

Apr-Jun'24 Earnings Preview

Balancing act, yet not promising

Quick Pointers:

- Q1 Revenue growth tethered to certain pockets, instead of a broad-based recovery
- Margin recovery is expected to be modest, attributed to multiple headwinds

FY25 is expected to have kick-started with moderate performance in an otherwise strong Q1, attributed to depleting enterprise sentiment and confidence to resume discretionary programs at the onset of adverse macros. Our IT coverage universe (Tier-1) is expected to report a median revenue growth of 0.8% QoQ CC in 1Q vs a median decline of 0.6% CC QoQ in 4Q. Margin improvement is likely to be stable with median margin improvement of 20 bps QoQ. Major currencies remained broadly stable. EUR and GBP strengthened against USD by 0.9% and 0.5%, respectively, diluting reported growth, although not meaningfully.

Q1 revenue performance will be biased towards selective verticals or a couple of large deal ramp-ups that have long been deferred, instead of broad-based recovery within the space. The broader enterprise theme to drive cost-takeout and bring productivity, continued through Q1 with critical functions being reprioritized over discretionary programs. However, a few verticals (BFSI, Communications) witnessed some momentum in activities with a slight uptick in discretionary spends, but it is difficult to call this a trend that is sustainable and predictable. Hence, we are not expecting any revision for the full-year guidance for Infosys and HCLT. Q1 margins are likely to be modest (median +20 bps QoQ), on account of: (1) higher quantum of visa cost due to upward revision in the US H-1B visa fee, (2) missing operating leverage due to weak growth, (3) upfront costs attributed to large deal ramp-ups, and (4) rollout of variable pay for select names.

Tier-1 operating performance: Within Tier-1, we expect Infosys to outpace its peers with 2.2% QoQ CC growth, followed by LTIM and TCS at 1.9% and 1.4% QoQ CC, respectively. In contrast, HCLT, Wipro and TechM are expected report a weak revenue growth of -1.8%, -0.5% and 0.3% CC QoQ, respectively. Margin recovery is likely to be stable with median margin improvement of 20 bps QoQ. Compensation revision at TCS in Q1 will lead to an EBIT margin decline of ~110 bps QoQ, while HCLT is expected to report a margin decline of 70 bps due to missing operating leverage and weakness in high-margin business.

Deal TCV: Deal activities should continue the momentum in Q1 with normalized TCV after the awarding of large deals in Q4 (for a few names). Although mega wins or notable deal TCVs were missing in 4Q, the funnel has a diversified mix of mid- and large-size deals. With near-term geopolitical pressure and status quo, large deals with immediate onsite deliveries are expected to see some delay in decision making before clarity emerges on the US policies. Although some macro indicators are hinting towards recovery, the deal conversion rate or deal closure activities continue at earlier pace with no meaningful change in the pace of execution.

July 2, 2024

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
HCL Technologies	BUY	1,469	1,680
Infosys	Hold	1,591	1,510
LTIMindtree	Acc	5,440	5,910
Tata Consultancy Services	Acc	3,978	4,360
Tech Mahindra	Reduce	1,472	1,230
Wipro	HOLD	527	490

