

# India Equity Analytics

Results Preview Q3FY20 - Technology

# Narnolia®

**Analyst**

Niharika Ojha

[niharika@narnolia.com](mailto:niharika@narnolia.com)

**CMP** 442  
**Target** 462  
**Upside** 5%  
**Rating** NEUTRAL

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	18.1	19.4	16.2	17.1
<b>Roce%</b>	18.8	20.5	17.6	18.6
<b>P/E</b>	19.2	15.0	11.2	9.6
<b>P/B</b>	3.4	2.8	1.7	1.6
<b>EV/Ebdita</b>	13.1	10.4	5.8	4.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenues (USD m)</i>	607	660	654	715	165	164	164
<i>Segment revenue (in mn\$)</i>							
<i>Mfg and industrial</i>	319	348	371	399	86	91	92
<i>Utilities,geo and comm</i>	226	232	196	222	58	49	50
<i>DLM</i>	62	80	87	94	21	24	21
<i>Financials</i>							
<i>Sales</i>	3,914	4,618	4,600	5,077	1,188	1,159	1,153
<i>Sales Gr%</i>	9%	18%	0%	10%	21%	-2%	-3%
<i>Ebdita</i>	535	633	687	773	174	160	173
<i>Ebdita Gr%</i>	12%	18%	9%	12%	24%	-1%	-1%
<i>Net Profits</i>	403	477	435	510	92	98	106
<i>Profit Gr%</i>	18%	18%	-9%	17%	6%	-23%	14%
<i>Ebdita Margin%</i>	13.7%	13.7%	14.9%	15.2%	14.7%	13.8%	15.0%
<i>Ebit Margin%</i>	11.0%	11.3%	10.7%	11.3%	12.3%	9.6%	10.6%
<i>Net Profit Margin %</i>	10.3%	10.3%	9.5%	10.1%	7.8%	8.4%	9.2%

Conso/ Fig in Rs Cr

- ❑ Cyient's 3QFY20 sales are expected remain muted (-0.4%QoQ in USD term) owing to seasonality
- ❑ Service business is expected to post a soft growth of 1.3%QoQ during the quarter. Communication (22%) and medical segment (2.4%) will drive growth in 3QFY20 while Portfolio (11%) and Semiconductor (5%) will continue to face challenges. Aerospace & Defense segment (34% of rev) which has been struggling to grow due to challenges faced by Top-client is expect to grow but the growth will remain sluggish in 3QFY20.
- ❑ Management now expects sharp pick-up in Services business to happen only in Q4FY20.
- ❑ Ebit margin is expected to improve 100bps to 10.6% owing to absence of wage hike, cost optimization benefits and better operational efficiency. However some portion will offset by furlough (approx impacted 100bps) and continued investment in NBA programs.
- ❑ PAT for the quarter is expected to improve 8.4%QoQ, primarily led by margin pickup and higher other income.

### Key Trackable this Quarter

- ❑ Commentary on deal wins, Challenges in top accounts, progress in Aerospace segment and 5G deployment in Communication.
- ❑ Margin levers for FY20E

**We value the stock at 10x FY21E EPS. NEUTRAL**

## INFO IN

**CMP** 736  
**Target** 919  
**Upside** 25%  
**Rating** BUY

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	24.8	23.7	23.8	24.9
<b>Roce%</b>	24.5	23.3	23.4	24.5
<b>P/E</b>	15.4	20.9	19.1	16.9
<b>P/B</b>	3.8	5.0	4.5	4.2
<b>EV/Ebdita</b>	14.0	16.9	14.8	13.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenue USD mn</i>	10,936	11,799	12,963	14,145	2,987	3,210	3,269
<i>Revenue by industry</i>							
Financial services	23,214	26,473	28,943	32,038	971	1,024	1,039
Manufacturing	6,682	8,140	9,193	10,166	302	324	334
E&U	8,289	10,393	12,024	13,369	382	421	433
Retail	11,333	13,554	13,935	15,004	490	488	493
Life Sciences, Hi tech an	12,124	13,672	15,181	16,794	487	533	546
Communication	8,851	10,431	12,073	13,058	355	421	425
<i>Financials</i>							
Sales	70,522	82,675	91,349	1,00,428	21,400	22,629	23,279
Sales Gr%	3%	17%	10%	10%	20%	10%	9%
Ebdita	19,011	20,170	22,732	25,880	4,959	5,639	5,890
Ebitda Gr%	2%	6%	13%	14%	3%	5%	19%
Net Profits	16,029	15,411	16,381	18,635	3,610	4,037	4,190
Profit Gr%	11%	-4%	6%	14%	-30%	-2%	16%
Ebdita Margin%	27.0%	24.4%	24.9%	25.8%	23.2%	24.9%	25.3%
Ebit Margin%	24.3%	22.0%	21.7%	22.8%	20.5%	21.7%	22.1%
Net Profit Margin %	22.7%	18.6%	17.9%	18.6%	16.9%	17.8%	18.0%

Infosys is expected to post moderate growth of 1.9%QoQ in USD terms. The growth is expected to impact due to seasonality and some softness in BFSI segment. Conso/ Fig in Rs Cr

BFSI is expected to remain bit slow as compared to last quarter growth (4.2%QoQ) mainly owing to weakness in European banks and some weakness in Capital market where the company operates in .However insurance will continue to support the growth in 3QFY20.

Retail is expected to remain volatile due to macro weakness while Energy and Utilities, Telecom and Hi-tech will drive growth in 3QFY20.

EBIT margin is expected to improve 40bps to 22% primarily led by currency benefit and better operational efficiency(automation, steady sub-con).

