow as they can get more opportunities in government sector of UK where the company has been working from long time.

□ Order backlog increased 20% QoQ from Rs 501 crore to Rs599 in 2QFY19. We are confident of seeing the momentum to continue in 2HFY19 on the back of continued client addition and increase in wallet share with existing customer.

□ Margin is expected to see 30bps improvement led by benefit from currency fluctuation and improvement in operational efficiency. However volatility will be seen in the quarter as the management continues to invest to grow the business.

Key Trackable this Quarter

□ Management expects 10% year-over-year growth for US market.

□ Growth in UK business to remain in momentum.

□ Management aspires EBDITA Margin of 14% To 15% in next 3 years.

We value the stock at 11times FY20 EPS. BUY

MTCL IN

CMP 863
Target 981
Upside 14%
Rating ACCUMULATE

	FY17	FY18	FY19	FY20
Roe%	16.2	20.8	23.8	22.6
Roce%	19.2	18.7	25.4	24.9
PE	18.2	21.9	18.2	15.8
PB	2.9	4.6	4.3	3.6
EV/EBITDA	10.6	16.8	13.3	11.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenue USD mn	780	847	1,000	1,164	214	247	251
Revenue by industry							
Retail, CPG & Manuf.	1,248	1,269	1,563	1,830	321	382	394
BFSI	1,288	1,326	1,547	1,755	341	392	393
Tech, Media & Serv	1,924	2,047	2,776	3,368	505	689	711
Travel & Hospitality	777	822	1,189	1,483	211	292	313
TOTAL	5,236	5,463	7,075	8,435	1,378	1,755	1,810
Financials							
Sales	5,236	5,463	7,077	8,441	1,378	1,755	1,810
<i>Sales Gr</i>	12%	4%	30%	19%	6%	32%	31%
Ebdita	705	741	1,085	1,276	207	270	284
<i>Ebdita Gr</i>	-14%	5%	46%	18%	19%	75%	37%
Net Profits	419	570	795	916	142	206	208
<i>Profit Gr%</i>	-24%	36%	40%	15%	37%	65%	47%
EbditaM%	13.5%	13.6%	15.3%	15.1%	15.1%	15.4%	15.7%
Net Mgn%	8.0%	10.4%	11.2%	10.9%	10.3%	11.7%	11.5%

Conso/ Fig in Rs Cr

☐ Sales are expected to 2% QoQ in usd terms led by growth in digital business, continued TCW wins and robust performance in travel and retail.

☐ Mindtree management is seeing challenges in adoption of digital within BFSI clients. Thus it is expected to see soft in 3QFY19.

☐ Travel & Hospitality which contributes ~17% of overall revenue posted a strong growth in 2QFY19 (8%QoQ) mainly driven by robust deal pipeline in airlines as well as the hospitality sector. We consider this segment is a sweet spot for the company and momentum continues in 3QFY19 also.

☐ Manufacturing vertical which declined by 3.9% in 2QFY19 mainly due to a ramp down of few projects in Europe and delayed decision for a few other deals. However, considering the pipeline and deal closure, we expect Retail, CPG, Manufacturing vertical return to growth in the 3QFY19 itself.

☐ Digital which has become approx half of the total revenue (~ 48.1% of revenue) is expected to continue to grow led by robust deal pipeline and larger deal wins expected in 2HFY19 (\$162mn deal came from digital in 2QFY19).

☐ Margin are expected to improve 30 bps in 3QFY19 led by operational efficiency and currency benefit (75 to 100bps). However addition in workforce will offset some portion of margins in 2HFY19.

Key Trackable this Quarter.

☐ Steady increase in revenue contribution from Digital.

☐ Challenge in top 2 to 10 client.