Source: PL Acc=Accumulate

Top Picks

HCL Technologies

Tata Consultancy Services

LTI Mindtree

Pritesh Thakkar

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Sujay Chavan

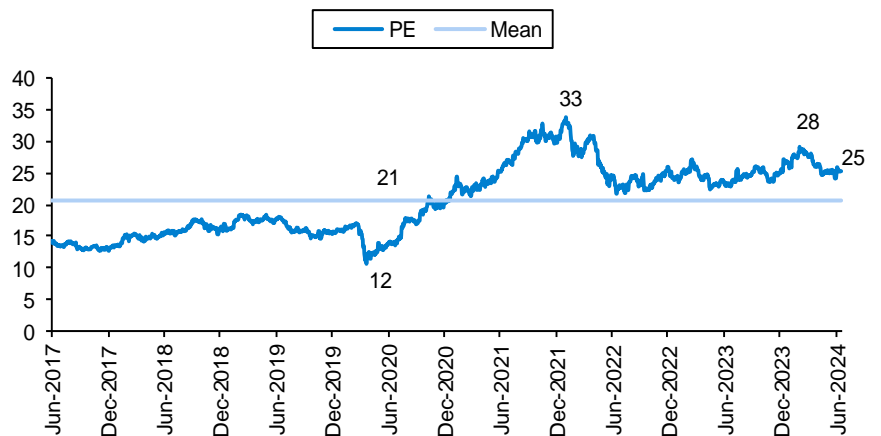
sujoychavan@plindia.com |

Hiring trend: Hiring is expected to be moderate (barring a few names). The current demand slowdown, headroom for further improvement in utilization (on freshers) and moderating attrition are more than compensating the required resource fulfillment. Additionally, the industry bench rate has trimmed substantially to 10-15%, from ~30% earlier, leading to slower talent recruitment.

Valuation & View

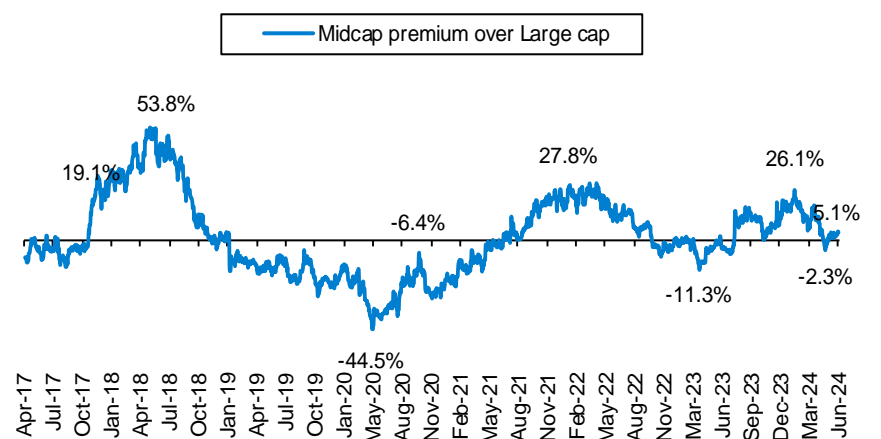
The anticipated recovery in operating performance for Tier-1s in Q1 has led to marginal re-rating (Exhibit 2) across the board. However, we would wait for more consistent and constructive recovery in the overall demand trend. At the same time, Tier-2 (barring a few names) operating performance is expected to be in line with Tier-1 names. As a result, the valuation gap between them has reduced and achieved parity with a marginal premium of ~5% (Exhibit 3). We remain selective on Tier-1 names that have a diversified business mix and strong ability to capture the current enterprise spends. Additionally, a median payout yield of 3.7%/4.1% YoY in FY25e/FY26e, makes Tier-1 even more attractive. HCL Tech remains our top pick, followed by TCS and LTIMindtree in that order.