Subcontracting is expected to remain in higher end of 6.5-7.5% in 3QFY20 also (7.3% last quarter) and is expected to gradual downsize in coming quarters but still remain in the range of 6.5-7.5% of revenues for FY20

PAT for the quarter is expected 3.8%QoQ to Rs 4190 crore ; primarily owing to higher other income (including one off in 3QFY19 worth of Rs451 on reduction in the fair value of panaya and further depreciation charged on it worth Rs 88 crore)

### Key Trackable this Quarter

- Management commentary on macro issue , Multiyear deals wins and top client performance .
- Update on whistleblower case and Issues in certain pockets impacting the verticals (retail, BFSI).
- Commentary on Attrition and margin outlook

**We value the stock at 21x FY21E EPS. BUY**

HCLT IN

**CMP** 574  
**Target** 668  
**Upside** 16%  
**Rating** BUY

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	31.8	33.5	29.9	31.0
<b>Roce%</b>	28.1	28.9	27.3	26.1
<b>P/E</b>	15.5	14.6	15.0	12.9
<b>P/B</b>	3.7	3.5	3.2	2.6
<b>EV/Ebdita</b>	11.7	10.3	9.0	7.7

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenue USD mn</i>	7,837	8,633	10,089	11,149	2,202	2,486	2,599
<i>Revenue by industry(*)</i>							
IT and Business services			50,436	53,052		1,775	1,793
Engineering and R&D services			11,938	13,274		420	429
Products & Platforms			8,833	12,831		291	378
<i>Financials</i>							
Sales	50,569	60,427	71,207	79,157	15699	17,527	18,508
<i>Sales Gr%</i>	6%	19%	18%	11%	23%	18%	18%
Ebdita	11,246	13,926	16,583	18,599	3632	4,259	4,405
<i>Ebdita Gr%</i>	8%	24%	19%	12%	30%	23%	21%
Net Profits	8,722	10,120	10,369	12,076	2,605	2,651	2,743
<i>Profit Gr%</i>	1%	16%	2%	16%	26%	5%	5%
Ebdita Margin%	22.2%	23.0%	23.3%	23.5%	23.1%	24.3%	23.8%
Ebit Margin%	19.5%	19.6%	19.0%	19.3%	19.7%	20.0%	19.5%
Net Profit Margin %	17.2%	16.7%	14.6%	15.3%	16.6%	15%	14.8%

\*Reorganized new business segments effective from 1QFY20

Conso/ Fig in Rs Cr

- ❑ HCLTECH is expected to post strong growth of 4.6% QoQ in USD terms. The growth is expected to primarily come from HCL software (Product and Platform) and ramp of deal won in 2QFY20.
- ❑ HCL software will see seasonality in license sales in December and thus expects an uptick in 3QFY20. While Engineering and R&D services will see growth primarily supported by Sankalp Semiconductor.
- ❑ EBIT for the quarter is expected to decline 50bps to 19.5% primarily owing to partial wage, higher amortization while some portion will offset by better margins from HCL software.
- ❑ ETR for the quarter and for the year is expected to be at 24% (higher in annualized rate of 20%) with the consummation of IBM product.
- ❑ PAT for the quarter is expected to grow 3.5% QoQ to Rs2743, mainly led by lower margin execution.
- ❑ For FY20, the company has raised its guidance in 2QFY20 with revenue growth of 15.0% to 17.0% in cc terms. It now expects organic growth to be 10% to 11% and inorganic growth of ~6% for FY20E.

## Key Trackable this Quarter

- ❑ Management commentary on macro environment and Product & Platform performance.
- ❑ Management update on margin guidance (18.5% to 19.5%).

**We value the stock at 15x FY21E EPS. BUY**

LTI IN

**CMP** 1822  
**Target** 2000  
**Upside** 10%  
**Rating** ACCUMULATE

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	31.8	34.6	28.4	27.2
<b>Roce%</b>	29.5	39.7	32.6	32.3
<b>P/E</b>	20.7	19.3	20.8	18.2
<b>P/B</b>	6.0	6.0	5.4	4.5
<b>EV/Ebdita</b>	19.1	15.3	15.6	13.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Revenues (\$ m)	1,132	1,348	1,488	1,674	347	364	376
<i>BFSI</i>	3,451	4,465	4,789	5,354	163	167	172
<i>Manufacturing</i>	1,227	1,496	1,698	1,991	54	60	63
<i>CPG, Retail, Pharma &amp; c</i>	990	1,382	1,596	1,790	37	42	44
<i>Energy&amp; Utilities</i>	856	1,011	1,238	1,461	37	44	45
<i>Hi tech, Media</i>	782	1,092	1,164	1,287	55	52	53
<i>Financials</i>							
Sales	7,307	9,446	10,485	11,883	2,473	2,571	2,670
<i>Sales Gr%</i>	12%	29%	11%	13%	31%	10%	8%
Ebdita	1,188	1,883	2,002	2,363	509	466	494
<i>Ebdita Gr%</i>	-3%	59%	6%	18%	58%	-3%	-3%
Net Profits	1,113	1,516	1,520	1,735	376	360	376
<i>Profit Gr%</i>	15%	36%	0%	14%	33%	-10%	0%
Ebdita Margin%	16.3%	19.9%	19.1%	19.9%	20.6%	18.1%	18.5%
Ebit Margin%	14.1%	18.4%	16.6%	17.4%	19.1%	15.5%	16.1%
Net Profit Margin %	15.2%	16.0%	14.5%	14.6%	15.2%	14.0%	14.1%

