

India Equity Analytics

Results Preview Q1FY20 - Technology



Analyst

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CMP 535
Target 682
Upside 27%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	18.1	19.4	18.5	19.0
Roce%	18.8	20.5	20.1	21.4
P/E	19.2	15.0	11.8	10.1
P/B	3.4	2.8	2.1	1.8
EV/Ebdata	13.1	10.4	7.3	5.8

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues (USD m)</i>	607	660	715	809	161	165	167
<i>Segment revenue (in crore)</i>							
<i>Mfg and industrial</i>	2,060	2,433	2,603	2,891	574	626	625
<i>Utilities,geo and comm</i>	1,460	1,626	1,744	1,961	385	408	418
<i>DLM</i>	398	559	657	848	121	129	127
<i>Financials</i>							
<i>Sales</i>	3,914	4,618	5,004	5,700	1,080	1,163	1,170
<i>Sales Gr</i>	9%	18%	8%	14%	20%	10%	8%
<i>Ebdita</i>	535	633	689	801	131	167	158
<i>Ebdita Gr</i>	12%	18%	9%	16%	15%	18%	21%
<i>Net Profits</i>	403	477	503	585	83	176	118
<i>Profit Gr%</i>	18%	18%	5%	16%	-6%	46%	43%
<i>Ebdita Margin%</i>	13.7%	13.7%	13.8%	14.0%	12.1%	14.3%	13.5%
<i>Ebdata Margin%</i>	11.0%	11.3%	11.4%	12.0%	9.5%	12.1%	10.9%
<i>Net Profit Margin %</i>	10.3%	10.3%	10.0%	10.3%	7.6%	15.1%	10.1%

Fig in Rs Cr

❑ Cyient 1QFY20 sales is expected to remain moderate(improve 1.1%QoQ in USD terms) mainly due to deferment issue in major sub segment of services (aerospace and comms).

❑ We expect service business to post muted growth as Boeing issue will impact the aerospace and defense segment. Also due to some deferment of orders by some of customers in the Communications business units, we expect these segments to post soft growth in 1QFY20.

❑ DLM business was down in 4QFY19 due to client specific issue, we expect it to continue to post tepid performance led by one of large client specific.

❑ EBIT margin is expected to be dip by 80bps due to wage hike and continued investment plan. Other income is expected to be marginally higher in 1QFY20 vs last year based on a strong forex forward position and recurring export incentives.

❑ 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

Key Trackable this Quarter

- ❑ Commentary on macro challenges, client budget and major vertical performance aerospace and defense, communication etc
- ❑ Margin outlook and levers playing out in FY20.

We value the stock at 15x FY20E EPS. BUY

HCLT IN

CMP 1049
Target 1202
Upside 15%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	31.8	33.5	31.4	32.2
Roce%	28.1	29.0	26.3	23.0
P/E	15.5	14.6	13.1	11.4
P/B	3.7	3.6	2.8	2.3
EV/Ebdita	11.7	10.3	8.1	7.0

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Software Ser Rev \$mn	4,589	4,989	5,497	5,898	1,203	1,289	1,320
IMS Rev. \$mn	2,959	3,211	3,914	4,291	745	886	913
Software Service	29,611	34,911	38,478	41,583	8,122	9,044	9,237
IMS	19,095	22,476	27,397	30,253	5,031	6,219	6,388
BPO Service	1,863	3,040	3,124	3,370	725	727	747
Financials							
Sales	50,569	60,427	72,149	78,379	13878	15,990	16,372
Sales Gr	6%	19%	19%	9%	14%	21%	18%
Ebdita	11,246	13,926	16,328	17,610	3237	3,594	3,553
Ebdita Gr	8%	24%	17%	8%	20%	19%	10%
Net Profits	8,722	10,120	10,869	12,504	2,431	2,550	2,421
Profit Gr%	1%	16%	7%	15%	10%	14%	0%
Ebdita Margin%	22.2%	23.0%	22.6%	22.5%	23.3%	22.5%	21.7%
Ebbit Margin%	19.5%	19.6%	18.1%	17.7%	19.9%	19.1%	18.1%
Net Profit Margin %	17.2%	16.7%	15.1%	16.0%	17.5%	16%	14.8%

Fig in Rs Cr

- ❑ Sales are expected to improve 2.7%QoQ in USD terms mainly on account of strength in Mode-2 business and continued recovery in the IMS business.
- ❑ Mode 2 services (Digital & Analytics, IoT WoRKS™, Cloud Native Services and Cybersecurity & GRC services) which is all organic is expected continue to grow in 1QFY20. The growth is expected to continue across all the offering (engineering business and Digital & Analytics which is very strongly embedded in all the client engagement).
- ❑ IMS business which was posting a laggard growth in FY18 due to dip in 2017 order booking, finally showed a recovery in last quarter. We expect the growth to continue as big deal won in IMS will start to ramp up during the quarter and also new acquisition will further aid to the revenue growth in 1QFY20.
- ❑ However some portion will mitigated as HCLTECH will not be realizing approx USD50mn of revenue which was expected to be on its books by Q1FY20 as a result of the IBM IP acquisitions.
- ❑ EBIT margin is expected to dip by 100 bps in 1QFY20 owing to continuous investment for preparation of IBM product deals.
- ❑ For FY20, management 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%.