Exhibit 2: Tier-1 - one-year forward PE



Source: Company, PL

Exhibit 3: Tier-1 and Tier-2 valuations are at parity



Source: Company, PL

Exhibit 4: Valuation matrix

Company	Rating	Price (INR)	Market Cap (US\$bn)	Target Price (INR)	EPS			P/E (x)			Rev growth (%) (USD)			EBIT Margin (%)			PEG FY24-26E
					FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	
TCS	ACC	3,978	175	4,360	125.6	140.7	158.8	31.7	28.3	25.1	4.1%	5.4%	9.9%	24.6%	25.3%	26.0%	2.0
Infosys	HOLD	1,591	86	1,510	58.3	62.5	68.7	27.3	25.5	23.2	1.9%	2.9%	6.9%	20.7%	20.9%	21.5%	2.7
Wipro	HOLD	527	40	490	20.4	21.7	23.5	25.9	24.3	22.5	-3.8%	-0.1%	5.0%	16.1%	16.5%	17.0%	3.0
HCL Tech	BUY	1,469	50	1,680	57.9	61.2	69.7	25.4	24.0	21.1	5.4%	4.5%	9.5%	18.2%	18.1%	18.9%	2.2
TechM	Reduce	1,472	15	1,230	40.9	42.0	58.6	36.0	35.1	25.1	-5.0%	0.6%	6.0%	7.6%	8.3%	11.2%	1.3
LTIM	ACC	5,440	19	5,910	154.9	170.5	197.0	35.1	31.9	27.6	4.4%	5.2%	8.9%	15.7%	16.0%	16.9%	2.2
Mphasis*	NA	2,494	6	NA	82.3	91.1	105.5	30.3	27.4	23.6	-6.3%	8.4%	11.9%	15.1%	15.4%	15.8%	1.8
LTTS*	NA	5,041	6	NA	123.3	133.6	157.1	40.9	37.7	32.1	17.6%	10.2%	12.9%	17.1%	16.4%	17.2%	2.5
Coforge*	NA	5,518	4	NA	130.8	173.7	212.6	42.2	31.8	26.0	11.7%	14.3%	14.8%	13.0%	13.8%	14.5%	0.9
Persistent*	NA	4,496	8	NA	71.0	87.2	109.1	63.3	51.5	41.2	14.5%	14.2%	16.4%	14.4%	14.8%	15.8%	1.7
Cyient*	NA	1,843	2	NA	61.6	77.7	92.7	29.9	23.7	19.9	15.5%	10.9%	14.5%	14.5%	14.7%	15.1%	0.9
Zensar*	NA	754	2	NA	29.4	28.8	32.7	25.7	26.2	23.1	-2.0%	5.9%	12.6%	15.0%	14.3%	14.5%	4.2
Birlasoft*	NA	717	2	NA	22.5	25.0	29.4	31.8	28.7	24.4	7.1%	9.2%	13.6%	14.2%	14.8%	15.2%	1.7
Sonata*	NA	621	2	NA	22.2	19.9	25.7	28.0	31.3	24.1	12.2%	12.3%	16.2%	6.9%	7.4%	8.0%	3.2