Conso/ Fig in Rs Cr

- ❑ LTI is expected to post strong growth of 3.4%QoQ in USD terms led by ramp of Large deal won in Insurance and Manufacturing verticals.
- ❑ BFS vertical is expected to bounce back in 3QFY20 after being muted in 2QFY20 mainly on account of ramp up of earlier announced large deal and uptick in top account.
- ❑ Also High-Tech, Media & Entertainment which was dragger in 2QFY20 is expected to bounce back in 3Q as the challenges have bottomed put
- ❑ Manufacturing & Insurance verticals will remain the growth driver for 3QFY20 and for 2HFY20 primarily supported by ramp-up of large deals (USD 100mn large deal TCV won in Mfg, Re-insurer in 4Q).
- ❑ EBIT for the quarter will improve 60bps owing to absence of wage hike, currency movement benefit and better operational efficiency (utilization) . However some portion will be offset due to continued investment
- ❑ We expect the Pat for 3QFY20 to post 4.4%QoQ growth to Rs 376 crore owing to higher ETR.

### Key Trackable this Quarter

- ❑ Commentary on BFS & CPG, Retail and continued deal wins to foster future growth
- ❑ Margin levers for 4QFY20 and guidance for FY21E
- ❑ Update on Investigation by US Immigration & Custom Enforcement (ICE)

**We value the stock at 20x FY21E EPS. ACCUMULATE**

LTTS IN

**CMP** 1509  
**Target** 1753  
**Upside** 16%  
**Rating** BUY

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	29.6	34.8	29.3	26.5
<b>Roce%</b>	27.0	35.4	33.5	31.3
<b>P/E</b>	25.1	21.3	19.2	17.2
<b>P/B</b>	6.6	6.6	5.1	4.1
<b>EV/Ebdita</b>	21.9	17.7	13.5	11.5

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Revenues (USD m)	581	724	798	908	186	198	200
<i>Segment revenue (\$mn)</i>							
<i>Transportation</i>	184	230	277	313	59	69	69
<i>Industrial Products</i>	132	145	155	183	38	38	38
<i>Telecom &amp; Hi-tech</i>	150	197	165	173	50	41	40
<i>Process Industry</i>	132	103	130	151	27	32	33
<i>Medical Devices</i>	39	48	70	88	13	17	18
<i>Financials</i>							
Sales	3,747	5,078	5,630	6,488	1,317	1,402	1,420
Sales Gr%	15%	36%	11%	15%	36%	11%	8%
Ebdita	576	915	1,141	1,321	242	283	285
Ebdita Gr%	-2%	59%	25%	16%	63%	24%	18%
Net Profits	507	768	816	913	186	206	198
Profit Gr%	19%	52%	6%	12%	47%	8%	6%
Ebdita Margin%	15.4%	18.0%	20.3%	20.4%	18.4%	20.2%	20.1%
Ebit Margin%	13.0%	16.0%	17.1%	17.1%	16.5%	17.0%	16.9%
Net Profit Margin %	13.5%	15.1%	14.5%	14.1%	14.1%	14.7%	13.9%

Conso/ Fig in Rs Cr

- LTTS is expected to post muted growth of 1.1%QoQ in USD terms due to delay in decision making and client specific challenges in near term. However growth trajectory to return in 4Q.
- Transportation (35% of rev)vertical which has been the major performer for the company in last few quarter (+20%YoY) is now expected to get moderated in 3QFY20 owing to challenges faced by one of the client due to US-China Trade war. Also Telecom & Hi-Tech vertical which has been dampening growth in last few quarters is expected to remain flat in 3Q( client separation impacting the revenues from 1Q).
- Medical and Process Industry is expected to continue its strong growth trajectory in 3Q led by deal wins ,
- ON tax rate we expect recent cut in Indian tax rate will have no major change on the ETR, thus LTTS will make no major change immediately and will migrate to the new tax regime after 2 years
- PAT for the quarter is expected to decline 4.4%QoQ to Rs 197crore , primarily led by lower other income and soft revenue.

## Key Trackable this Quarter

- Management update on macro challenges, client performance and ramp of deal wins
- Update on 10% revenue guidance for FY20
- Margin levers for next quarter and FY21E

**We value the stock at 20x FY21E EPS. BUY**

MAST IN

**CMP** 425  
**Target** 437  
**Upside** 3%  
**Rating** NEUTRAL

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	11.1	12.5	13.0	15.3
<b>Roce%</b>	15.2	18.1	14.6	15.1
<b>P/E</b>	16.5	10.3	10.0	8.8
<b>P/B</b>	2.1	1.5	1.3	1.1
<b>EV/Ebdita</b>	11.3	7.8	7.6	6.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenue by industry ( in Rs)</i>							
UK	563	764	707	755	199	174	175
US	237	253	264	303	62	65	67
Others	17	17	18	21	4	5	5
<b>TOTAL</b>	<b>817</b>	<b>1,033</b>	<b>989</b>	<b>1,079</b>	<b>265</b>	<b>244</b>	<b>246</b>
<i>Financials</i>							
Sales	817	1,033	989	1,079	265	244	246
<i>Sales Gr%</i>	45%	26%	-4%	9%	26%	-5%	-7%
Ebdita	100	132	127	139	34	29	32
<i>Ebdita Gr%</i>	88%	32%	-3%	9%	32%	-9%	-6%
Net Profits	70	100	100	113	27	25	25
<i>Profit Gr%</i>	90%	43%	-1%	14%	44%	-2%	-4%
Ebdita Margin%	12.2%	12.7%	12.9%	12.9%	12.8%	11.8%	13.0%
Ebit Margin%	9.9%	11.1%	10.6%	10.7%	11.2%	9.4%	10.7%
Net Profit Margin %	8.6%	9.7%	10.1%	10.5%	10.0%	10.1%	10.3%