Key Trackable this Quarter

- ❑ Update on Mode-3 margin improvement and outlook on IMS & IBM IPs
- ❑ Commentary on deal wins and TCV growth

We value the stock at 15x FY20E EPS. BUY

INFO IN

CMP 731
Target 822
Upside 12%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	24.8	23.7	24.1	24.9
Roce%	24.5	23.3	23.7	24.6
P/E	15.4	20.9	18.7	16.6
P/B	3.8	5.0	4.5	4.2
EV/Ebdita	14.0	16.9	14.8	13.3

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenue USD mn</i>	10,936	11,799	12,948	14,148	2,831	3,060	3,128
<i>Revenue by industry</i>							
Financial services	23,214	26,473	28,598	31,797	6,079	6,805	6,904
Manufacturing	6,682	8,140	8,917	9,625	1,835	2,161	2,163
E&U	8,289	10,393	11,722	13,288	2,370	2,747	2,802
Retail	11,333	13,554	14,388	15,686	3,173	3,416	3,491
Life Sciences, Hi tech an	9,801	11,382	12,324	13,371	2,676	2,937	2,997
Communication	11,173	12,720	14,686	15,980	2,982	3,473	3,541
<i>Financials</i>							
Sales	70,522	82,675	90,636	99,746	19,128	21,539	21,898
Sales Gr	3%	17%	10%	10%	12%	19%	14%
Ebdita	19,011	20,170	22,352	25,207	4,703	5,149	5,168
Ebdita Gr	2%	6%	11%	13%	3%	7%	10%
RPAT	16,029	15,411	16,667	18,697	3,612	4,078	3,902
Adj Net Profits	16,029	15,411	16,667	18,697	3,612	4,078	3,902
Profit Gr%	11%	-4%	8%	12%	4%	11%	8%
Ebdita Margin%	27.0%	24.4%	24.7%	25.3%	24.6%	23.9%	23.6%
Ebdit Margin%	24.3%	22.0%	22.3%	22.7%	22.3%	21.4%	21.1%
Net Profit Margin %	22.7%	18.6%	18.4%	18.7%	18.9%	18.9%	17.8%

Cons/ Fig in Rs Cr

❑ 1QFY20 sales are expected to clock 2.2 % in USD terms led by strong order book (TCV of 6.3 million in 4QFY19) and continued growth in some pockets of financial services, retail and Communication.

❑ Financial services which is major player for the company is expected to continue to post growth in 1QFY20 with continued strength in finacle products business however some impact may be from slow growth in US financial service.

❑ Communication which was solely the growth driver in 4QFY19 is expected to continue to grow as investments in the deployment of 5G will drive growth.

❑ Margin for 1QFY20 is expected to be impacted by 30 bps to 21.1 % (vs. 21.4% last quarter) mainly due to wage revision which is expected to impact the margin by 50 to 90 bps however some portion will mitigated by operational leverages .

❑ Attrition is expected to near term pressure as it will expect to gradually improve for the quarters.

Key Trackable this Quarter

- ❑ Outlook on multi- year deal wins, financial service trend and increased TCV wins for FY20
- ❑ Commentary on Attrition and margin improvement plan.
- ❑ Take on Adverse regulatory developments around current visa regime

We value the stock at 21x FY20E EPS. ACCUMULATE

LTI IN

CMP 1840
Target 2072
Upside 13%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	31.8	34.6	30.2	27.9
Roce%	29.5	39.7	35.4	33.2
P/E	20.7	19.3	19.5	17.5
P/B	6.0	6.0	5.4	4.5
EV/Ebdita	19.1	15.3	15.1	13.1

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Revenues (\$ m)	1,132	1,348	1,524	1,727	319	354	362
<i>BFSI</i>	3,451	4,465	4,732	5,223	1,058	1,131	1,138
<i>Manufacturing</i>	1,227	1,496	1,903	2,274	340	412	432
<i>CPG, Retail, Pharma & c</i>	990	1,382	1,544	1,768	295	360	368
<i>Energy& Utilities</i>	856	1,011	1,165	1,318	220	275	278
<i>Hi tech, Media</i>	782	1,092	1,320	1,591	244	308	316
<i>Financials</i>							
Sales	7,307	9,446	10,665	12,174	2,156	2,486	2,532
<i>Sales Gr</i>	12%	29%	13%	14%	29%	24%	17%
Ebdita	1,188	1,883	2,078	2,359	419	477	501
<i>Ebdita Gr</i>	-3%	59%	10%	14%	50%	63%	20%
Net Profits	1,113	1,516	1,634	1,823	361	379	392
<i>Profit Gr%</i>	15%	36%	8%	12%	35%	31%	9%
Ebdita Margin%	16.3%	19.9%	19.5%	19.4%	19.4%	19.2%	19.8%
Ebdit Margin%	14.1%	18.4%	18.0%	17.8%	17.7%	17.7%	18.2%
Net Profit Margin %	15.2%	16.0%	15.3%	15.0%	16.8%	15.2%	15.5%

Cons/ Fig in Rs Cr

❑ Sales are expected to post moderate growth in 1QFY20 (2.2%QoQ in USD terms) mainly led by weakness in top client .however some growth is expected to come from healthy deal pipeline .

