# Digital to drive growth in FY2O, margin to remain under pressure

| Companies Name | Rating |
|---|---|
| TCS | NEUTRAL |
| INFOSYS | ACCUMULATE |
| HCLTECH | BUY |
| WIPRO | NEUTRAL |
| TECHM | NEUTRAL |
| LTI | ACCUMULATE |
| LTTS | NEUTRAL |
| MPHASIS | BUY |
| MINDTREE | NEUTRAL |
| TATA ELXSI | NEUTRAL |
| NIIT TECH | NEUTRAL |
| CYIENT | ACCUMULATE |
| PERSISTENT | NEUTRAL |
| ZENSAR TECH | NEUTRAL |
| MASTEK | ACCUMULATE |

## 4QFY19 Result Summary

- Almost all major IT companies came out with their 4QFY19 results .Tier 1 companies (TCS, Infosys, HCLTECH ,Wipro, TECHM) have delivered a moderate growth ranging from flat to 3.5%QoQ in constant currency(CC) terms whereas company specific issues among tier 2 companies like Cyient , Persistent , LTTS resulted in mixed performance (ranging between 1 % to 4% QoQ constant currency terms) .The growth in IT companies was primarily driven by strong new TCV wins and digital share during the quarter .

- In Tier 1, Infosys, TCS , HCLTECH came out with the numbers in line with our estimates while TECHM delivered below expectation performance during the quarter. In USD terms, Tier 1 revenue ranged between -0.6% to 3.5% during the quarter. HCLTECH reported the strongest growth of 3.5%QoQ in USD terms, followed by TCS and Infosys which grew 2.8%/2.4% QoQ in USD terms. Wipro's revenue for IT services grew by 1%QoQ translating into midpoint of the guidance while TECHM's growth remained muted (0.6%QoQ).Cross currency headwind for Tier 1 remained between 20 bps to 50 bps in 4QFY19.

- Under our mid-cap coverage(Tier 2), ZENSARTECH and Mind tree beat our revenue estimates by growing 4.4%/4.2%QoQ in USD terms While LTI ,Mphasis and LTTS posted in line performance (2%/3% QoQ in USD terms).Company specific issues where seen in other mid cap companies like NIITTECH(deferral in contract in Insurance ) , Cyient (DLM challenge),LTTS (Client specific issue impacted 25mn to 30 mn revenue) and Persistent( Fall in IP led by top client), thus, resulted in below estimates performance for NIITTECH(grew 1.3%QoQ), Persistent ( negative growth of 2.1%QoQ), Tata Elxsi ( single digit of 8%YoY for the first time ) and Cyient (negative growth of 2.1%QoQ).In small cap , Mastek delivered a soft performance of 1.9%QoQ during 4QFY19 due to macro challenges.

- Though, revenue performance for our coverage universe remain mixed among tier 1 and Tier 2 companies however margins deteriorated consensually among the all the companies. Margins during the quarter declined between 40 bps to 515bps barring ZENSARTECH which improved 150bps.Margin was mainly under stress owing to shortage of talents and elevated investments. However companies posted a moderate PAT growth in 4QFY19 led by revenue growth, higher other income and lower tax rate.

## Digital continued as major growth driver

- Digital continued as a major growth driver, growing 30% to 50% YoY for most of the Tier 1 companies .TCS digital revenue during the quarter grew 46.4%YoY and now contributes ~1/3 of the overall revenue (31%), Infosys digital business grew 41.1%YoY and now contributes 33.8% of the revenue, for Wipro digital contributes 35% of the revenue (grew 32%YoY) and TECHM digital revenue (34.1%) growth came in at 40%YoY in 4QFY19.

- For the Tier 2 companies, the growth in digital is faster as compared to Tier 1 companies. Digital now contributes nearly half (49.5%) of the revenue of Mind tree (grew 26.9%YoY), ZENSARTECH has 46.4% of digital revenue coming in (grew 35.4%YoY), LTI (contribution 38%of the revenue) and NIITECH is having 29% of digital penetration which is growing.

- As stated by the HCLTECH management in concall, "Digital transformation as a spend is growing at 18% to 1.2 trillion in FY19 while the traditional spend is moderating about 2% to 3%, the digital transformation spend is actually what's picking up".

**Research Analyst**
**Niharika Ojha**
niharika@narnolia.com
+91-22-62701230

## Demand environment intact

Management commentary of most IT companies remained broadly positive on demand environment despite seeing some potential macro uncertainties. Most of the Tier 1 and Tier 2 companies highlighted strong deal inflows and healthy deal pipelines during the quarter. Strong TCV wins were seen during the quarter (TCS TCV wins during the quarter was at USD6.2b , for INFOSYS it stood at USD1.6b, TECHM TCV win was USD440m and HCLTECH has 10% new booking as compared to last year). Even the companies are seeing digital deal sizes increasing every quarter.

## Company to stay invested in FY20, Resulted in lower margin guidance

- Although robust order book, healthy deal pipeline, positive demand commentary and increasing digital deal sizes gives the strong revenue visibility for FY20 But margins are expected to be impacted going ahead owing to talent crunch at onsite locations, higher level of attrition rates and increasing local hires. Even some managements has lowered their margin guidance and plan to stay invested to meet the demand .Following are commentaries of some IT companies on margins.

- Infosys on margins ``The Company has lowered its EBIT margin guidance to 21-23% for FY20 vs. 22.8% in FY19 due to continued investment plan."