Source: Company, PL, *Bloomberg consensus

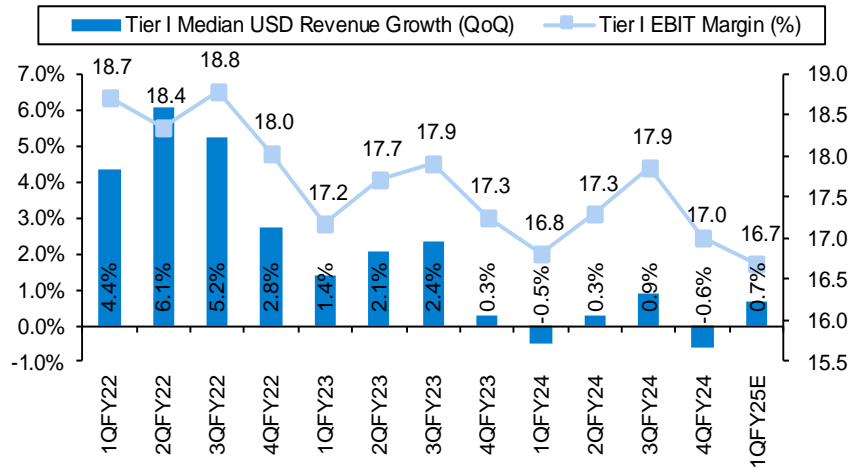
Exhibit 5: Quarterly Snapshot

Company	Revenue (US\$ mn)					Revenue (INR bn)				
	1QFY25E	4QFY24	QoQ gr. (%)	1QFY24	YoY gr. (%)	1QFY25E	4QFY24	QoQ gr. (%)	1QFY24	YoY gr. (%)
TCS	7,446.1	7,363.0	1.1	7,226.0	3.0	621.2	612.4	1.4	593.8	4.6
Infosys	4,655.8	4,564.0	2.0	4,617.0	0.8	388.4	379.2	2.4	379.3	2.4
Wipro*	2,642.3	2,657.4	-0.6	2,778.5	-4.9	220.4	220.8	-0.2	227.6	-3.1
HCLT	3,360.4	3,429.9	-2.0	3,200.0	5.0	280.3	285.0	-1.6	263.0	6.6
TechM	1,551.5	1,548.0	0.2	1,600.7	-3.1	129.4	128.7	0.6	131.6	-1.6
LTIM	1,088.9	1,069.4	1.8	1,058.7	2.9	90.8	88.9	2.1	87.0	4.4

Company	EBIT Margin (%)					PAT (INR bn)				
	1QFY25E	4QFY24	QoQ (bps)	1QFY24	YoY (bps)	1QFY25E	4QFY24	QoQ gr. (%)	1QFY24	YoY gr. (%)
TCS	24.9	26.0	-110	23.2	170	123.1	125.0	-1.5	111.2	10.7
Infosys	20.6	20.1	50	20.8	-20	62.4	60.0	4.0	59.5	5.0
Wipro*	16.5	16.4	10	16.0	40	29.1	28.6	1.8	28.9	0.8
HCLT	16.9	17.6	-70	17.0	-	37.7	40.0	-5.6	35.3	6.8
TechM	7.7	7.4	30	8.8	-110	8.8	9.7	-8.5	9.6	-7.7
LTIM	15.1	14.7	40	16.7	-160	11.5	11.0	4.7	11.5	0.1

Source: Company, PL, *IT Service revenue and EBIT margin

Exhibit 6: Tier-1 revenue growth and margin trend



Source: Company, PL

Exhibit 7: Cross-currency impact

	CC USD growth QoQ (%)	USD growth QoQ (%)	Cross currency impact (bps)
TCS	1.4%	1.1%	-30
Infosys	2.2%	2.0%	-14
Wipro	-0.5%	-0.7%	-12
HCLT	-1.8%	-1.9%	-9
TechM	0.3%	0.2%	-8
LTIM	1.9%	1.8%	-4

Source: Company, PL

Exhibit 8: Currency movement against INR

	Rates (INR)				Change (QoQ)			
	USD	EUR	GBP	AUD	USD	EUR	GBP	AUD
Average	83.42	89.84	105.28	54.95	0.45%	-0.38%	-0.02%	-0.18%
Closing	83.51	83.51	83.51	55.64	0.16%	-1.09%	0.21%	-1.92%

Source: Company, PL

Exhibit 9: Currency movement against USD

	Rates (USD)			Change (QoQ)		
	EUR	GBP	AUD	EUR	GBP	AUD
Average	1.26	1.08	0.66	-0.85%	-0.49%	0.12%
Closing	1.26	1.07	0.67	-1.25%	0.05%	1.96%

Source: Company, PL

Exhibit 10: Change in EPS estimates

	Revised EPS (in INR)		Earlier EPS (in INR)		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
TCS	140.7	158.8	140.8	159.0	0.0%	-0.1%
Infosys*	62.5	68.8	60.2	65.6	3.8%	4.9%
Wipro	21.7	23.5	21.9	23.3	-0.8%	0.8%
HCLT	61.2	69.7	62.0	70.4	-1.2%	-1.0%
TechM	42.0	58.6	42.0	58.8	0.1%	-0.3%
LTIM	170.5	197.0	171.8	197.4	-0.7%	-0.2%

Source: Company, PL, *Introduced in-tech acquisition

Exhibit 11: Q1FY25 Result Preview (Rs bn)