❑ BFS which is largest vertical for the company is expected to see softness in 1QFY20 and FY20 (for near term) as the top clients show some tightness in budgets(largest client Citi bank), however we expect positive traction in capital markets and wealth management segment will support the growth going ahead.

❑ CPG, Retail & Pharma is expected to continue to post strong growth in 1QFY20 as project won in FY19, has been ramping up and expected to grow in 1QFY20 also.

❑ Margin are expected to improve 60bps on the back of lower pass through and higher working days however some portion will mitigated by higher visa cost .

❑ We expect the Pat for FY19 to be higher than 15% range which is above the guidance given by the management.

Key Trackable this Quarter

- ❑ Management outlook on top client .
- ❑ Commentary on BFS & CPG, Retail and continued deal wins to foster future growth.
- ❑ Outlook on margin going forward.

We value the stock at 22x FY20E EPS. ACCUMULATE

LTTS IN

CMP 1738
Target 1703
Upside -2%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	29.6	34.8	28.9	27.2
Roce%	27.0	35.4	32.0	30.1
P/E	25.1	21.3	21.5	19.5
P/B	6.6	6.6	5.9	4.7
EV/Ebdita	21.9	17.7	16.9	14.1

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Revenues (USD m)	581	724	830	965	169	191	197
<i>Segment revenue (\$mn)</i>							
Transportation	184	230	284	334	52	63	66
Industrial Products	132	145	164	199	34	37	38
Telecom & Hi-tech	150	197	195	214	49	50	49
Process Industry	75	103	126	144	23	28	30
Medical Devices	39	48	60	73	11	13	14
<i>Financials</i>							
Sales	3,747	5,078	5,804	6,797	1,152	1,343	1,377
Sales Gr	15%	36%	14%	17%	40%	27%	19%
Ebdita	576	915	1,055	1,242	196	248	249
Ebdita Gr	-2%	59%	15%	18%	56%	51%	27%
Net Profits	507	768	805	938	198	192	198
Profit Gr%	19%	52%	5%	16%	102%	21%	0%
Ebdita Margin%	15.4%	18.0%	18.2%	18.3%	17.0%	18.5%	18.1%
Ebbit Margin%	13.0%	16.0%	15.8%	15.7%	14.8%	16.4%	15.6%
Net Profit Margin %	13.5%	15.1%	13.9%	13.8%	17.2%	14.3%	14.4%

Cons/ Fig in Rs Cr

❑ LTTS 1QFY20 Sales are expected to post soft growth of 2.8%QoQ in USD terms mainly impacted by client specific issue in telecom.

❑ The telecom vertical which contributes 27% of overall revenue will see impact USD 5 to 6 mn revenue in1QFY FY20 (approx 4% impact in overall revenue in FY20) due to one large client issue. However other verticals like transportation, industrial, medical are expected to post strong growth in 1QFY20 on the back robust deal wins.

❑ EBIT margin is expected to decline by 30bps to 18.1%(without considering the new lease accounting treatment)primarily due to higher visa cost , absence of currency benefit and continued investment plan .However some portion will offset by better operational levers .

❑ For FY20, the company has guided of 14% to 16% revenue growth in USD factoring in the client specific issue that will impact FY20 revenue by 4%.Margin expected to improve in FY20despite continued investment in new technologies.

Key Trackable this Quarter

- ❑ Commentary on deals signed, ER&D budget and any further client specific issues.
- ❑ Margin levers for rest of the year.
- ❑ Revision in guidance (14% to 16% guided for FY20)

We value the stock at 22x FY20E EPS. NEUTRAL

CMP 990
Target 1200
Upside 21%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	15.3	20.4	20.2	21.1
Roce%	18.1	23.8	24.6	26.0
P/E	19.5	17.1	15.7	13.2
P/B	3.0	3.5	3.2	2.8
EV/Ebdita	15.3	14.0	12.3	10.0

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues (USD m)</i>	989	1,119	1,257	1,447	269	292	298
<i>Segment revenue (\$mn)</i>							
<i>Direct International</i>	691	763	867	1,008	186	199	205
<i>DXC / HP Business</i>	260	316	349	397	74	83	84
<i>Others</i>	38	39	41	43	9	10	10
<i>Financials</i>							
<i>Sales</i>	6,546	7,731	8,798	10,204	1,820	2,025	2,088
<i>Sales Gr</i>	8%	18%	14%	16%	19%	16%	15%
<i>Ebdita</i>	1,062	1,324	1,516	1,829	320	340	347
<i>Ebdita Gr</i>	10%	25%	15%	21%	39%	10%	8%
<i>Net Profits</i>	837	1,073	1,176	1,398	258	266	274
<i>Profit Gr%</i>	6%	28%	10%	19%	38%	12%	6%
<i>Ebdita Margin%</i>	16.2%	17.1%	17.2%	17.9%	17.6%	16.8%	16.6%
<i>Ebdt Margin%</i>	15.1%	16.1%	16.3%	16.9%	16.6%	15.8%	15.6%
<i>Net Profit Margin %</i>	12.8%	13.9%	13.4%	13.7%	14.2%	13.1%	13.1%