☐ Commentary related to margin improvement in FY19

We value the stock at 18x FY20E. ACCUMULATE

CMP 1014
Target 1325
Upside 31%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	12.9	15.3	21.0	20.9
Roce%	14.5	18.1	24.7	25.4
PE	15.4	19.5	17.6	15.3
PB	2.0	3.0	3.7	3.2
EV/EBITDA	12.2	15.3	14.1	11.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues (USD m)	894	989	1,115	1,232	252	276	283
Segment revenue (\$mn)							
<i>Direct International</i>	643	691	761	837	177	187	192
<i>DXC / HP Business</i>	214	260	315	357	65	78	80
<i>Others</i>	36	38	39	38	9	10	10
Financials							
Sales	6,076	6,546	7,841	8,932	1,661	1,915	2,036
<i>Sales Gr</i>	0%	8%	20%	14%	8%	19%	23%
Ebdita	969	1,062	1,337	1,581	274	333	342
<i>Ebdita Gr</i>	8%	10%	26%	18%	14%	34%	25%
Net Profits	792	837	1,073	1,232	215	271	267
<i>Profit Gr%</i>	18%	6%	28%	15%	5%	37%	24%
EbditaM%	15.9%	16.2%	17.0%	17.7%	16.5%	17.4%	16.8%
Net Mgn%	13.0%	12.8%	13.7%	13.8%	12.9%	14.2%	13.1%

Conso/ Fig in Rs Cr

□ Sales for 3QFY19 are expected to improve 2.5%QoQ in usd term led by continued traction from core services (HP and direct channel) and new client wins in Blackstone Portfolio. However digital risk and others channel continued to be flat in 3QFY19.

□ HP is expected to grow double digit on the back of revamped relations with four HP entities. Deal wins are encouraging (\$210mn new wins) and gives us strong revenue growth visibility going ahead.

□ Other business is a legacy business which primarily focuses on the local domestic market. We expect others to be soft in 3QFY19 as investment is not happening since it's not the focus area for the management.

□ Digital Risk business is key to Mphasis strength in BFSI domain but we expect it to below its desired range of USD28-30m in 3QFY19 as management continues to face challenges due to fall in origination volumes and issue in mortgage industry.

□ Margin for the quarter is expected to decline by 60bps as wage hike will impact in 3QFY19. However some portion will mitigated by operational efficiency. For FY19, margin is guided in the range of 15% to 17% on the back of FX tailwind, shift in business model & better margin in digital .

Key Trackable this Quarter

- Commentary on macro challenges like Brexit, Mortgage industry and interest scenario.
- Traction in Blackstone portfolio companies .
- Expanded relationship with HP to aid strong revenue growth .

We value the stock at 20x FY20EPS. BUY

NITEC IN

CMP 1150
Target 1321
Upside 15%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	17.6	15.7	14.4	18.8
Roce%	17.8	18.3	23.2	24.3
PE	9.8	19.0	16.2	13.9
PB	1.6	3.0	3.3	2.8
EV/EBITDA	4.9	9.8	10.3	8.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
<i>Revenues growth(%)</i>	25%	11%	15%	14%	15%	16%	15%
Vertical Mix(mn \$)							
<i>BFSI</i>	175	197	240	274	51	59	61
<i>Travel & Trans.</i>	134	126	143	163	32	35	37
<i>Mfg, Med & Oth</i>	109	138	146	164	35	37	37
<i>Financials</i>							
Sales	2,802	2,991	3,698	4,333	757	907	967
<i>Sales Gr</i>	4%	7%	24%	17%	9%	23%	28%
Ebdita	480	501	653	782	125	164	177
<i>Ebdita Gr</i>	1%	4%	30%	20%	8%	35%	41%
Net Profits	272	280	436	507	76	112	119
<i>Profit Gr%</i>	-5%	3%	56%	16%	21%	67%	57%
EbditaM%	17.1%	16.7%	17.7%	18.0%	16.6%	18.1%	18.3%
Net Mgn%	9.7%	9.4%	11.8%	11.7%	10.0%	12.4%	12.3%

Conso/ Fig in Rs Cr

□ 3QFY19 are expected to improve 3.2% in USD term led by sustained flow of fresh order (\$160 mn in 2QFY19) and continued growth in verticals like Travel and transport and BFS.