Conso/ Fig in Rs Cr

- ❑ Mastek is expected to report a moderate 3QFY20 with revenue growth of 1.2%QoQ. Revenue Growth is primarily expected to be seen from US market and ramp up few UK Public sector projects.
- ❑ UK private sector's revenue is expected to remain under pressure in near term given the Brexit impact.
- ❑ US market is expected to continue to grow and offset some portion of weakness coming from UK market as recent strategic initiatives (management changes and diversification of service offerings) will continue to yield results.
- ❑ EBIT margin is expected to improve 130bps to 10.7% mainly on account of absence of one-time expenses (50bps last quarter for employee separation expenses) and better operational efficiency. However, some portion will be mitigated by continued challenges in UK market (core market for the company).
- ❑ Pat for the quarter is expected to be Rs 25.4 crore, a growth of 3% primarily coming from better margins.

### Key Trackable this Quarter

- ❑ Commentary on Brexit, UK market and UK government approach
- ❑ Update on M&A plan and utilization of cash from dilution of Majesco share.
- ❑ Margins levers and outlooks for FY21E

**We value the stock at 9x FY21E EPS. NEUTRAL**

MTCL IN

**CMP**        **813**  
**Target**    **837**  
**Upside**    **3%**  
**Rating**    **NEUTRAL**

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	20.8	22.8	16.6	19.8
<b>Roce%</b>	18.7	27.1	21.2	25.4
<b>P/E</b>	21.4	20.6	23.1	17.5
<b>P/B</b>	4.4	4.7	3.8	3.5
<b>EV/Ebdita</b>	16.4	14.3	12.8	10.1

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenue USD mn</i>	847	1,002	1,097	1,219	252	271	277
<i>Revenue by industry</i>							
Retail, CPG & Manufact	197	223	239	257	56	59	60
BFSI	205	221	237	267	55	59	60
Technology, Media and	317	393	436	490	99	108	110
Travel & Hospitality	127	164	186	204	42	46	47
<i>Financials</i>							
Sales	5,463	7,022	7,722	8,639	1,787	1,914	1,967
<i>Sales Gr%</i>	4%	29%	10%	12%	30%	9%	10%
Ebdita	741	1,065	1,029	1,297	283	248	285
<i>Ebdita Gr%</i>	5%	44%	-3%	26%	37%	-8%	1%
Net Profits	570	754	578	765	191	135	154
<i>Profit Gr%</i>	36%	32%	-23%	32%	35%	-34%	-19%
Ebdita Margin%	13.6%	15.2%	13.3%	15.0%	15.9%	13.0%	14.5%
Ebit Margin%	10.4%	12.8%	9.7%	11.5%	13.6%	9.3%	10.8%
Net Profit Margin %	10.4%	10.7%	7.5%	8.8%	10.7%	7.1%	7.9%

Conso/ Fig in Rs Cr

☐ Mind tree is expected to post moderate growth of 2.2%QoQ in USD terms mainly led by ramp of new deal and continued growth in verticals like Travel & Hospitality and Insurance segment.

☐ After being soft in 1Q, BFSI segment bounced back in 2QFY20. We expect BFSI to continue to grow in 3QFY20 primarily led by continued traction in insurance segment and growth from Tier 2 banks .

☐ EBIT margin for 3QFY20 is expected to improve by 150bps to 10.8% supported by deal ramps (50-70bps impact) and increase in efficiencies (off shoring).

☐ Also the management expects to see margin expansion in H2, however does expect FY20 margins to cross FY19 margins.

☐ We expect ETR to be around ~ 26%, as the management doesn't expect recent tax announcement to affect the ETR

☐ PAT for the quarter is expected to improve 14.4%QoQ to Rs 154 crore.

### Key Trackable this Quarter.

- ☐ Management commentary on top client performance, digital performance and Deal wins
- ☐ Key initiative taken by the new leadership team.
- ☐ Margin lever for FY20 and attrition concern.

**We value the stock at 18x FY21E EPS. NEUTRAL**



MPHL IN

**CMP** 893  
**Target** 1079  
**Upside** 21%  
**Rating** BUY

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	0.2	0.2	0.2	0.2
<b>Roce%</b>	0.2	0.2	0.2	0.2
<b>P/E</b>	19.5	17.1	14.8	13.2
<b>P/B</b>	3.0	3.5	2.9	2.6
<b>EV/Ebdita</b>	15.3	14.0	10.3	9.2

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenues (USD m)</i>	989	1,119	1,236	1,355	283	305	312
<i>Segment revenue (\$mn)</i>							
<i>Direct International</i>	691	763	857	959	190	211	217
<i>DXC / HP Business</i>	260	316	340	356	82	84	85
<i>Others</i>	38	39	39	40	10	10	10
<i>Financials</i>							
<i>Sales</i>	6,546	7,731	8,708	9,622	1,971	2,158	2,215
<i>Sales Gr%</i>	8%	18%	13%	11%	19%	13%	12%
<i>Ebdita</i>	1,062	1,324	1,626	1,795	331	405	399
<i>Ebdita Gr%</i>	10%	25%	23%	10%	21%	22%	21%
<i>Net Profits</i>	837	1,073	1,124	1,256	278	273	277
<i>Profit Gr%</i>	6%	28%	5%	12%	29%	1%	0%
<i>Ebdita Margin%</i>	16.2%	17.1%	18.7%	18.7%	16.8%	18.8%	18.0%
<i>Ebit Margin%</i>	15.1%	16.1%	16.1%	16.1%	15.8%	16.1%	15.5%
<i>Net Profit Margin %</i>	12.8%	13.9%	12.9%	13.1%	14.1%	12.7%	12.5%