Fig in Rs Cr

- ❑ Sales are expected to improve by 2.3%QoQ in USD terms mainly on account continued traction from direct core channel (TCV wins 146 million). HP /DXC channel is expected to be growth driver during the quarter seeing the opportunities within the partnership (less than 10% contribution yet) .
- ❑ Digital Risk business which is key to Mphasis strength in BFSI domain is expected to post laggard performance in 1QFY20 (much below desired range of USD28-30m) due to significant wins in 4QFY19.
- ❑ EBIT margin is expected to remain muted by declining 20bps as compared to 4QFY19 on account of the higher visa cost, absence of benefit of rupee depreciation and continued investment however some part is expected to be mitigated by operational parameters like improvement in G&A.
- ❑ For the year FY20, we expect Margins to exit in higher end of guided 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 top customer performance and lease accounting change.
- ❑ Management commentary on macro challenges like talent crunch and DXC/HP partnership.

We value the stock at 19x FY20E EPS. BUY

MAST IN

CMP 473
Target 572
Upside 21%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	11.1	12.3	14.3	17.9
Roce%	15.2	18.1	16.5	37.1
P/E	16.5	10.3	9.9	8.2
P/B	2.1	1.5	1.4	1.2
EV/Ebdita	11.3	7.8	7.6	6.2

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenue by industry</i>							
UK	563	764	865	996	174	204.28	208
US	237	253	249	279	65	58.76	60
Others	17	17	17	18	5	4.06	4
TOTAL							
UK Growth	21.2%	35.5%	13.3%	15.1%	41.9%	26.6%	19.7%
US Growth	283.1%	6.6%	-1.5%	12.3%	15.0%	-2.1%	-7.8%
<i>Financials</i>							
Sales	817	1,033	1,131	1,293	244	267	272
Sales Gr	45%	26%	9%	14%	32%	19%	12%
Ebdita	100	132	144	168	31	35	36
Ebdita Gr	88%	32%	9%	17%	38%	27%	17%
Net Profits	70	100	111	134	22	27	28
Profit Gr%	90%	43%	11%	21%	53%	41%	24%
Ebdita Margin%	12.2%	12.7%	12.7%	13.0%	12.7%	13.2%	13.3%
Net Profit Margin %	8.6%	9.7%	9.8%	10.4%	9.2%	10.3%	10.2%

Cons/ Fig in Rs Cr

❑ 1QFY20 is expected to clock 11.6% YoY in INR terms mainly led by continued growth in UK business and revival in US business.

❑ Though growth will be seen in UK during the quarter however due to macro challenges like Brexit will continue to see led to dampening of UK private sector.

❑ US is nascent business for the company which was showing declining trend in recent few quarters , however we expect the segment to improve in 1QFY20 with new leadership and foray in new areas .

❑ Order backlog during the quarter increased 5.3%QoQ to Rs 544.9 crore or in euro 60.2 million as compared to 517.3 or euro 58.1million in Q3FY19. However we are confident of traction to improve in 1QFY20 on the back of continued client addition and increase in wallet share with existing customer.

❑ Margin is expected to remain muted to 13.2% for 1QFY19 due to continued investment plan and some pressure due to laggard growth in UK business.

Key Trackable this Quarter

- ❑ M&A plan for inorganic growth
- ❑ Management commentary on macro challenges and deal wins .

We value the stock at 12x FY20E EPS. BUY

MTCL IN

CMP 904
Target 1032
Upside 14%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	20.8	22.8	22.5	22.0
Roce%	18.7	27.1	28.1	27.5
P/E	21.4	20.6	17.5	15.6
P/B	4.4	4.7	3.9	3.4
EV/Ebdita	16.4	14.3	11.4	9.9

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenue USD mn</i>	847	1,002	1,142	1,294	242	262	270
<i>Revenue by industry</i>							
Retail, CPG & Manufact	197	223	250	272	56	58	60
BFSI	205	221	248	290	54	57	58
Technology, Media and	317	393	458	523	94	104	108
Travel & Hospitality	127	164	185	208	38	43	44
<i>Financials</i>							
Sales	5,463	7,022	7,992	9,052	1,640	1,839	1,892
<i>Sales Gr</i>	4%	29%	14%	13%	27%	26%	15%
Ebdita	741	1,065	1,282	1,455	231	280	265
<i>Ebdita Gr</i>	5%	44%	20%	14%	61%	19%	15%
Net Profits	570	754	847	953	158	198	174
<i>Profit Gr%</i>	36%	32%	12%	12%	30%	9%	10%
Ebdita Margin%	13.6%	15.2%	16.0%	16.1%	14.1%	15.2%	14.0%
Ebdit Margin%	10.4%	12.8%	13.3%	13.2%	11.6%	12.9%	11.1%
Net Profit Margin %	10.4%	10.7%	10.6%	10.5%	9.6%	10.8%	9.2%

Cons/ Fig in Rs Cr

❑ Mindtree is expected to post 3.4%QoQ revenue in USD terms in 1QFY20. We expect the growth to be driven through deal pipeline(won USD242mn in 4QFY19), growth in digital business (30%+ YoY) and continued traction from travel, Hi-tech and Retail/CPG verticals.