- HCLTECH on margins" Operating margin guidance for FY20 is lowered to 18.5%-19.5%. Lower EBIT margin guidance factors in the investments in people and technology. Also includes increasing investments for execution of new deal wins".

- LTTS" The Company is seeing large deal opportunities that will dilute the margins .The Company will continue to do some bit of investment in new technology areas."

## Attrition becoming major concern

- Attrition is also inching up for most of the companies, (Infosys/HCLTECH/TECH attrition stood at 20.4%/17.7%/21) as the shortage of talent are giving the skilled employees the higher advantage across the market. Though management is continuously taking initiatives to improve the attrition however seeing the macro constraints, it will continue to be overhang for the companies going ahead.

## VIEW AND VALUATION

IT companies have come up with their 4QFY19 and financial year results. Revenue performance for Tier 1 company mainly came in line with the estimates (ranging from 1% to 3.3%QoQ in cc terms) whereas mixed revenue performance was seen in mid tier companies (ranging from de-growth to 4.1% QoQ). Among Tier 1 companies, HCLTECH reported strong growth while MINDTREE and ZENSARTECH surprised with strong revenue performance in 4QFY19.Robust Order booking and digital growth (30 to 50%YoY for top tier companies) continued to drive growth during the quarter .However EBIT margin for most of companies dented due to continued investment and higher subcontracting cost.

Although robust order book, healthy deal pipeline, positive demand commentary and increasing digital deal sizes gives the strong revenue visibility for FY20 but supply constraints to continue to weigh on profitability going ahead. Also some challenges are expected to be seen in BFSI (especially in capital market) however increase in large deal wins in digital to continue to drive growth in FY20.Inching up of Attrition is new concern for overall sector (Infosys having attrition rate 19% in 4QFY19).

In our view, positive triggers of FY20 will be 1) Continued growth in Digital share;2) large deals participation;3) capex visibility owing to 5G roll-out could lend support to FY2020E revenue acceleration. In order of preference, our top pick are, HCLTECH, Infosys in Tier 1 and Mphasis in Tier 2.

## 4QFY19 RESULT SNAPSHOT

| Companies name | Sales in Rs | QoQ growth | QoQ growth in cc | YoY growth | EBIT | EBIT margin | PAT | PAT margin |
|---|---|---|---|---|---|---|---|---|
| **Hi cap** | | | | | | | | |
| TCS | 38,010 | 1.80% | 2.40% | 18.50% | 9,537 | 25.1% | 8152 | 21.4% |
| INFOSYS | 21,539 | 0.60% | 2.10% | 19.10% | 4,618 | 21.40% | 4,078 | 18.90% |
| HCLTECH | 15,990 | 1.90% | 3.30% | 21.30% | 3,049 | 19.1% | 2,550 | 15.9% |
| WIPRO | 15,006 | -0.40% | 1% | 9.00% | 2,701 | 18.0% | 2,496 | 16.6% |
| TECHM | 8,892 | -0.60% | 0.00% | 10.40% | 1,368 | 15.4% | 1,127 | 12.7% |
| **Mid cap** | | | | | | | | |
| LTI | 2,486 | 0.50% | 1.90% | 24.20% | 440 | 17.7% | 379 | 15.2% |
| LTTS | 1,343 | 2.00% | 3% | 27.30% | 221 | 16.5% | 192 | 14.3% |
| MPHASIS | 2,025 | 2.70% | 2.90% | 16.10% | 320 | 15.8% | 266 | 13.1% |
| MINDTREE | 1,839 | 2.90% | 3.90% | 25.60% | 238 | 12.9% | 198 | 10.8% |
| TATAELXSI | 405 | -0.50% | | 7.90% | 92 | 22.7% | 71 | 17.5% |
| NIITTECH | 972 | 0.10% | 1.30% | 23.30% | 141 | 14.5% | 106 | 10.9% |
| CYIENT | 1,163 | -2.10% | 1.40% | 9.60% | 141 | 12.1% | 176 | 15.1% |
| PERSISTENT | 832 | -3.70% | | 10.50% | 83 | 10.0% | 84 | 10.1% |
| ZENSARTECH | 1,057 | 2.10% | 4.10% | 29.90% | 105 | 9.9% | 83 | 7.9% |

## VALUATION

| | | | ROE | | EPS | | P/E | |
|---|---|---|---|---|---|---|---|---|
| Companies name | Rating | Target price | FY19 | FY20E | FY19 | FY20E | FY19 | FY20E |
| **Hi cap** | | | | | | | | |
| TCS | NEUTRAL | 1,994 | 36 | 34 | 84 | 92 | 24 | 22 |
| INFOSYS | ACCUMULATE | 842 | 24 | 25 | 36 | 40 | 21 | 18 |
| HCLTECH | BUY | 1,240 | 34 | 32 | 75 | 83 | 15 | 13 |
| WIPRO | NEUTRAL | 314 | 17 | 18 | 15 | 17 | 17 | 17 |
| TECHM | NEUTRAL | 829 | 22 | 22 | 44 | 48 | 18 | 16 |
| **Mid cap** | | | | | | | | |
| LTI | ACCUMULATE | 1,938 | 35 | 30 | 87 | 95 | 19 | 19 |
| LTTS | NEUTRAL | 1,403 | 35 | 29 | 74 | 76 | 21 | 22 |
| MPHASIS | BUY | 1,314 | 20 | 21 | 58 | 65 | 17 | 15 |
| MINDTREE | NEUTRAL | 983 | 23 | 23 | 46 | 53 | 21 | 18 |
| TATAELXSI | NEUTRAL | 887 | 35 | 29 | 47 | 49 | 21 | 18 |
| NIITTECH | NEUTRAL | 1,340 | 15 | 18 | 65 | 82 | 20 | 16 |
| CYIENT | ACCUMULATE | 657 | 19 | 19 | 43 | 47 | 15 | 12 |
| PERSISTENT | NEUTRAL | 699 | 16 | 16 | 44 | 50 | 14 | 12 |
| ZENSARTECH | NEUTRAL | 226 | 18 | 17 | 14 | 15 | 16 | 17 |
| **Small cap** | | | | | | | | |
| MASTEK | ACCUMULATE | 527 | 13 | 15 | 43 | 48 | 10 | 10 |