□ We expect travel and transport to post strong growth in 3QFY19 as well in FY19 as demand in airlines (40% of Travel) is showing robust growth. According to IATA demand (measured in revenue passenger kilometers, or RPKs) rose 6.3% compared to the same month last year. This has marked a rebound from 5.5% growth recorded in September, which was an eight-month low. Capacity also grew 6.3% and load factor was flat at 81.1%, matching last year's record for the month. Thus showing demand is all intact for FY19.

□ As BFS industry spending is increasing significantly, with increase in spending across regulatory and innovation domains, BFS is expected to show a strong growth in 3QFY19.

□ Margin are expected to slightly improve 30 bps in 3QFY19 (as wage hike has already happened in 2QFY19) supported by SG&A cost and benefit from currency expenses.

□ The management expects at least double digit growth in revenue in FY19 on an organic basis in CC terms owing to a healthy order book in FY19, continued deal win momentum and strong leadership team.

Key Trackable this Quarter

- NITTECH expects to continue signing at least two large deals every quarter.
- Double digit growth in revenue on an organic basis in CC terms in FY19.
- Commentary on Sustained uptick in fresh order intake

We value the stock at 16x FY20E. BUY

PSYS IN

CMP 613
Target 734
Upside 20%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	17.0	16.0	16.6	16.5
Roce%	17.9	15.4	19.5	19.4
PE	15.8	18.0	13.1	11.7
PB	2.5	2.7	2.0	1.8
EV/EBITDA	9.9	12.1	7.8	6.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)	22%	10%	5%	11%	11%	0%	1%
Revenue by industry							
Services	195	206	206	220	51	51	52
Digital	70	100	107	122	27	26	27
Alliance	126	130	152	177	36	35	38
Accelerite	38	34	26	27	8	7	7
TOTAL	429	471	491	546	123	118	124
Financials							
Sales	2,878	3,034	3,466	3,961	792	836	890
Sales Gr	24%	5%	14%	14%	6%	10%	12%
Ebdita	465	469	604	678	138	144	157
Ebdita Gr	12%	1%	29%	12%	16%	24%	15%
Net Profits	302	323	374	419	92	88	98
Profit Gr%	1%	7%	16%	12%	12%	7%	6%
EbditaM%	16.2%	15.5%	17.4%	17.1%	17.4%	17.2%	17.7%
Net Mgn%	10.5%	10.6%	10.8%	10.6%	11.6%	10.6%	11.0%

Conso/ Fig in Rs Cr

□ Digital unit saw lower than expected performance in 2QFY19 due to short closure of one of the projects and shift in business mix. However in 3QFY19, the management expects digital business to bounce back with customers ramping up their digital spend.

□ Alliance is expected to post a growth in 3QFY19 due to growth in IBM lot business (going to be the last quarter for the calendar year for the largest partner) as well as the ramp up of new IP deals. We expect strong deal momentum to continue for rest of the year.

□ Reseller business which showed strong growth in 1QFY19 to show similar growth in 3QFY19 as lot of opportunity is seen there.

□ With strong pipeline and great traction from the focus areas, the management expects technology service business is well poised to drive the growth in future.

□ EBIT margin are expected to improve 50 bps led by currency benefit(60bps) and operational efficiency as wage hike impact is behind.

Key Trackable this Quarter

- Digital is expected to recover in 3QFY19 on back of robust pipeline and deal wins.
- Appointment of new team member in the management.
- Outlook on margin .