Conso/ Fig in Rs Cr

- ❑ Mphasis is expected to post moderate sales growth of 2.5%QoQ in USD terms mainly driving from direct core channel; especially from Blackstone portfolio companies (expect to grow at double-digit rate in 3QFY20).
- ❑ With the shift in DXC strategy, we see some risk to Mphasis DXC relationship (27.6% of revenue). We expect growth to get moderated in 3QFY20.
- ❑ Digital risk which has been the major dragger for the company in few quarters has shown a recovery from May. We expect see to continue in 3QFY20 led by new deal wins and stable in interest environment in the U.S.
- ❑ Ebit margin is expected to see some down side (approx 60bps contraction ) owing to furlough and partial wage hike (40bps).However currency fluctuation to add some benefit to the margins .We expect 3QFY20 margins to lie at 15.5%.
- ❑ PAT for the quarter is expected to grow 1.2%QoQ to Rs 277 crore mainly owing to higher other income.

### Key Trackable this Quarter

- ❑ Management commentary on DXC /HP relationship, top 10 client and BCM segment
- ❑ Commentary on Deal wins and Blackstone performance
- ❑ Margin levers for 4QFY20 and FY21e

**We value the stock at 16x FY21E EPS. BUY**

NITEC IN

**CMP** 1580  
**Target** 1599  
**Upside** 1%  
**Rating** NEUTRAL

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	15.7	14.5	18.0	17.3
<b>Roce%</b>	18.3	23.9	23.3	24.7
<b>P/E</b>	19.0	20.2	21.4	17.8
<b>P/B</b>	3.0	3.9	4.0	3.4
<b>EV/Ebdita</b>	9.8	11.8	12.4	10.4

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenues growth(usd )</i>	462	528	598	681	135	149	153
<i>Vertical Mix(mn \$)</i>							
<i>BFSI</i>	197	236	284	332	61	71	74
<i>Travel &amp; Trans.</i>	126	140	166	189	36	41	42
<i>Mfg, Med &amp; Oth</i>	138	149	147	160	38	36	37
<i>Financials</i>							
<i>Sales</i>	2,991	3,676	4,183	4,800	972	1,039	1,076
<i>Sales Gr%</i>	7%	23%	14%	15%	28%	14%	11%
<i>Ebdita</i>	501	649	745	867	181	192	199
<i>Ebdita Gr%</i>	4%	29%	15%	16%	45%	17%	10%
<i>Net Profits</i>	280	403	455	547	100	120	115
<i>Profit Gr%</i>	3%	44%	13%	20%	33%	7%	15%
<i>Ebdita Margin%</i>	16.7%	17.6%	17.8%	18.1%	18.7%	18.4%	18.5%
<i>Ebit Margin%</i>	12.5%	14.2%	13.6%	14.5%	15.4%	14.1%	14.3%
<i>Net Profit Margin %</i>	9.4%	11.0%	10.9%	11.4%	10.3%	11.5%	10.7%

Conso/ Fig in Rs Cr

□ We expect the sales to clock 2.6%QoQ on back of strong deal signings (USD 176million TCW won) and continued growth in travel and insurance vertical .However some portion will be mitigated by furlough and less billing days.

□ BFSI is expected to be relatively soft in 3QFY20 after a solid growth of 8.6%QoQ in 2QFY20 mainly resulting from client specific challenges in one of its account .Insurance and travel will continue to drive growth in 3QFY20 while manufacturing will remain soft .

□ Ebit margin is expected to improve 20% to 14.3% mainly led better operational efficiency .However the company will continue to reinvest gains anything above 18%EBITDA back into the business.

□ PAT is expected to post Rs115 crore, decline of 3.5% QoQ primarily owing to higher ETR and lower other income expectation.

## Key Trackable this Quarter

- Management commentary on client issue, deal signing and macro environment
- Update on buyback details and record date
- 18% EBITDA margins and outlook for FY21

**We value the stock at 18x FY21E EPS. NEUTRAL**

PSYS IN

**CMP** 713  
**Target** 625  
**Upside** -12%  
**Rating** NEUTRAL

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	16.0	15.7	15.2	15.8
<b>Roce%</b>	15.4	17.8	15.8	17.6
<b>P/E</b>	18.0	14.3	15.2	13.7
<b>P/B</b>	2.7	2.1	2.3	2.0
<b>EV/Ebdita</b>	12.1	8.8	9.9	8.3

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenues (USD m)</i>	471	481	505	551	121	126	129
<i>Revenue by industry</i>							
Services	206	206	227	249	51	57	57
Digital	100	109	115	130	28	28	30
Alliance	130	139	141	147	36	35	37
Accelerite	34	27	22	25	7	5	6
<i>Financials</i>							
Sales	3,034	3,366	3,551	3,911	864	885	918
<i>Sales Gr%</i>	5%	11%	6%	10%	9%	6%	6%
Ebdita	469	556	541	624	170	122	148
<i>Ebdita Gr%</i>	1%	19%	-3%	15%	24%	-15%	-13%
Net Profits	323	352	361	401	92	86	92
<i>Profit Gr%</i>	7%	9%	3%	11%	0%	-3%	0%
Ebdita Margin%	15.5%	16.5%	15.2%	15.9%	19.7%	13.8%	16.1%
Ebit Margin%	10.2%	11.9%	10.6%	11.5%	15.1%	8.9%	11.5%
Net Profit Margin %	10.6%	10.4%	10.2%	10.3%	10.6%	9.7%	10.0%