## TCS

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 4972.1 | 5250 | 5397 | 8.5% | 2.8% |
| SALES in Rs | 32075 | 37338 | 38010 | 18.5% | 1.8% |
| EBITDA | 8652 | 10083 | 10074 | 16.4% | -0.1% |
| EBIT | 8147 | 9564 | 9537 | 17.1% | -0.3% |
| PAT | 6925 | 8121 | 8152 | 17.7% | 0.4% |
| EBIT Margin | 25.4% | 25.6% | 25.1% | -0.3% | -0.5% |
| PAT Margin | 21.6% | 21.7% | 21.4% | -0.1% | -0.3% |

TCS 4QFY19 result posted a revenue growth of 2.4%QoQ in cc terms while Editda grew 0.1%QoQ. EBIT margin during the quarter stood at Rs9537 crore, a decline of 0.3%QoQ .Margin stood at 25.1%, a contraction of 50 bps as compared to 25.6% in previous quarter. The contraction in margin was largely driven by higher subcontracting cost and other expense .PAT for the quarter stood at Rs8152, a muted growth of 0.3% mainly due to margin miss. The Company signed a TCV worth of $ 6.2 billion in 4QFY19 which is bigger than any quarter win. Thus, despite volatility due to macro challenges and tightness in some segments like BFSI , the company will be aggressively working to cater to the demand .It is showing confidence of strong growth in FY20 seeing the strong order book and robust deal pipeline.

## INFOSYS

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 2805 | 2987 | 3060 | 9.1% | 2.4% |
| SALES in Rs | 18083 | 21400 | 21539 | 19.1% | 0.6% |
| EBITDA | 4812 | 4959 | 5149 | 7.0% | 3.8% |
| EBIT | 4354 | 4379 | 4618 | 6.1% | 5.5% |
| PAT | 3690 | 3610 | 4078 | 10.5% | 13.0% |
| EBIT Margin | 24.1% | 20.5% | 21.4% | -2.6% | 1.0% |
| PAT Margin | 20.4% | 16.9% | 18.9% | -1.5% | 2.1% |

Infosys's 4QFY19 revenue grew 2.4% in USD however EBIT margin has dented 110bps decline. Despite margin deterioration PAT for the quarter stood at Rs4078 crore mainly driven by lower Tax rate . Traction continued in TCV( total contract value ) during the quarter, the company won TCV of $1.6 billion, taking the total contract value to $ 6.3billion for FY19.Also Company won 13 large deals during the quarter ,3 deals each coming from financial services, life science& manufacturing; 2 in Hi-tech and 1 in Retail and other segments. Management has guided revenue growth of 7.5% to 9.5% in cc term and lowered its EBIT margin guidance to 21% to 23% for FY20.

## HCLTECH

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 2037 | 2202.13 | 2278.1 | 11.8% | 3.4% |
| SALES in Rs | 13178 | 15699 | 15990 | 21.3% | 1.9% |
| EBITDA | 3022 | 3632 | 3594 | 18.9% | -1.0% |
| EBIT | 2593 | 3091 | 3049 | 17.6% | -1.4% |
| PAT | 2230 | 2605 | 2550 | 14.3% | -2.1% |
| EBIT Margin | 19.7% | 19.7% | 19.1% | -0.6% | -0.6% |
| PAT Margin | 16.9% | 16.6% | 15.9% | -1.0% | -0.6% |

HCLTECH posted mix set of numbers in its 4QFY19 result. Revenue grew 3.3%QoQ in cc terms to USD2278 led by strong growth in IMS and application services. However margin shrank 60 bps to 19.1%QoQ in 4QFY19. PAT for the quarter stood at Rs2550, a decline of 2.1%QoQ primarily because of higher-than-expected operational expenses. The management has guided revenue growth of 14% to 15%YoY in cc terms for FY20, out of which 7-9% is organic. EBIT margin is lowered by 100bps to 18.5% to 19.5% considering the continued investment in Mode 2 , ramp up of large deal to yield low margins initially and 1Q impact from IBM IP led cost.

## WIPRO

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 2019 | 2046.5 | 2075.5 | 2.8% | 1.4% |
| SALES in Rs | 13768.7 | 15059.5 | 15160.9 | 10.1% | 0.7% |
| EBITDA | 2453 | 3293.1 | 3259.9 | 32.9% | -1.0% |
| EBIT | 1883 | 2776 | 2700.6 | 43.4% | -2.7% |
| PAT | 1801 | 2543.9 | 2495.64 | 38.6% | -1.9% |
| EBIT Margin | 13.7% | 18.4% | 17.8% | 4.1% | -0.6% |
| PAT Margin | 13.1% | 16.9% | 16.5% | 3.4% | -0.4% |

Wipro's 4QFY19 result reported mix set of numbers. IT services revenue stood at USD 2075.5 million for the quarter and EBIT margin stood at 17.8%, a slight miss from 18% range posted in previous quarter. IT services margin stood at 19% an increase of 4.4%YoY. PAT for the quarter stood at R2496crore, a decline of 2% QoQ mainly impacted by higher tax and miss in the margin. Digital revenue growth continues to be strong during the quarter. It grew 6.4% sequentially and is now about 35% of the overall revenue. Order booking momentum has remained robust during the quarter .The company had closure to double digit growth in order booking. For 1QFY20, the management has given guidance of -1% to 1% in cc terms for Its services considering the seasonally in 1QFY20 and certain delay in decision with ramp of fresh projects.