We value the stock at 14x FY20E. BUY

SSOF IN

CMP 295
Target 379
Upside 28%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	29.1	31.0	33.5	32.2
Roce%	28.7	27.7	29.7	33.8
PE	21.4	17.6	13.1	11.7
PB	5.6	5.2	4.1	3.5
EV/EBITDA	16.0	13.3	8.8	7.8

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
IIT Services growth	17%	19%	21%	19%	20%	17%	20%
Domestic growth	36%	-12%	5%	-6%	27%	63%	-23%
Revenue (Ex intersegmental)							
Intl Services- OPD	234	267	311	356	67	77	80
Intl Services-TTL	214	255	326	435	67	80	86
Intl Services-Retail Dist.	195	237	293	368	65	72	77
Intl Services-Others	134	170	191	181	41	47	47
Domestic	1,764	1,547	1,618	1,523	530	326	407
TOTAL	2,541	2,475	2,740	2,862	771	601	697
Financials							
Sales	2,521	2,454	2,709	2,829	767	593	689
<i>Sales Gr</i>	30%	-3%	10%	4%	25%	39%	-10%
Ebdita	192	231	304	325	65	74	80
<i>Ebdita Gr</i>	0%	20%	32%	7%	21%	35%	23%
Net Profits	154	192	237	266	49	62	60
<i>Profit Gr%</i>	-3%	25%	23%	12%	28%	38%	22%
EbditaM%	7.6%	9.4%	11.2%	11.5%	8.5%	12.5%	11.6%
Net Mgn%	6.1%	7.8%	8.7%	9.4%	6.4%	10.5%	8.7%

Conso/ Fig in Rs Cr

□ Sonata 3QFY19 IIT'S services are expected to improve 3% QoQ in usd term led by strong growth in verticals like Retail Distribution and travel and transport and continued revenue from IP offering.

□ Travel vertical is expected to continue to post strong growth led by robust pipeline by large client and growth from new acquired client in Europe .

□ Domestic business which is volatile in nature and depends on the large deal signing in a particular quarter is expected to report 3% margin in 3QFY19..

□ Margin in IT services are likely to be within the range of 22% to 24% in 3QFY19 as the company is seeing growth through its IP-strategy (higher margin business), digital spending in retail and support from currency.

□ The management expects 2HFY19 to see some softness as it has hedged in 69 to 70 ranges so resulting in some loss however currency translation will give some benefit. More benefit of currency is expected to plug in 1HFY20.

□ The management has highlighted that if the ~30 clients who are identified as strategic customers, If these accounts scale up from current US\$1mn revenues to US\$3-5mn, it would significantly boost its service revenues in three years.

Key Trackable this Quarter

□ IITS business to report better margins than FY18

□ Continued growth in IP revenue.

We value the stock at 15x FY20E. BUY

TELX IN

CMP 1021
Target 1317
Upside 29%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	36.7	37.0	34.8	30.6
Roce%	56.4	49.4	46.5	42.0
PE	26.3	25.6	21.3	18.6
PB	8.2	8.3	6.5	5.1
EV/EBITDA	14.9	17.5	14.3	11.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Software Development	1166	1329	1599	1876	336	391	404
Systems Integration	67	57	48	46	9	11	9
Segments(in cr)							
Software Development							
<i>Embedded Prod Design</i>	996	1,160	1,425	1,696	296	349	362
<i>Indl Design & Visualis.</i>	171	169	173	180	40	42	42
Systems Integration	67	57	48	46	9	12	9
Financials							
Sales	1,233	1,386	1,646	1,922	346	403	413
<i>Sales Gr</i>	15%	12%	19%	17%	12%	18%	20%
Ebdita	293	346	426	500	93	107	103
<i>Ebdita Gr</i>	19%	18%	23%	17%	27%	27%	10%
Net Profits	173	240	298	342	63	82	71
<i>Profit Gr%</i>	12%	39%	24%	15%	43%	44%	13%
EbditaM%	23.8%	25.0%	25.8%	26.0%	27.1%	26.5%	24.9%
Net Mgn%	14.1%	17.3%	18.1%	17.8%	18.2%	20.4%	17.1%

Std/ Fig in Rs Cr

☐ Sales are expected to report revenue growth of 20% YoY in 3QFY19 led by continued momentum in automotive segment and new opportunities in android & OTT space (Broadcast). However, JLR will continue to offset some portion of automotive.

☐ Automotive segment which is major contributor in EPD(Embedded Product Design) is expected to continue to improve as all the key market like Europe, Japan, and the US are posting growth .