Conso/ Fig in Rs Cr

- ❑ Persistent is expected to grow sales by 2%QoQ in USD129.4mn. The growth will primarily be driven by continued growth in digital business and uptick in IP revenue.
- ❑ Digital business which grew 3.5%QoQ in 2Q; is expected to grow 5%QoQ in 3QFY20 owing to revenue growth from recent acquisition and continued ramp of deal( but still below peers growth) while Service business will post soft growth in 3Q due to seasonality .
- ❑ Alliance is expected to post strong growth in 3Q mainly coming from IBM
- ❑ EBIT for the quarter is expected to improve 250bps to 11.5%. The margin improvement is expected to come on back of higher IP revenue, absence of some onetime expenses, higher utilization and dip in S&M cost.
- ❑ ETR is expected to lower in 3Q to 24.5% as compared to earlier rate 26% to 27%.
- ❑ PAT for the quarter is expected to grow 6.9%QoQ TO Rs 92crore owing to lower ETR and better margin execution.

### Key Trackable this Quarter

- ❑ Watchful on continued weakness seen in top client revenue.
- ❑ Update on large deal wins and revenue outlook for coming quarters
- ❑ Management commentary margin levers for coming quarters

**We value the stock at 12x FY21E EPS. NEUTRAL**

TELX IN

**CMP** 827  
**Target** 915  
**Upside** 11%  
**Rating** ACCUMULATE

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	37.0	34.5	23.3	26.1
<b>Roce%</b>	48.0	45.5	28.7	33.0
<b>P/E</b>	25.6	20.7	21.7	16.3
<b>P/B</b>	8.3	6.4	4.7	3.9
<b>EV/Ebdita</b>	17.5	14.3	14.9	11.0

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Software Development	1329	1543	1551	1822	394	373	397
Systems Integration	57	54	54	71	13	13	14
<i>Segments(in cr)</i>							
Software Development							
<i>Embedded Prod Design</i>	1,160	1,377	1,396	1,632	352	335	356
<i>Indl Design &amp; Visualis.</i>	169	166	155	190	42	37	40
Systems Integration	57	54	55	71	13	13	14
<i>Financials</i>							
Sales	1,386	1,597	1,605	1,893	407	386	411
<i>Sales Gr%</i>	12%	15%	1%	18%	18%	-4%	1%
Ebdita	346	415	340	452	103	70	94
<i>Ebdita Gr%</i>	18%	20%	-18%	33%	11%	-34%	-9%
Net Profits	240	290	237	316	66	50	61
<i>Profit Gr%</i>	39%	21%	-18%	33%	5%	-39%	-8%
Ebdita Margin%	25.0%	26.0%	21.2%	23.9%	25.4%	18.2%	22.8%
Ebit Margin%	23.1%	24.4%	18.5%	21.4%	23.9%	15.4%	20.1%
Net Profit Margin %	17.3%	18.2%	14.8%	16.7%	16.2%	12.9%	14.7%

Std/ Fig in Rs Cr

□ TATA ELXSI 3QFY20 is expected to post moderate strong of 5.3%QoQ in USD terms .The growth is expected come on back of ramp up of deals won in last few quarters .

□ We expect Automotive (part of EPD) segment to post 6% QoQ growth. Communication and broadcast is expected to post moderate growth as deals won across numerous high-growth areas like electric vehicles. OTT and connected cars will likely to ramp up in 3Q.

□ Even Medical revenue which saw a drop of ~11% QoQ in 2QFY20(deals won but not yet in the ramp up phase); from 3Q we expect these deals will start ramping up which will drive revenue growth in coming quarters.

□ On margin front , we expect PBT margins to improve 220bps to 20.5% owing to higher utilization and absence of one time cost (21 crore for ex CEO compensation).However some portion will be mitigated by wage hike happening in 3QFY21(100bps).

□ PAT for the quarter is expected to improve 21.8% to Rs 61 crore owing to better margin and lower tax.

### Key Trackable this Quarter

- Management update of deal ramps ups, new TCV wins and macro environment .
- Update on expansion plan in new markets and segments.
- Double digit growth guidance in FY20

**We value the stock at 18x FY21E EPS. ACCUMULATE**

TCS IN

**CMP** 2157  
**Target** 2211  
**Upside** 3%  
**Rating** NEUTRAL

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	30.2	36.2	34.4	33.4
<b>Roce%</b>	34.4	41.3	39.1	38.3
<b>P/E</b>	21.1	23.8	24.8	22.4
<b>P/B</b>	6.4	8.4	8.0	7.0
<b>EV/Ebdita</b>	16.6	18.8	19.2	17.3

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>USD Revenues growth(%)</i>	9%	10%	9%	10%	10%	6%	6%
<i>Revenue by industry</i>							
BFSI	6,096	6,483	6,872	7,453	1,617	1710.27	1,719
Manufacturing	2,254	2,059	2,192	2,418	515	540.666	549
Retail and Consumer bu	3,113	3,210	3,295	3,538	814	816.516	821
Communication, media	2,863	3,282	3,500	3,814	819	866	874
Others	4,763	5,880	6,418	6,858	1,486	1,583	1,588
<b>TOTAL</b>	<b>19,089</b>	<b>20,913</b>	<b>22,278</b>	<b>24,081</b>	<b>18,262</b>	<b>12,315</b>	<b>6,237</b>
<i>Financials</i>							
Sales	1,23,104	1,46,463	1,57,034	1,70,389	37,338	38,977	39,704
<i>Sales Gr%</i>	4%	19%	7%	9%	21%	6%	6%
Ebdita	32,516	39,506	41,913	46,264	10,083	10,225	10,601
<i>Ebdita Gr%</i>	1%	21%	6%	10%	22%	-1%	5%
Net Profits	25,880	31,562	32,670	36,093	8,121	8,058	7,959
<i>Profit Gr%</i>	-2%	22%	4%	10%	24%	2%	-2%
Ebdita Margin%	26.4%	27.0%	26.7%	27.2%	27.0%	26.2%	26.7%
Ebit Margin%	24.8%	25.6%	24.5%	25.1%	25.6%	24.0%	24.5%
Net Profit Margin %	21.0%	21.5%	20.8%	21.2%	21.7%	20.7%	20.0%

Conso/ Fig in Rs Cr

□ TCS is expected to post a moderate growth of 1.1%QoQ in USD terms in its 3QFY20 result. The growth will likely to get impacted by seasonality, soft growth in sub segments of BFSI and weakness in retail segment .