Company Name		Q1FY25E	Q1FY24	YoY gr. (%)	Q4FY24	QoQ gr. (%)	Remark
HCL Technologies	Sales (US\$ mn)	3,360.4	3,200.0	5.0	3,429.9	-2.0	
	Sales	280.3	263.0	6.6	285.0	-1.6	We expect revenue decline of 1.8% CC QoQ due to project runoffs & continued softness in discretionary spending. The margins are expected to be weak (decline of 70 bps QoQ) due to softness in high-margin business. Expected to maintain FY25 outlook
	EBIT	47.4	44.6	6.3	50.2	-5.5	
	Margin (%)	16.9	17.0	-5 bps	17.6	-70 bps	
	PBT	49.9	47.0	6.3	52.7	-5.2	
	Adj. PAT	37.7	35.3	6.6	39.9	-5.5	
Infosys	Sales (US\$ mn)	4,655.8	4,617.0	0.8	4,564.0	2.0	Revenues are likely to be supportive (2.2% QoQ CC), predominantly by large deal ramp up in Q1. We expect margin to improve by 50 bps QoQ as the missing Q4 expenses (wage hike and visa cost) would partially get offset by large deal ramp up costs. We expect the company to maintain its FY25 outlook
	Sales	388.4	379.3	2.4	379.2	2.4	
	EBIT	80.1	78.9	1.5	76.2	5.1	
	Margin (%)	20.6	20.8	-18 bps	20.1	53 bps	
	PBT	86.7	83.6	3.7	82.7	4.9	
	Adj. PAT	62.4	59.5	5.0	60.1	3.9	
LTIMindtree	Sales (US\$ mn)	1,088.9	1,058.7	2.9	1,069.4	1.8	The growth (1.9% QoQ CC) in Q1 is multi-faceted across verticals, but difficult to call it a trend. However, margins are expected to see a partial recovery from Q4 one-off element, as the incremental visa cost, variable pay, and large deal ramp up with higher onsite concentration to pressurise margins for Q1
	Sales	90.8	87.0	4.4	88.9	2.1	
	EBIT	13.7	14.5	-5.5	13.1	4.8	
	Margin (%)	15.1	16.7	-157 bps	14.7	38 bps	
	PBT	15.2	15.4	-1.3	14.5	4.7	
	Adj. PAT	11.5	11.5	0.0	11.0	4.7	
Tata Consultancy Services	Sales (US\$ mn)	7,446.1	7,226.0	3.0	7,363.0	1.1	Progress in large deal ramp ups and new logo additions to drive Q1 growth (1.4% QoQ CC). However, we expect a decline in margins by 110 bps sequentially due to compensation revision and visa costs, although the quantum of wage hike would be lower than that of last year
	Sales	621.2	593.8	4.6	612.4	1.4	
	EBIT	154.7	137.6	12.4	159.2	-2.8	
	Margin (%)	24.9	23.2	174 bps	26.0	-109 bps	
	PBT	165.2	149.9	10.2	168.5	-1.9	
	Adj. PAT	122.4	110.7	10.6	124.3	-1.5	
Tech Mahindra	Sales (US\$ mn)	1,551.5	1,600.7	-3.1	1,548.0	0.2	We expect revenue growth (0.3% CC QoQ) to be impacted by seasonality in Comviva business, otherwise the Enterprise business is expected to outpace the growth of communication business. We expect modest recovery in margins by 30 bps QoQ in Q1 due to missing operating leverage, implies more heavy lifting for the rest of the year
	Sales	129.4	131.6	-1.6	128.7	0.6	
	EBIT	10.0	11.5	-13.7	9.5	5.3	
	Margin (%)	7.7	8.8	-107 bps	7.4	35 bps	
	PBT	11.5	12.3	-6.1	12.6	-8.7	
	Adj. PAT	8.8	9.6	-7.8	9.7	-9.1	
Wipro	Sales (US\$ mn)	2,642.3	2,778.5	-4.9	2,657.4	-0.6	We expect IT Services USD revenue to decline by 0.5% QoQ CC at the mid-range of the guidance, partly supported by continued momentum in Capco and marginal contribution from a recent large Telecom deal. Margin recovery would be muted due to missing growth elements and ramp up of the large deal. We expect the company to improve Q2 mid-range guidance by 50 bps vs Q1's last quarter
	Sales	221.3	228.3	-3.1	222.1	-0.4	
	EBIT	35.4	34.5	2.7	35.4	0.2	
	Margin (%)	16.0	15.1	89 bps	15.9	8 bps	
	PBT	38.3	38.0	0.8	38.6	-0.9	
	Adj. PAT	28.9	28.7	0.8	28.3	2.0	