❑ BFSI is expected to start to post growth in 1QFY20 however the growth will be slower than the other verticals.

❑ Digital business (~ 49.5% of revenue) is expected to continue to grow led by robust deal pipeline (TCV of Digital deals was 52% of the total at USD126m). Larger deal wins are expected in 1QFY20 and FY20 as management is seeing expansion in digital deal-size and demand environment remain positive for digital business.

❑ Margin for 1QFY20 is expected to dip by 120bps mainly impacted by salary hike and absence of currency benefit. However some portion will be mitigated by operational levers like utilization.

❑ Due to less visas petition filed by the company, Visas cost impact will be insignificant in 1QFY20.

❑ For FY20, management has guided of low teens growth in constant currency based on the macroeconomic and technology growth.

Key Trackable this Quarter.

- ❑ Commentary on L&T stake and management position on board
- ❑ Management outlook on macro challenges, BFSI segment and top client behavior.
- ❑ 100-120 bps improvement in FY20 and attrition concern

We value the stock at 20x FY20E EPS. ACCUMULATE

NITEC IN

CMP 1349
Target 1497
Upside 11%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	15.7	14.5	17.9	17.4
Roce%	18.3	23.9	24.1	25.0
P/E	19.0	20.2	18.0	15.1
P/B	3.0	3.9	3.4	2.9
EV/Ebdita	9.8	11.8	10.9	9.0

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues growth(usd)</i>	462	528	598	674	124	138	141
<i>Vertical Mix(mn \$)</i>							
<i>BFSI</i>	197	236	264	300	56	61	62
<i>Travel & Trans.</i>	126	142	165	188	34	37	39
<i>Mfg, Med & Oth</i>	138	149	169	186	34	40	40
<i>Financials</i>							
<i>Sales</i>	2,991	3,676	4,188	4,754	825	972	989
<i>Sales Gr</i>	7%	23%	14%	14%	16%	23%	20%
<i>Ebdita</i>	501	649	723	852	132	172	155
<i>Ebdita Gr</i>	4%	29%	11%	18%	21%	18%	18%
<i>Net Profits</i>	280	403	461	551	86	106	101
<i>Profit Gr%</i>	3%	44%	14%	20%	67%	23%	18%
<i>Ebdita Margin%</i>	16.7%	17.6%	17.3%	17.9%	15.9%	17.6%	15.7%
<i>Ebdt Margin%</i>	12.5%	14.2%	14.1%	14.9%	12.2%	14.5%	12.3%
<i>Net Profit Margin %</i>	9.4%	11.0%	11.0%	11.6%	10.4%	10.9%	10.2%

Cons/ Fig in Rs Cr

❑ 1QFY20 is expected to moderate quarter for the NIITTECH. We expect the sales to clock 2.5%QoQ on back of strong deal order intake (FY19 was USD646m, up 27% YoY), continued traction in BFS and strong revival in insurance.

❑ However some portion of revenue in 1QFY20 will be impacted by disinvestment of GIS business.

❑ BFS is expected to continue to post growth in 1QFY20, driven by continued traction from buy side capital market. Insurance (largest vertical) which showed a weakness in 4QFY19 is expected to revive in 1QFY20 with closure of deferred contract.

❑ We expect travel and transport to post moderate growth in 1QFY210 as well in FY20 as demand in airlines (40% of Travel) is showing robust growth.

❑ Margin is expected to decline by 190bps owing to wage revision and higher visa cost. Discontinuation of the higher margin GIS business will also drag some margins in 1QFY20.

❑ 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.

Key Trackable this Quarter

- ❑ Management commentary on macro challenges and top client performance
- ❑ Expectation to sign at least two large deals every quarter.
- ❑ Commentary on Inorganic growth through M&A and Margin levers for FY20.

We value the stock at 20x FY20E EPS. ACCUMULATE

PSYS IN

CMP **617**
Target **702**
Upside **14%**
Rating **BUY**

	FY18	FY19	FY20E	FY21E
Roe%	16.0	15.7	16.2	16.6
Roce%	15.4	17.8	18.6	20.1
P/E	18.0	14.3	12.3	11.1
P/B	2.7	2.1	2.0	1.7
EV/Ebdita	12.1	8.8	7.6	6.4

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues (USD m)</i>	471	481	509	563	124	118	122
<i>Revenue by industry</i>							
Services	1,330	1,439	1,537	1,676	346	371	373
Digital	645	763	892	1,026	179	203	210
Alliance	838	975	916	1,016	268	206	220
Accelerite	220	189	217	246	42	52	52
<i>Financials</i>							
Sales	3,034	3,366	3,563	3,964	834	832	855
<i>Sales Gr</i>	5%	11%	6%	11%	15%	11%	2%
Ebdita	469	556	605	694	140	121	142
<i>Ebdita Gr</i>	1%	19%	9%	15%	34%	11%	1%
Net Profits	323	352	386	430	88	84	92
<i>Profit Gr%</i>	7%	9%	10%	11%	17%	14%	5%
Ebdita Margin%	15.5%	16.5%	17.0%	17.5%	16.8%	14.5%	16.6%
Ebdit Margin%	10.2%	11.9%	12.5%	13.1%	12.0%	10.0%	11.9%
Net Profit Margin %	10.6%	10.4%	10.8%	10.8%	10.5%	10.2%	10.8%

Cons/ Fig in Rs Cr

❑ Persistent revenue growth for 1QFY20 is expected to post 3.4%QoQ in USD terms mainly led by strength in IP led revenue and continued growth in digital .