□ BFSI is expected to post sluggish growth owing to continued softness in large banks in Europe and capital markets in the US. However continued growth in insurance segment will offset some impact.

□ We expect manufacturing and communication to post growth in 3QFY20 while retail and Regional Markets will continue to see some pressure due to macros.

□ Ebit margin is expected to improve 50 bps to 24.5% mainly on account of absence of wage hike and improvement in operational efficiency through normalizing utilization .However furlough and higher External Consultant cost will continue to drag margin in 3QFY20 We don't see TCS to achieve its inspirational margins(26%to28%) in FY20.

□ PAT for the quarter is expected to decline 1.3%QoQ to Rs 7959crore , primarily led by lower revenue growth and lower other income.

### Key Trackable this Quarter

- Management commentary on deal wins, macro environment and demand trends.
- Update on margin levers

**We value the stock at 23x FY21E EPS. NEUTRAL**

TECHM IN

**CMP** 766  
**Target** 795  
**Upside** 4%  
**Rating** NEUTRAL

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	21.5	21.9	21.0	22.2
<b>Roce%</b>	16.5	21.8	18.9	21.4
<b>P/E</b>	16.5	17.8	17.7	15.7
<b>P/B</b>	3.3	3.8	3.5	3.3
<b>EV/Ebdita</b>	13.2	11.9	12.4	10.8

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenues growth(%)</i>	6%	13%	6%	10%	4%	6%	4%
<i>Revenue by industry</i>							
Communication	2,066	2,050	2,162	2,446	518	529	541
Enterprise	2,706	2,923	3,047	3,294	743	758	773
<b>TOTAL</b>	<b>4,772</b>	<b>4,973</b>	<b>5,209</b>	<b>5,740</b>	<b>1,261</b>	<b>1,287</b>	<b>1,314</b>
<i>Financials</i>							
Sales	30,773	34,742	36,675	40,469	8,944	9,070	9,356
<i>Sales Gr%</i>	6%	13%	6%	10%	15%	5%	5%
Ebdita	4,710	6,337	6,039	6,865	1,723	1,501	1,516
<i>Ebdita Gr%</i>	13%	35%	-5%	14%	46%	-7%	-12%
Net Profits	3,786	4,289	4,259	4,784	1,207	1,112	1,007
<i>Profit Gr%</i>	33%	13%	-1%	12%	31%	5%	-17%
Ebdita Margin%	15.3%	18.2%	16.5%	17.0%	19.3%	16.5%	16.2%
Ebit Margin%	11.8%	15.0%	12.8%	13.8%	16.1%	12.8%	12.6%
Net Profit Margin %	12.3%	12.3%	11.6%	11.8%	13.5%	12.3%	10.8%

Conso/ Fig in Rs Cr

□ TECHM sales are expected to get moderated in 3QFY20 after strong 2QFY20. The company is expected to clock 2.1%QoQ growth on back of continued growth in communication and enterprise business.

□ Communication is expected to kick start growth owing to ramping of deal signed in 1QFY20(AT&T deal with estimated TCV of USD 1 billion). Also the full impact of deal will be seen in FY21E.

□ In Enterprise, Retail and technology will continue remain strong however the magnitude of growth will bit moderated.

□ EBIT margin for 3QFY20 is expected to decline 30bps to 12.6% . Pressure on margins will continue in next 2 quarters due to transition cost of the AT&T deal. For the full year, the margin is expected to decline 150bps to 250bps in FY20.

□ The tax rate in 2QFY20 stood at 16.9% due to onetime tax reversal. However going forward we expect tax rate to normalize in the range of 22-25%.

□ PAT for the quarter is expected to decline 9.5%QoQ to Rs 1007 crore, primarily driven by margin pressure and higher tax rate .

## Key Trackable this Quarter

- Update on execution of large deal(AT&T deal) and deal pipeline .
- Commentary on 5G rollout and enterprise segment
- Margin outlook for FY21 and the leverages that will play out.

**We value the stock at 16x FY21E EPS. NEUTRAL**

**CMP** 248  
**Target** 282  
**Upside** 14%  
**Rating** ACCUMULATE

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	16.1	17.3	17.6	16.9
<b>Roce%</b>	15.6	17.3	17.5	16.9
<b>P/E</b>	15.9	17.0	14.5	14.0
<b>P/B</b>	2.7	2.7	2.6	2.2
<b>EV/Ebdita</b>	13.0	12.7	11.0	9.9