## TECHM

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 1246 | 1261 | 1269 | 1.8% | 0.6% |
| SALES in Rs | 8054.5 | 8943.7 | 8892.3 | 10.4% | -0.6% |
| EBITDA | 1411.89 | 1722.6 | 1638.7 | 16.1% | -4.9% |
| EBIT | 1113.25 | 1439 | 1368.3 | 22.9% | -4.9% |
| PAT | 1230.8 | 1207 | 1126.6 | -8.5% | -6.7% |
| EBIT Margin | 13.8% | 16.1% | 15.4% | 1.6% | -0.7% |
| PAT Margin | 15.3% | 13.5% | 12.7% | -2.6% | -0.8% |

TECHM posted soft 4QFY19 performance in its revenue and PAT numbers. Revenue remained flat (grew 0.6%QoQ in USD terms) primarily impacted by de growth in enterprise segment. Margin for 4QFY19 stood at 18.4%(90 bps decline) mainly driven by onetime expenses (some charges impacted 30 to 40 bps) and cross currency impact of 40 bps in 4QFY19.Excluding one off the normalized EBITDA margin would stand at 18.7% to 18.8% for 4QFY19.PAT came in at Rs 1127crore . The company significant growth came in through digital revenue and which now stands at 31%of overall revenue in FY19 .The growth of digital revenue was almost 41%YoY.The Company continue their growth in digital revenue in 4QFY19which stood at 34.1% of the overall revenue, up 4.1%QoQ. TCV for the company has grown 33%YoY in FY19. 4QFY19 saw a TCV wins of USD 408 million. The management has unchanged their revenue guidance however expects the composition mix to more towards communication as compared to last commentary where telecom was expected single digit growth and enterprise was expected 8% to 10% for FY20.

## LTI

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 308.97 | 346.928 | 353.829 | 14.5% | 2.0% |
| SALES in Rs | 2001 | 2472.9 | 2486 | 24.2% | 0.5% |
| EBITDA | 291.9 | 508.8 | 476.6 | 63.3% | -6.3% |
| EBIT | 255.9 | 473.3 | 439.5 | 71.7% | -7.1% |
| PAT | 289.4 | 375.5 | 378.5 | 30.8% | 0.8% |
| EBIT Margin | 12.8% | 19.1% | 17.7% | 4.9% | -1.5% |
| PAT Margin | 14.5% | 15.2% | 15.2% | 0.8% | 0.0% |

LTI reported a muted revenue growth in 4QFY19 results. Revenue came in at Rs 2486, a growth of 0.5%QoQ.In USD term revenue stood at USD 354 million, a growth 2%QoQ and 1.9%QoQ in constant currency terms. EBIT for the quarter was at Rs 440crore which translates into operating margin of 17.7% Vs 19.2% in previous quarter. Investment in sales, drop in Utilization as planned and appreciation in rupees are primarily responsible for margin contraction. The management is confident of LTI to continue to be in leadership quadrant for revenue growth in FY20. However 1QFY20 to be little muted growth seeing the challenge in top client. Margin is considered to be in the narrow band of 15% as the management continues to focus to invest back into the business and top line.

## MPHASIS

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 264.118 | 282.722 | 291.664 | 10.4% | 3.2% |
| SALES in Rs | 1744.49 | 1970.96 | 2024.96 | 16.1% | 2.7% |
| EBITDA | 309.47 | 330.644 | 340.344 | 10.0% | 2.9% |
| EBIT | 292.363 | 311.044 | 320.387 | 9.6% | 3.0% |
| PAT | 237.672 | 278.124 | 266.136 | 12.0% | -4.3% |
| EBIT Margin | 16.8% | 15.8% | 15.8% | -0.9% | 0.0% |
| PAT Margin | 13.6% | 14.1% | 13.1% | -0.5% | -1.0% |

Mphasis 4QFY19 revenue grew 3.1% in USD terms which came in line with the estimates .In rupee terms revenue came in at Rs 2025 crore, a growth of 2.7%QoQ.The growth was primarily driven by healthy growth in direct core which grew by 4.1%QoQ.EBITDA margin for the quarter remained flat at 16.8% due to higher employee cost and higher cost related to ramp up of large deals.PAT for the quarter stood at Rs 266 crore, a decline of 4.3%QoQ due to lower other income. Direct core revenue grew 2.9% QoQ on reported basis and 3.7% QoQ in Constant currency terms. The DXCHP business was flat on reported basis sequentially and grew 4% in constant currency. Mphasis's New deal wins which is one of lead indicator of a sustained growth continued to see momentum in 4QFY19.Direct international TCV stood at USD 146million for 4QFY19, taking total net new TCV to USD 616 million for FY19 , out of which 79% new wins were in new gen services. The Management continues to focus on operation execution for margin optimization and expects EBIT in the 15% to 17% range for FY 20 considering continued investment plan in FY20 (as transition is going on in IT).