☐ Industrial design (contributes approx 11% of the overall revenue) is expected to improve in 3QFY19 onwards after a stagnant performance in last few quarters as new engagement are ramping up in 3QFY19

☐ JLR which is key customer and contributes nearly 21 - 22%, of the revenue is expected to continue to face challenges in the next few quarter due to issue in JLR business. Thus expected to impact some portion of automotive business in 3QFY19.

☐ Margin is expected to decline in 3QFY19 by 170 bps as the management is investing in adding new workforce and re-skilling the employees.

Key Trackable this Quarter

☐ Management commentary on macro challenges like Brexit and JLR revenue .

☐ Commentary for FY19 regarding revenue growth of 20%YoY.

☐ FY19 Margin to surpass 24% to 25% guided band .

We value the stock at 24x FY20E. BUY

TCS IN

CMP 1896
Target 2018
Upside 6%
Rating HOLD

	FY17	FY18	FY19	FY20
Roe%	33.5	30.2	37.0	34.8
Roce%	37.3	34.4	43.1	40.4
PE	18.2	21.1	21.8	19.7
PB	5.6	6.4	7.8	6.1
EV/EBITDA	14.7	16.6	17.1	15.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)		9%	10%	10%	9%	10%	11%
Revenue by industry							
BFSI	5,861	6,096	6,600	7,437	1,513	1627.08	1,676
Manufacturing	1,289	1,417	1,512	1,586	359	375.48	381
Retail & Cons Buss.	2,845	3,113	3,479	3,749	799	865.69	883
Communication, media	2,600	2,863	3,039	3,243	718	756	764
Others	4,942	5,600	6,377	7,119	1,398	1,591	1,613
TOTAL	17,537	19,089	21,007	23,134	4,787	5,215	5,317
Financials							
Sales	117,966	123,104	148,453	167,723	30,904	36,854	38,282
<i>Sales Gr</i>	9%	4%	21%	13%	4%	21%	24%
Ebdita	32,311	32,516	41,409	45,247	8,287	10,280	10,796
<i>Ebdita Gr</i>	6%	1%	27%	9%	1%	26%	30%
Net Profits	26,357	25,880	32,585	36,076	6,545	7,929	8,416
<i>Profit Gr%</i>	9%	-2%	26%	11%	-4%	23%	29%
EbditaM%	27.4%	26.4%	27.9%	27.0%	26.8%	27.9%	28.2%
Net Mgn%	22.3%	21.0%	21.9%	21.5%	21.2%	21.5%	22.0%

Conso/ Fig in Rs Cr

□ 3QFY19 Sales are expected to improve 2%QoQ in USD term led by robust deal pipeline (4.9bn TCv win in 2QFY19), continued growth in segment like BFSI, Retail and regional market and strong growth in digital business.

□ BFSI is expected to post steady growth in 3QFY19 as North America BFSI has finally started to recover. Even Large US banks which had been a problem area for the entire industry has shown revival as pressure on costs and regulation has eased out. Thus we have seen growth in last two quarter and expect to continue see growth in 3QFY19 also.

□ Regional market which post platform revenues is expected to deliver strong growth in 3QFY19 on the back of execution of past deal wins. Even the management has stated of at least a few more quarters of steady growth led by existing deal wins.

□ However UK as geography may faces challenges due to the complex market structure as uncertainty in demand trajectory and deal wins.

□ Margin is expected to improve by 30 bps in 3QFY19 led by operational efficiency and currency tailwind.

□ Management expects to post double-digit constant currency revenue growth for FY19. Margins are expected to reach the aspired band of 26-28% led by currency tailwind, higher revenue growth and improved operational metrics

Key Trackable this Quarter

- Increase in TCv wins.
- Commentary by management on UK demand environment.
- Outlook on BFS and Retail revenue growth for FY19.