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenues (USD m)</i>	7,895	8,120	8,287	8,765	2,047	2,049	2,086
<i>Segment revenue (in crore)</i>							
<i>IT Services</i>	52,841	57,329	58,779	62,231	14,665	14,656	14,856
<i>IT Products</i>	1,800	1,231	1,360	1,671	315	323	388
<b>Total</b>	54,641	58,560	60,138	63,902	14,980	14,979	15,243
<i>Financials</i>							
<i>Sales</i>	54,487	59,019	60,857	64,609	15,060	15,131	15,440
<i>Sales Gr</i>	-2%	8%	3%	6%	10%	3.9%	3%
<i>Ebdita</i>	10,387	11,617	12,247	12,637	3,293	3,096	3,197
<i>Ebdita Gr</i>	-8%	12%	5%	3%	32%	30%	-3%
<i>Net Profits</i>	8,003	9,018	9,796	10,080	2,544	2,560	2,465
<i>Profit Gr%</i>	-6%	13%	9%	3%	32%	36%	-3%
<i>Ebdita Margin%</i>	19.1%	19.7%	20.1%	19.6%	21.9%	20.5%	20.7%
<i>Ebit Margin%</i>	15.2%	16.4%	16.9%	16.4%	18.4%	17.3%	17.4%
<i>Net Profit Margin %</i>	14.7%	15.3%	16.1%	15.6%	16.9%	16.9%	16.0%

Fig in Rs Cr

❑ Management expects 3QFY20 IT Services revenue to reach USD 2,065 million to USD 2,106 million implying 0.8-2.8% QoQ growth rate. The guidance bakes in furloughs and acquisition effect.

❑ Wipro is expected to post 2%QoQ in USD terms which will be towards higher end of the guidance (0.8% to 2.8%).Growth is likely to be led by communications in the US, a recovery in healthcare (outside of HPS) and manufacturing segments. Also recent acquisition will aid 0.3% of growth in 3QFY20.

❑ However weakness in BFSI And furlough will offset some growth in 3QFY20.

❑ BFSI is expected to continue to drag the growth in 3QFY20 (assumed muted growth YoY) owing to weakness in banking and capital market client which has almost 50% of top client.

❑ Despite macro challenge that most peers are witnessing in retail segment, we expect Wipro to post strong growth in Retail segment in 3QFY20 on the back of deal wins .

❑ EBIT margin for 3QFY20 is expected to remain muted (10 bps improvement) owing to salary hike (21months' salary impact) and continued investment plan however some part will be offset by better operational execution.

❑ PAT for the quarter is expected to decline 3.7%QoQ to Rs2465 crore; primarily led by lower other income.

### Key Trackable this Quarter

- ❑ Update on top client performance, large deal win and weakness in BFSI industry
- ❑ Commentary on margin outlook (automation and productivity initiatives).

**We value the stock at 16x FY21E EPS. ACCUMULATE**

ZENT IN

**CMP** 181  
**Target** 214  
**Upside** 18%  
**Rating** BUY

	FY18	FY19	FY20E	FY21E
<b>Roe%</b>	15.4	17.4	15.5	16.9
<b>Roce%</b>	17.4	19.2	18.4	19.2
<b>P/E</b>	16.8	16.7	12.7	10.2
<b>P/B</b>	2.4	2.7	1.9	1.6
<b>EV/Ebdita</b>	10.5	10.8	6.5	5.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
<i>Revenues (in usd term)</i>	482	567	616	681	142	152	153
<i>Revenue (in crore)</i>							
Application	2,592	3,347	3,695	4,151	861	918	936
IMS	517	619	647	683	175	155	153
<i>Financials</i>							
Sales	3,108	3,966	4,342	4,835	1,036	1,072	1,089
Sales Gr%	2%	28%	9%	11%	30%	11%	5%
Ebdita	365	479	603	686	110	150	149
Ebdita Gr%	-4%	31%	26%	14%	5%	22%	35%
Net Profits	241	314	320	401	55	80	77
Profit Gr%	3%	30%	2%	25%	-8%	44%	-8%
Ebdita Margin%	11.7%	12.1%	13.9%	14.2%	10.7%	14.0%	13.7%
Ebit Margin%	9.6%	9.8%	10.3%	10.8%	8.4%	10.4%	10.0%
Net Profit Margin %	7.8%	7.9%	7.4%	8.3%	5.3%	7.4%	7.0%

Conso/ Fig in Rs Cr

❑ ZENSARTECH is expected to post soft 3QFY20 with revenue growth of 0.7%QoQ in USD terms .The growth is expected to impact due to furlough, continued weakness in retail vertical and delay in deal ramp in CIS business.

❑ Core Application Services is expected to remain slow in 3QFY20 (continued weakness in retail) while Digital application Services will provide some support.

❑ Despite being strong performer in last few quarters, Delay in decision making will impact CIS revenue in 3QFY20.

❑ Vertical wise, we expect insurance to continue to drive growth in FSI vertical through cynosure while retail will continue to weigh on revenue's due to macro issues.

❑ Margins are expected to decline 40bps to 10% though operational leverage automation /non-linearity and optimizing onshore/offshore mix will offset some impact.

❑ PAT for the quarter is expected to decline 4.2%QoQ to Rs 76.5crore primarily led by lower other income.

### Key Trackable this Quarter

- ❑ Management update on macro issue and TCV wins.
- ❑ Update on top client performance.
- ❑ Outlook for FY20E.

**We value the stock at 12x FY21E EPS. BUY**



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Correspondence Office Address: Arch Waterfront, 5<sup>th</sup> Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2<sup>nd</sup> Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkgarwal@narnolia.com](mailto:mkgarwal@narnolia.com), Contact No.:033-40541700.

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Narnolia Financial Advisors Ltd.  
803 & 703, A Wing, Kanakia Wall  
Street  
Andheri Kurla Road, Andheri (E)  
Mumbai-400093  
T: +912262701200  
D: +912262701236  
[www.narnolia.com](http://www.narnolia.com)