## MINDTREE

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 226.392 | 251.587 | 262.105 | 15.8% | 4.2% |
| SALES in Rs | 1464 | 1787.2 | 1839.4 | 25.6% | 2.9% |
| EBITDA | 235.5 | 283.3 | 280.3 | 19.0% | -1.1% |
| EBIT | 196.9 | 242.3 | 237.5 | 20.6% | -2.0% |
| PAT | 181.9 | 191.2 | 198.4 | 9.1% | 3.8% |
| EBIT Margin | 13.4% | 13.6% | 12.9% | -0.5% | -0.6% |
| PAT Margin | 12.4% | 10.7% | 10.8% | -1.6% | 0.1% |

Mindtree 4QFY19 result reported a mix bag of numbers. Revenue grew 3.9% in cc terms beating the estimates whereas margin came at 15.2% for the quarter. EBITDA for the quarter stood at Rs280crore, a decline 1.1%QoQ .Margin contracted 50 bps to 15.2%as compared to 15.9% in 3QFY19. The reason contributed to margin contracted was currency fluctuation which impacted 50 bps and higher attrition .Even subcontracting cost increased in 4QFY19.PAT for the quarter stood at Rs 192 crore. The company in 4QFY19 signed deal worth USD 242 million of which renewal was USD 158million and new contracts were USD 84 million .Digital contract signed in this quarter was USD 126 million. Overall TCV signed in FY19 crossed a billion dollar. The company expects digital TCV to continue to grow in FY20. The company for the first time gave its guidance on revenue and margin performance for FY20.Mangement have given a low teens revenue guidance which is lower than the growth achieved in FY19 (19%YoY).Mind tree have also guided of 100 to 120 bps improvement in margins.

## TATAELXSI

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in Rs | 375.35 | 407 | 405.1 | 7.9% | -0.5% |
| EBITDA | 95.08 | 103.33 | 98.4823 | 3.6% | -4.7% |
| EBIT | 88.94 | 97.12 | 91.7923 | 3.2% | -5.5% |
| PAT | 70.28 | 66.0074 | 71.3023 | 1.5% | 8.0% |
| EBIT Margin | 23.7% | 23.9% | 22.7% | -1.0% | -1.2% |
| PAT Margin | 18.7% | 16.2% | 17.6% | -1.1% | 1.4% |

Tata Elxsi 4QFY19 revenue missed the estimates of double digit growth and grew 8%YoY during the quarter (lowest revenue growth since 3QFY15). EBITDA for the quarter stood at Rs 98.5crore, a decline of 4.7%QoQ. Margin contracted to 24.3%, a decline of 110 bps mainly impacted by decline in gross margin. PAT came in at Rs71 crore mainly supported by other income. Considering the past year performance and uncertainty related to JLR, the company expects to clock at least 15% revenue in FY20. On margin front, the company expects to deliver 22% to 25% in FY20.

## LTTS

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 162.616 | 185.927 | 191.459 | 17.7% | 3.0% |
| SALES in Rs | 1054.8 | 1317 | 1343.1 | 27.3% | 2.0% |
| EBITDA | 164 | 241.8 | 248.1 | 51.3% | 2.6% |
| EBIT | 118.8 | 217.9 | 220.8 | 85.9% | 1.3% |
| PAT | 159.1 | 186.2 | 192.4 | 20.9% | 3.3% |
| EBIT Margin | 11.3% | 16.5% | 16.4% | 5.2% | -0.1% |
| PAT Margin | 15.1% | 14.1% | 14.3% | -0.8% | 0.2% |

4QFY19 revenue stood at USD191.3 million, a growth of 3%QoQ led by continued deal wins and strong growth in verticals like transportation, process industry and medical .However some revenue was mitigated by one month impact (USD 2.5-3.0mn) in one of top client revenue .In rupee terms revenue came in at Rs 1343 crore, a growth of 2% QoQ .EDITDA for the quarter stood at Rs 248crore, a growth of 2.6%QoQ. Margin remained muted by expanding 10bpsQoQ to 18.5%. PAT for the quarter stood at Rs 192.4crore driven by lower tax. Company won 9 multiyear deal in 4QFY19. For FY20, the company is guiding 14% to 16% in USD revenue growth factoring in the client specific issue that will impact FY20 revenue by 4%. The company is seeing large deal opportunities that will dilute the margins .The Company will continue to do some bit of investment in new technology areas. Overall the company believes the growth and operational efficiency will help the company to pursue margin improvement for in pricing and benefit from more off shoring work.

## NIITTECH

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 121.07 | 134.947 | 137.9 | 13.9% | 2.2% |
| SALES in Rs | 788.8 | 971.7 | 972.2 | 23.3% | 0.1% |
| EBITDA | 145 | 181.4 | 171.5 | 18.3% | -5.5% |
| EBIT | 114.5 | 150 | 141.2 | 23.3% | -5.9% |
| PAT | 86.1 | 100.2 | 105.5 | 22.5% | 5.3% |
| EBIT Margin | 14.5% | 15.4% | 14.5% | 0.0% | -0.9% |
| PAT Margin | 10.9% | 10.3% | 10.9% | -0.1% | 0.5% |

NITEC's reported a weak performance in its 4QFY19 result. Revenue came in USD138 million, a growth of 1.3%QoQ (below our estimate of 3.5%QoQ) mainly impacted by deferral in a contract in the Insurance segment. EBITDA for the quarter stood at Rs 172 , a decline of 5.5%QoQ mainly due to non recurring expenses related to French benefit tax and increase in legal and professional expenses due to M&A activity. Margin (including one off) contracted 90bps mainly driven by decline in GIS business and higher SGA. PAT for the quarter stood at Rs 110 crore (vs. our estimates of 115crore) led by lower tax rate. Order intake remained healthy for the company. The company acquired 170 mn fresh orders during the quarter. For FY20, the management continues to plan for robust predictable and profitable growth seeing the healthy order book and absence of client specific issue. On margins, Management has mentioned that 18% is the new normal, excluding GIS.