❑ Digital business(contributes 22.9% of total revenues) which bounce backed in 3QFY19, we expect growth momentum in digital business to continue in Q1FY2020 driven by ramps up new deals and also as demand for new-age technologies improves among existing customers.

❑ Alliance business is expected to post strong growth in 1QFY20 as seasonality will be seen IBM CE/CLM and other IPs.

❑ Reseller business which showed weakness in 4QFY19 is expected to show better growth inFY20 as lot of opportunity is seen there.

❑ EBIT margin is expect to improve 180bps on account of strength from IP revenue and continued improvement in operational parameters like onshore/offshore mix however some portion is expected to mitigated by invest in hiring to meet the supply constraints and higher visa cost .

❑ For FY20 , The management has guided of steady margin for FY20 seeing the improvement in pricing and benefit from more off shoring work.

Key Trackable this Quarter

- ❑ Initiative taken by new leadership team (new Ceo).
- ❑ Commentary on IP led revenue and new wins in digital business.
- ❑ Margin levers for FY20.

We value the stock at 14x FY20E EPS. BUY

TELX IN

CMP 898
Target 911
Upside 1%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	37.0	34.5	29.8	27.6
Roce%	49.4	46.4	39.6	35.6
P/E	25.6	20.7	17.7	15.4
P/B	8.3	6.4	4.8	3.8
EV/Ebdita	17.5	14.3	12.2	10.6

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Software Development	1329	1543	1729	1946	369	389	404
Systems Integration	57	54	55	55	13	16	13
<i>Segments(in cr)</i>							
Software Development							
Embedded Prod Design	1,160	1,377	1,560	1,774	328	347	363
Indl Design & Visualis.	169	166	170	171	41	42	41
Systems Integration	57	54	55	55	13	16	13
<i>Financials</i>							
Sales	1,386	1,597	1,784	2,001	382	405	417
Sales Gr	12%	15%	12%	12%	18%	8%	9%
Ebdita	346	415	450	504	107	98	101
Ebdita Gr	18%	20%	8%	12%	45%	4%	-5%
Net Profits	240	290	315	363	71	71	73
Profit Gr%	39%	21%	9%	15%	41%	1%	3%
Ebdita Margin%	25.0%	26.0%	25.2%	25.2%	27.9%	24.3%	24.3%
Ebdit Margin%	23.1%	24.4%	23.5%	23.4%	26.3%	22.7%	22.5%
Net Profit Margin %	17.3%	18.2%	17.7%	18.2%	18.5%	17.6%	17.4%

Std/ Fig in Rs Cr

❑ Tata Elxsi 1QFY20 performance is expected to continue see softness with slowdown in auto industry .We expect the revenue growth to be 9.2%YoY(Vs. earlier growth of 18% and above) mainly due to weakness in passenger car which will damper the EPD growth .

❑ JLR (largest account) has been dragging Tata Elxsi performance as its share of revenue is declining from 24% in 1QFY19 to 18% in 4QFY19. We expect this portfolio to remain under pressure in 1HFY20. Also, delay in new projects is expected to keep the transportation vertical challenged in the near term.

❑ Though automotive segment is seeing slowdown (part of EPD) however we see some growth coming from communication (traction from 5G in the areas of network transformation and testing) and medical business as company is won some new customers.

❑ Growth in the Industrial Design segment has lagged company average; we see that expansion in Industrial Business remains a challenge in FY20.

❑ Margins for 1QFY20 is expected to remain flat due to continued investment in sale force and drag in major segments .We expect the margin to remain in 25% level for FY20.

Key Trackable this Quarter

- ❑ Expansion in new markets like china, Southeast Asia.
- ❑ Key initiative of new CEO
- ❑ Management response on Brexit, macro challenges and revenue visibility for FY20.

We value the stock at 18x FY20E EPS. NEUTRAL

TCS IN

CMP 2239
Target 2203
Upside -2%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	30.2	36.2	35.1	32.6
Roce%	34.4	41.3	40.5	38.0
P/E	21.1	23.8	24.4	22.0
P/B	6.4	8.4	7.9	6.6
EV/Ebdita	16.6	18.8	19.2	17.0

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues growth(%)</i>		10%	10%	10%	10%	9%	10%
<i>Revenue by industry</i>							
BFSI	6,096	6,477	7,216	8,020	1,571	1662.276	1,712
Manufacturing	1,417	1,511	1,621	1,751	369	388.584	396
Retail and Consumer bu	3,113	3,445	3,759	4,137	838	874.314	892
Communication, media	2,863	3,037	3,253	3,635	748	772	787
Others	5,600	6,444	7,252	7,899	1,525	1,700	1,746
TOTAL	19,089	20,913	23,100	25,441	5,051	5,397	5,534
<i>Financials</i>							
Sales	123,104	146,463	161,703	179,358	34,261	38,010	38,735
<i>Sales Gr</i>	4%	19%	10%	11%	16%	19%	13%
Ebdita	32,516	39,506	43,322	48,313	9,071	10,074	10,071
<i>Ebdita Gr</i>	1%	21%	10%	12%	22%	16%	11%
Net Profits	25,880	31,562	34,455	38,239	7,362	8,152	8,039
<i>Profit Gr%</i>	-2%	22%	9%	11%	24%	18%	9%
Ebdita Margin%	26.4%	27.0%	26.8%	26.9%	26.5%	26.5%	26.0%
Ebdit Margin%	24.8%	25.6%	25.4%	25.6%	25.0%	25.1%	24.6%
Net Profit Margin %	21.0%	21.5%	21.3%	21.3%	21.5%	21.4%	20.8%