We value the stock at 21x FY20E. HOLD

TECHM IN

CMP 721
Target 841
Upside 17%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	18.4	21.5	21.2	20.6
Roce%	16.8	16.5	21.0	20.4
PE	15.7	16.5	16.4	14.6
PB	2.7	3.3	3.2	2.8
EV/EBITDA	10.5	13.2	11.0	9.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)	8%	10%	4%	11%	9%	4%	3%
Revenue by industry							
Communication	2,077	2,066	2,053	2,337	517	506	521
Enterprise	2,269	2,706	2,929	3,204	693	714	727
TOTAL	4,346	4,772	4,982	5,541	1,210	1,220	1,248
Financials							
Sales	29,141	30,773	35,181	40,148	7,776	8,630	8,985
Sales Gr	10%	6%	14%	14%	3%	13%	16%
Ebdita	4,184	4,710	6,419	7,128	1,265	1,619	1,725
Ebdita Gr	-2%	13%	36%	11%	7%	46%	36%
Net Profits	2,851	3,786	4,304	4,849	924	1,056	1,145
Profit Gr%	-6%	33%	14%	13%	9%	26%	24%
EbditaM%	14.4%	15.3%	18.2%	17.8%	16.3%	18.8%	19.2%
Net Mgn%	9.8%	12.3%	12.2%	12.1%	11.9%	12.2%	12.7%

Conso/ Fig in Rs Cr

□ Tech Mahindra 3QFY19 sales are expected to improve 2.3% QoQ in usd term led by healthy order book, strong growth in communication segment and revival in enterprise segment.

□ Telecom has revived in last two quarters. We expect 3QFY19 to see continued growth in this segment led by continued deal win in digital transformation work and increase in capex spending. Also 2HFY19 is historically considered strong for Communication segment. Growth in Communications does not factor in any tailwinds from the 5G opportunity.

□ Enterprise segment which also contribute the rest half of the revenue (50 to 55%) is expected to improve in 3QFY19 on the back of large deal wins and growth in retail and manufacturing segment.

□ HCI which has declined nearly half its revenue(40mn) in 2QFY19 due to ramp down of few projects is expected to start recover in couple of quarter as news deal wins ramp up.

□ Margins are expected to improve 40 bps on the back of improvement in communication business, increase in share of digital part and improvement in operational parameters like utilization. Currency continues to benefit 50 to 100 bps however the management will continue its investment process.

□ Management has also stated that the pace of margin improvement has been quite fast but they expect gradual margin improvements over the next two quarters.

Key Trackable this Quarter

- Revival in HCI business
- Continued deal wins in telecom segment.
- Management comment on guidance of 8% to 10% cc growth in enterprise segment.

We value the stock at 17x FY20E. BUY

WRPO IN

CMP	330
Target	368
Upside	12%
Rating	ACCUMULATE

	FY17	FY18	FY19	FY20
Roe%	17.4	16.1	15.9	15.4
Roce%	17.8	15.6	15.5	15.4
PE	14.7	15.9	18.2	16.1
PB	2.4	2.7	2.7	2.3
EV/EBITDA	11.8	13.0	14.7	12.6

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues (USD m)	7,723	8,060	8,220	8,654	2,013	2,041	2,067
Segment revenue (in crore)							
<i>IT Services</i>	52,844	52,841	57,976	62,742	13,235	14,377	14,882
<i>IT Products</i>	2,592	1,800	1,482	1,521	450	288	431
Total	55,436	54,641	59,458	64,262	13,684	14,665	15,313
<i>Financials</i>							
Sales	55,448	54,487	59,538	64,262	13,669	14,568	15,313
<i>Sales Gr</i>	8%	-2%	9%	8%	-1%	8.2%	12%
Ebdita	11,321	10,387	10,582	12,017	2,487	2,377	2,710
<i>Ebdita Gr</i>	5%	-8%	2%	14%	-13%	-15%	9%
Net Profits	8,518	8,003	8,216	9,256	1,929	1,886	2,078
<i>Profit Gr%</i>	-5%	-6%	3%	13%	-9%	-14%	8%
EbditaM%	20.4%	19.1%	17.8%	18.7%	18.2%	16.3%	17.7%
Net Mgn%	15.4%	14.7%	13.8%	14.4%	14.1%	12.9%	13.6%

Conso/ Fig in Rs Cr

□ Sales in IT service are expected to improve 1.3%QoQ in usd term in 3QFY19 mainly on account of greater traction in BFSI, revival in energy and utilities and revenue from the Alight deal. However Healthcare business will continue to be under pressure. (*sales number includes PSU business of \$34mn).