## PERSISTENT

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 116.812 | 120.918 | 118.211 | 1.2% | -2.2% |
| SALES in Rs | 752.5 | 864.249 | 831.854 | 10.5% | -3.7% |
| EBITDA | 108.44 | 170.349 | 120.701 | 11.3% | -29.1% |
| EBIT | 66.44 | 130.749 | 83.021 | 25.0% | -36.5% |
| PAT | 73.94 | 91.778 | 84.473 | 14.2% | -8.0% |
| EBIT Margin | 8.8% | 15.1% | 10.0% | 1.2% | -5.1% |
| PAT Margin | 9.8% | 10.6% | 10.2% | 0.3% | -0.5% |

Persistent 4QFY19 revenue stood at USD118.3 million, a contraction of 2.1%QoQ mainly owing to a steep fall in IP revenue led by the top client. However 2.3%QoQ growth from service offset some negative growth during the quarter. In rupee term revenue stood at Rs 832, a de-growth of 3.7%QoQ. From a volume perspective, service volume grew 1% QoQ, while blended billing rate grew 0.6% QoQ. Onsite volume declined 1.2% QoQ, while offshore volume rose 2.2% QoQ. EBITDA after adjusting forex loss came in Rs 126.5 crore, a contraction of 34.7%QoQ. Margin contracted 450 bps on account of increase due to wage hikes and INR appreciation; however some part was offset by onsite cost. PAT for the quarter stood at Rs 84.4 crore mainly aided by higher other income and lower tax. The management has guided of steady margin for FY20 seeing the improvement in pricing and benefit from more off shoring work

## CYIENT

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 164.646 | 165.119 | 165.289 | 0.4% | 0.1% |
| SALES in Rs | 1061 | 1187.7 | 1162.9 | 9.6% | -2.1% |
| EBITDA | 141.2 | 174.2 | 166.6 | 18.0% | -4.4% |
| EBIT | 115.5 | 146.2 | 140.5 | 21.6% | -3.9% |
| PAT | 120 | 92.4 | 175.6 | 46.3% | 90.0% |
| EBIT Margin | 10.9% | 12.3% | 12.1% | 1.2% | -0.2% |
| PAT Margin | 11.3% | 7.8% | 15.1% | 3.8% | 7.3% |

Company's 4QFY19 revenue stood at Rs 1163, a decline of 2.1%QoQ mainly led by challenges in A&D( muted growth of 0.5%QoQ) and communication (declined 3.1%QoQ) in service business .DLM business declined 11%QoQ as per expectation due to delay in order. EBITDA for the quarter stood at Rs 175 crore, a growth of 0.5%QoQ.Adjusted consolidated margin expanded 33bps during the quarter mainly coming from tailwinds like Incremental bill days and Lower SG&A spend(91bps) however some part was offset by forex change and revenue mix (75bps). PAT came in at Rs 176 crore highest ever mainly aided by higher other income. For FY20, management has guided lower revenue outlook considering the challenges in some business unit. The management has guided of single digit growth in service business and 15% growth in DLM business. On margin front, management expects double digit growth in its margins.

## ZENSARTECH

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in USD mn | 126.709 | 143.663 | 149.987 | 18.4% | 4.4% |
| SALES in Rs | 814 | 1035.55 | 1057.41 | 29.9% | 2.1% |
| EBITDA | 95.49 | 110.4 | 129.83 | 36.0% | 17.6% |
| EBIT | 81.61 | 86.69 | 104.71 | 28.3% | 20.8% |
| PAT | 73.32 | 56.53 | 82.74 | 12.8% | 46.4% |
| EBIT Margin | 10.0% | 8.4% | 9.9% | -0.1% | 1.5% |
| PAT Margin | 9.0% | 5.5% | 7.8% | -1.2% | 2.4% |

Zensar technologies posted a strong set of numbers in 4QFY19 result. Revenue came in at USD 150.1 million, a growth of 4.4%QoQ mainly driven by strong growth in core business. Adjusted EBITDA came in Rs 132crore, a growth of 17.5%QoQ. Margin expanded 180bps mainly driven from improvement in Utilization; absence of certain furlough that occurred in 3QFY19 and reduced subcontracting cost.PAT for the quarter stood at Rs83.2crore in line with the estimates. The company won TCV of 150 mn in 4QFY19, thus taking the total to USD 750mn for FY19 which is almost double of FY18 wins (deal win FY18 was 350 to 400mn) .The company's overall deal remain healthy and is now stands at billion dollar .The Company has won over USD 750 mn of TCV in FY19.Though the exit for FY19 was pretty strong but with strong deal pipeline and robust TCV the management still expects to continue to see growth in FY20