Cons/ Fig in Rs Cr

❑ Sales are expected to clock 2.5% in USD terms mainly led by strong order book (USD 6.2billion in 4QFY19) and continued growth in retail segment. However some growth is expected to mitigate by some laggard growth in BFSI due to challenges in capital market.

❑ Though some challenges pertains around BFSI capital market however we do expect growth to be seen with in 1QFY20 with higher order booking.

❑ Retail is expected to look positive in 1QFY20 as more demand is seeing in industry with the business shifts away from stores / traditional retailer to web, social media.

❑ Regional market which post platform revenues is expected to continue to deliver strong growth in 1QFY20 too on the back of execution of past deal wins.

❑ Margins for quarter is expected to impacted by 50 bps due to wage revision(100 to 150 bps impact), higher visa cost however some portion will be offset with better operation execution.

Key Trackable this Quarter

- ❑ Outlook on multi- year deal wins, financial service trend and increased TCV wins for FY20
- ❑ Commentary on Attrition and margin improvement plan.
- ❑ Take on Adverse regulatory developments around current visa regime

We value the stock at 24x FY20E EPS. NEUTRAL

TECHM IN

CMP **705**
Target **814**
Upside **15%**
Rating **BUY**

	FY18	FY19	FY20E	FY21E
Roe%	21.5	21.9	22.0	22.8
Roce%	16.5	21.8	22.0	22.1
P/E	16.5	17.8	14.7	13.2
P/B	3.3	3.8	3.1	2.9
EV/Ebdita	13.2	11.9	10.1	9.4

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues growth(%)</i>	6%	13%	7%	9%	13%	13%	13%
<i>Revenue by industry</i>							
Communication	2,066	2,050	2,212	2,394	485	541	530
Enterprise	2,706	2,923	3,095	3,359	739	728	745
TOTAL	4,772	4,973	5,307	5,753	1,224	1,269	1,276
<i>Financials</i>							
Sales	30,773	34,742	37,146	40,562	8,276	8,892	8,929
<i>Sales Gr</i>	6%	13%	7%	9%	13%	10%	8%
Ebdita	4,710	6,337	6,663	7,083	1,357	1,639	1,536
<i>Ebdita Gr</i>	13%	35%	5%	6%	45%	16%	13%
Net Profits	3,786	4,289	4,611	5,124	899	1,127	1,031
<i>Profit Gr%</i>	33%	13%	8%	11%	14%	-8%	15%
Ebdita Margin%	15.3%	18.2%	17.9%	17.5%	16.4%	18.4%	17.2%
Ebbit Margin%	11.8%	15.0%	14.8%	14.5%	13.0%	15.4%	13.9%
Net Profit Margin %	12.3%	12.3%	12.4%	12.6%	10.9%	12.7%	11.5%

Cons/ Fig in Rs Cr

❑ TECHM for 1QFY20 is expected to post muted of 0.5% in USD terms on account of slowdown in telecom growth and weakness in enterprise vertical due to delay in ramping of deals.

❑ Communication which saw a turnaround in FY19 is expected to be slow in 1QFY20 due to seasonality in Comviva business .However we expect the growth to gear up from 2QFY20 on back of deal pipeline.

❑ 5G is required to properly play out around 4QFY20, Growth in Communications does not factor in any tailwinds from the 5G opportunity.

❑ Enterprise vertical is expected to remain volatile in 1QFY20 as some bit of slowdown will be seen in manufacturing due to macro challenges however some growth will come from retail and BFS.

❑ After the continued seven to eight quarter growth ,EBIT margin are expected to deteriorate by 120 bps to 13.9% mainly impacted by seasonality in Comviva, the H1B fees and the wage hikes which is all coming together in 1QFY20.

❑ For FY20, management 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.

Key Trackable this Quarter

- ❑ Commentary on capex for telecom industry and 5G play out.
- ❑ Management comment on guidance of 6% to 8% cc growth in enterprise segment.
- ❑ Margin outlook for FY20 and the leverages that will play out.