□ For 3QFY19, Management has guided a sequential growth outlook of 1.0% to 3.0% for IT Services.

□ IT Products revenue is expected to improve in 3QFY19 as management focus is now to run tight and profitable business.

□ Alight Solutions which is largest ever deal win for Wipro is expected to now aid two month revenue in 3QFY19. This deal will result in revenues of USD \$1.5 to \$1.6 billion for Wipro for 2HFY19.

□ Post wage hike, margin in 3QFY19 are expected to improve 140 bps (comparable with one time loss incurred in 2QFY19) led by operational efficiency and currency benefit. However continued investment will offset some portion margin expansion.

Key Trackable this Quarter

□ Continued strength in BFS and Energy.

□ Outlook on spending on key clients .

□ Further announcement on any business curving out.

□ Continued uncertainties in HPS is expected to impact USD revenue growth in 3QFY19.

We value the stock at 18x FY20E. ACCUMULATE

ZENT IN

CMP 234
Target 273
Upside 17%
Rating BUY

	FY17	FY18	FY19	FY20
Roe%	17.4	15.7	18.6	18.3
Roce%	19.3	14.4	16.3	17.8
PE	17.4	16.4	15.7	13.7
PB	2.8	2.4	2.7	2.3
EV/EBITDA	10.4	10.5	10.7	9.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Revenues growth(%)	1%	5%	16%	13%	5%	16%	15%
Revenue (in usd mn)							
Application	359	402	475	535	102	117	120
IMS	99	80	86	102	21	20	21
TOTAL	458	482	561	636	123	137	141
<i>Financials</i>							
Sales	3,056	3,108	3,869	4,479	794	969	995
<i>Sales Gr</i>	2%	2%	25%	15%	1%	27%	25%
Ebdita	382	365	506	598	105	123	133
<i>Ebdita Gr</i>	-21%	-4%	39%	18%	-4%	38%	26%
Net Profits	238	246	336	384	60	95	79
<i>Profit Gr%</i>	-18%	3%	36%	14%	-25%	51%	31%
EbditaM%	12.5%	11.7%	13.1%	13.4%	13.3%	12.7%	13.4%
Net Mgn%	7.8%	7.9%	8.7%	8.6%	7.6%	9.8%	7.9%

Conso/ Fig in Rs Cr

□ 3QFY19 sales are expected to improve 2.3% in USD term led by robust deal pipeline, bounce back of retail vertical and strong momentum in Digital business.

□ Digital business (which now contributes 44.2% of overall revenue) continued to grow in 2QFY19 (5.2% sequentially) mainly driven by CX/UX, front end development capabilities and cloud in Infrastructure and mobility business. We are confident of momentum to continue in 3QFY19 and for rest of the year led by robust deal pipeline (nearly 50% wins have been in Digital).

□ ZENSAR technologies TCV stands for USD800+mn in 2QFY19 which is expected translate in revenues in 3QFY19 and the full impact to be seen in 4QFY19.

□ Margin for 3QFY19 is expected to improve by 70 to 80 bps led by improvement in operational parameter like subcontracting cost (even management expects Subcontractor will go down), increased digital contribution, however MVS and Row (non core business) which are low margin businesses continue to offset some portions of margin.

Key Trackable this Quarter

- Revenue from acquired entity Indigo slate.
- Continued increase in share of Digital revenue.
- Increase in TCV wins.

We value the stock at 16x FY20E. BUY

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited-MCX/NCDEX Commodities Broker: INZ000051636 || Narnolia Velox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited-IRDA Licensed Direct Insurance Broker (Life & Non-Life) License No.134 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC.B.05.02568.

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