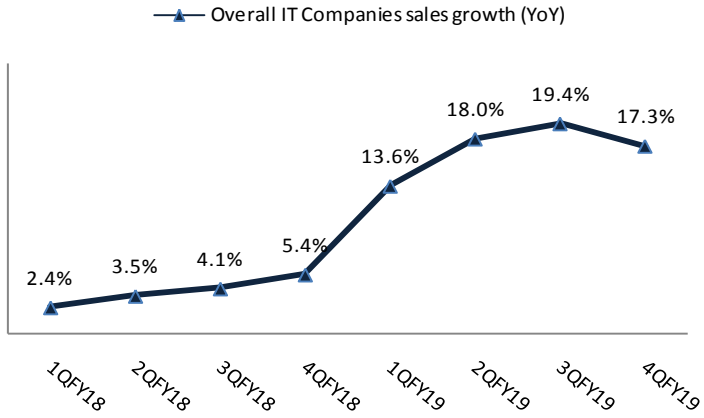
## MASTEK

| Performance | 4QFY18 | 3QFY19 | 4QFY19 | YOY% | QOQ% |
|---|---|---|---|---|---|
| SALES in Rs | 223.77 | 265.004 | 267.069 | 19.3% | 0.8% |
| EBITDA | 27.86 | 34 | 35.28 | 26.6% | 3.8% |
| EBIT | 24.24 | 29.69 | 30.96 | 27.7% | 4.3% |
| PAT | 19.4 | 26.52 | 27.39 | 41.2% | 3.3% |
| EBIT Margin | 10.8% | 11.2% | 11.6% | 0.8% | 0.4% |
| PAT Margin | 8.7% | 10.0% | 10.3% | 1.6% | 0.2% |

Mastek 4QFY19 revenue stood at Rs 267 crore, a growth of 0.8% QoQ in rupee term and 1.9% in constant currency mainly impacted by softness in UK market and weakness in financial service segment and IT services .EBITDA for the quarter came at Rs35.3 crore, a growth of 3%QoQ and 26.6%YoY .Margin improved 40 bps in 4QFY19 to 13.2% as compared to 12.8% last quarter led by operational efficiency. The management expects to sustain the margins going ahead. Despite drag in US business and even some impact in UK business due to client moving out all through the year, the company managed to post strong growth in FY19. The company expects with strong leadership team across the board, the company can absorb and mange the external factors (Brexit a, churn coming from legacy customers and also the challenges of execution issue they that previously had in US business) and is confident of continuing its growth trajectory in FY20.

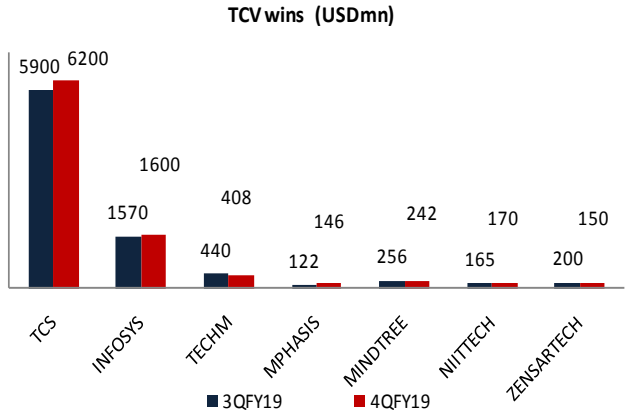
### Exhibit: Revenue trend

*Revenue growth tapered in IT companies mainly due to company specific issue especially in Tier 2 companies*



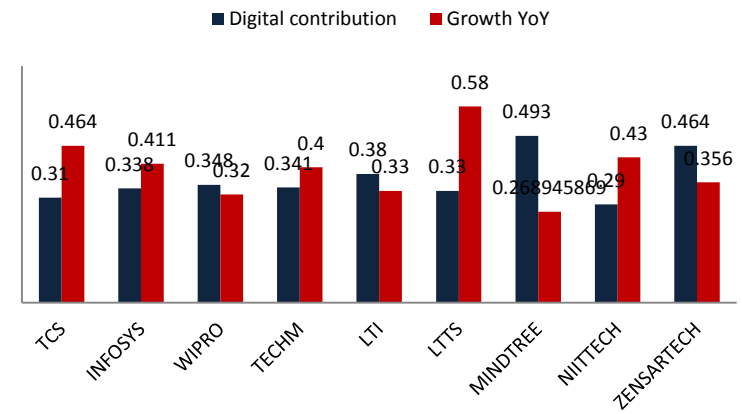

### Exhibit: TCV wins

*Deal wins momentum continued*



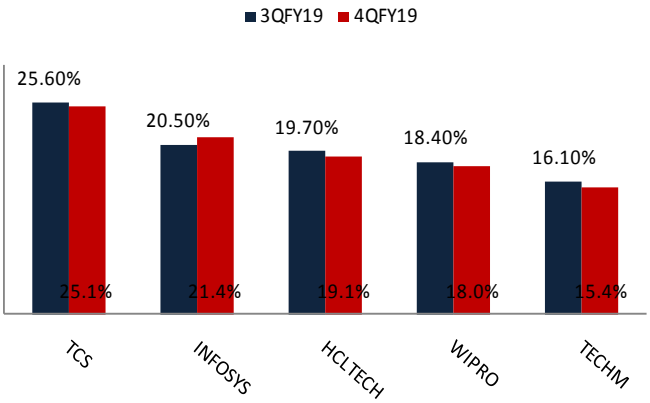

### Exhibit: Digital Revenue

*Continued momentum seen in digital business (Tier 1 &Tier 2 companies growing at 30 %to 50%YoY).*