We value the stock at 17x FY20E EPS. BUY

CMP **282**
Target **308**
Upside **9%**
Rating **NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	16.1	17.3	17.6	17.9
Roce%	15.6	17.3	19.2	19.0
P/E	15.9	17.0	16.5	15.0
P/B	2.7	2.7	2.9	2.5
EV/Ebdita	13.0	12.7	11.7	10.3

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues (USD m)</i>	5,876	8,120	8,604	9,306	1,989	2,076	2,083
<i>Segment revenue (in crore)</i>							
<i>IT Services</i>	52,841	57,329	60,225	65,610	13,700	14,587	14,583
<i>IT Products</i>	1,800	1,231	1,024	809	353	276	248
Total	54,641	58,560	61,249	66,420	14,054	14,862	14,831
<i>Financials</i>							
<i>Sales</i>	54,487	59,019	61,746	66,420	14,231	15,161	14,988
<i>Sales Gr</i>	-2%	8%	5%	8%	4%	10.1%	5%
<i>Ebdita</i>	10,387	11,617	13,212	14,005	2,687	3,260	3,093
<i>Ebdita Gr</i>	-8%	12%	14%	6%	-1%	33%	15%
<i>Net Profits</i>	8,003	9,018	9,781	10,747	2,094	2,496	2,370
<i>Profit Gr%</i>	-6%	13%	8%	10%	1%	39%	13%
<i>Ebdita Margin%</i>	19.1%	19.7%	21.4%	21.1%	18.9%	21.5%	20.6%
<i>Ebdit Margin%</i>	15.2%	16.4%	18.2%	18.0%	15.8%	17.8%	17.3%
<i>Net Profit Margin %</i>	14.7%	15.3%	15.8%	16.2%	14.7%	16.5%	15.8%

Fig in Rs Cr

❑ 1QFY20 is seasonally a soft quarter for WIPRO, thus we expect sales in IT service to post muted growth of 0.4% QoQ in USD terms mainly impacted by delay in projects and typical seasonality (productivity benefits which get passed on to customers in legacy run-the business contracts).

❑ BFS is expected to see some softness in 1QFY20 due to delay in renewing of deal signing. Even Manufacturing and Healthcare is expected to remain volatile during the 1HFY20. Communication is expected to drive growth as Investments in 5G will drive some traction.

❑ For 1QFY20, Management has guided a sequential growth outlook of -1% to 1% for IT Services which is lower than the last quarter. The outlook factors completion of certain programs and delayed in start of fresh .However the company is confident of growth trajectory to improve from 2QFY20 onwards.

❑ IT Products performance is expected to remain volatile in 1QFY20 as management focus is now to run tight and profitable business.

❑ Overall EBIT Margin is expected to dip by 50 bps to 17.3% on account of wage revision, absence of currency benefit and strict visa regime.

Key Trackable this Quarter

- ❑ Commentary on macro challenges and outlook on BFS vertical.
- ❑ Margin levers for FY20
- ❑ Commentary on large deal wins for FY20

We value the stock at 18x FY20E EPS. NEUTRAL

ZENT IN

CMP 255
Target 252
Upside -1%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	15.7	17.6	17.0	19.2
Roce%	14.8	16.0	16.4	18.0
P/E	16.4	16.4	16.2	12.2
P/B	2.4	2.7	2.6	2.2
EV/Ebdita	10.5	10.8	10.3	8.2

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
<i>Revenues (in usd term)</i>	482	567	654	733	135	150	157
<i>Revenue (in crore)</i>							
Application	2,592	3,347	3,904	4,427	769	895	933
IMS	517	619	677	743	136	162	164
<i>Financials</i>							
Sales	3,108	3,966	4,581	5,170	905	1,057	1,097
Sales Gr	2%	28%	16%	13%	23%	30%	21%
Ebdita	365	479	561	680	116	130	140
Ebdita Gr	-4%	31%	17%	21%	55%	36%	21%
Net Profits	246	319	355	469	84	83	91
Profit Gr%	3%	29%	11%	32%	77%	13%	8%
Ebdita Margin%	11.7%	12.1%	12.3%	13.2%	12.9%	12.3%	12.8%
Ebdit Margin%	9.6%	9.8%	10.0%	10.4%	10.8%	9.9%	10.4%
Net Profit Margin %	7.9%	8.0%	7.7%	9.1%	9.3%	7.8%	8.3%

Cons/ Fig in Rs Cr

□ Sales are expected to post strong growth of 4.5%QoQ in 1QFY20 mainly on account of robust order book (USD750mn in FY19) , continued growth in core business(Application Services) and strong growth in digital business.Growth will also be aided as the company has disinvestment from ROW business.

□ Zensar TCW now stands at USD750 million and even covers some deal of USD20 million , we expect traction to continue in 1QFY20 .

□ IMS is expected to continue to post strong growth as large deal wins will lead to growth in coming quarters (~2.5 mn USD quarterly run-rate mainly coming from Cloud, Digital led next gen CI).

□ Vertical wise , insurance business to see laggard as the renewal will happen in a couple of quarter's time. Retail should improve after a couple of quarters as the pipeline has started to build up. Hi tech is expected to continue to post strong growth in 1QFY20 with Cynosure and indigo slate supporting the growth

□ Margin for 1QFY20 is expected to improve 50bps to 12.8% mainly led by operational parameters like utilization, increase in digital proportion and some cushion from disinvestment of RoW. However supply pressure on inside will mitigate some portion of the margins

Key Trackable this Quarter

- Continued increase in share of Digital revenue.
- Management commentary on Deal wins and top client renewals
- Margin levers for FY20

We value the stock at 16x FY20E EPS. NEUTRAL

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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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 Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || 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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