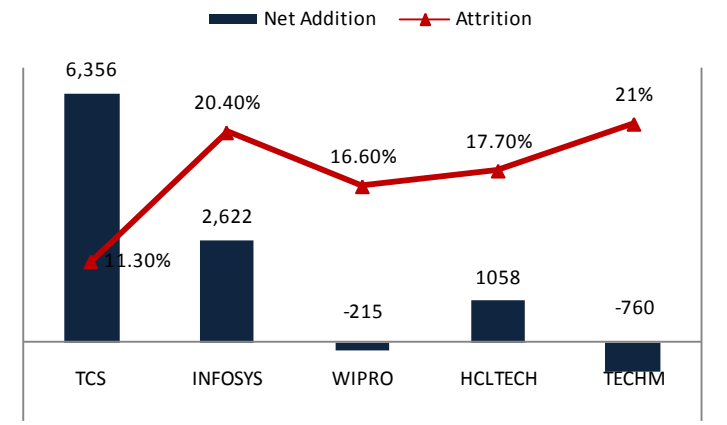

### Exhibit:EBIT Margin

*Margins under stress owing to shortage of talents.*




### Exhibit: Headcount

*Attrition becoming concern for IT companies.*



## Management commentary

| Company | Basis of Guidance | Mgmt. Guidance |
|---|---|---|
| TCS | TCV wins | The Company signed a TCV worth of $ 6.2 billion in 4QFY19 which is bigger than any quarter win. |
| | Digital revenue | The digital revenue now constitutes of 31% of the overall revenue and during the quarter grew 46.4%YoY The company is aggressively working to continue to grow its digital business. |
| | macro challenges | On macro challenges, the company has stated of being focused to grab new opportunities similar to what it has done in FY19 which resulted in 22% growth in UK geography despite volatility in UK macros in previous year. |
| | Outlook for FY20 | Technology industry has perennial demand and as the company continued to be invested to cater the demand, it is confident of sustaining the margin going ahead. Also Despite supply constraint and visa Issue Company is well placed to execute the strong order booking for the next year. |
| INFOSYS | TCV wins | Traction continued in TCV win during the quarter, the company won TCV of $1.6 billion, taking the total contract value to $ 6.3billion for FY19. |
| | Digital revenue | Infosys crossed 1 billion dollar quarterly run rate in digital revenue as digital is now contributing 33.8% of overall revenue for the company. The digital traction continued for the company and the management continues to expect strong growth going forward |
| | macro challenges | Due to macro challenges going around the globe , the company is seeing challenges in some pockets of their business like US clients in financial service , UK manufacturing and healthcare & life sciences vertical challenges globally .Clients are monitoring the situation closely on any negative development process however company is confident of good growth as deal pipeline remain strong across segment . |
| | Outlook for FY20 | The company states that it is better placed now as the growth in digital is rising continuously, thus guiding the revenue growth of 7.5% to 9.5% in constant currency term (guidance baked in full order announced till now and also includes challenging in few segments however it does not include slow down in macro growth) and EBIT margin to be in the range of 21% to 23%.However the company has indicated that if the demand remain intact even after strong 4QFY19 exit , the company may go for guidance change in 2HFY20 like FY19. |
| WIPRO | TCV wins | Order booking momentum has remained robust during the quarter .The company had closure to double digit growth in order booking. |
| | Digital revenue | Digital revenue grew 6.4% sequentially and is now about 35% of the overall revenue. . Wipro digital has moved beyond implementing agile into truly achieving enterprise agility. The company is seeing strong momentum coming from digital in FY20. |
| | Macro challenges | The demand environment is quite stable and the company sees abundant opportunities in newer areas of digital and cloud .It is continuously working to win the fair share of their business in newer areas. However some delay in the BFSI during the quarter was bit coming through macros. |
| | Outlook for FY20 | Soft guidance of -1 to 1% QoQ CC growth for 1QFY20 due to Q1 seasonality and productivity clauses |
| HCLTECH | TCV wins | The company has posted a record higher booking for third consecutive quarters. Pipeline in FY19 is at least 10% higher than pipeline of FY18. 17 transformational deal was won during the quarter led retail, CPG manufacturing, public and financial services segments. |
| | Macro challenges | Management cited concerns in global market with tough VISA regime, impact of tariffs on client business and reduction of spending by some of clients. |
| | Outlook for FY20 | **Guidance for FY20:**<br>I. The company expects to clock in 14% to 16% revenue growth for FY20, out of which organic growth is expected to contribute 7% to 9% growth whereas as inorganic growth to be 7%.<br>II. EBIT guidance is at 18.5% to 19.5% factoring in the deal closure in product and platform however investment plan is expected to be continued in localization , people , process so be prepared to start on strong note. Also the ramping of large deal in mode 1 will result in some transition cost which will impact margins in FY20. |
| TECHM | TCV wins | TCV for the company has grown 33%YoY in FY19. 4QFY19 saw a TCV wins of USD 408 million . |
| | Digital revenue | The company continue their growth in digital revenue in 4QFY19which stood at 34.1% of the overall revenue, up 4.1%QoQ.In digital, the company is seeing significant mix of business from cyber security, engineering services, device echo system, IoT and in Block chain .The company also getting some traction from 5g rollout. |
| | Outlook for FY20 | I. The company growth outlook remained unchanged however the company expects communication mix to perform better and composition of growth is expected to evenly balanced (earlier single digit of 5% in telecom and enterprise was expected to be around 8% to 10% in last commentary.<br>II. The company expects the goal will to hold the margin and right sees flat margins for FY20 |

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|---|---|
| Analyst's ownership of the stocks mentioned in the Report | NIL |

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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