Source: Company, PL



Exhibit 12: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
					FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
HCL Technologies	C BUY	1,469	1,680	3,977.4	1,014.6	1,099.1	1,157.6	1,267.6	242.6	258.5	269.4	301.5	148.5	157.0	166.0	189.0	54.8	58.0	61.3	69.8	23.3	23.5	24.0	26.7	26.8	25.3	24.0	21.0
Infosys	C Hold	1,591	1,510	6,583.6	1,467.7	1,536.7	1,594.3	1,703.7	351.3	364.3	380.3	417.5	241.0	242.6	258.9	284.7	57.6	58.6	62.5	68.8	32.0	29.7	29.3	32.2	27.6	27.1	25.4	23.1
LTIMindtree	C Acc	5,440	5,910	1,610.2	331.8	355.2	376.6	410.2	61.9	63.9	69.8	79.2	44.9	45.9	50.5	58.3	151.7	155.0	170.6	197.0	29.1	25.1	23.5	23.7	35.9	35.1	31.9	27.6
Tata Consultancy Services	C Acc	3,978	4,360	14,537.4	2,254.6	2,408.8	2,558.8	2,813.0	592.6	642.8	700.7	789.5	421.5	465.8	513.3	579.1	115.3	127.5	140.7	158.8	46.9	50.9	56.2	65.5	34.5	31.2	28.3	25.1
Tech Mahindra	C Reduce	1,472	1,230	1,304.3	532.9	520.0	527.1	558.6	80.3	57.7	62.3	79.5	50.7	36.2	37.2	51.9	57.3	40.9	42.0	58.6	17.7	12.7	13.4	18.5	25.7	36.0	35.1	25.1
Wipro	C HOLD	527	490	2,789.2	904.9	895.8	905.2	949.3	173.0	169.8	175.0	188.3	113.5	110.0	114.8	122.9	20.7	20.8	22.0	23.5	15.8	14.4	15.5	16.6	25.4	25.3	24.0	22.4

Source: Company, PL S=Standalone / C=Consolidated / Acc = Accumulate

Exhibit 13: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
	C	P	C	P	% Chng.	FY25E			FY26E			FY25E			FY26E			FY25E			FY26E		
						C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
HCL Technologies	BUY	BUY	1,680	1,550	8.4%	1,157.6	1,158.1	0.0%	1,267.6	1,267.6	0.0%	166.0	168.1	-1.2%	189.0	191.0	-1.0%	61.3	62.1	-1.2%	69.8	70.5	-1.0%
Infosys	Hold	Hold	1,510	1,375	9.8%	1,594.3	1,561.7	2.1%	1,703.7	1,670.9	2.0%	258.9	249.3	3.8%	284.7	271.4	4.9%	62.5	60.2	3.8%	68.8	65.6	4.9%
LTIMindtree	Acc	Acc	5,910	5,015	17.8%	376.6	375.6	0.3%	410.2	408.2	0.5%	50.5	50.9	-0.7%	58.3	58.5	-0.2%	170.6	171.8	-0.7%	197.0	197.5	-0.2%
Tata Consultancy Services	Acc	Acc	4,360	4,360	0.0%	2,558.8	2,559.9	0.0%	2,813.0	2,814.4	-0.1%	513.3	513.4	0.0%	579.1	579.9	-0.1%	140.7	141.8	-0.8%	158.8	160.2	-0.9%
Tech Mahindra	Reduce	HOLD	1,230	1,135	8.4%	527.1	528.4	-0.2%	558.6	559.0	-0.1%	37.2	37.2	0.1%	51.9	52.1	-0.3%	42.0	42.0	0.1%	58.6	58.8	-0.3%
Wipro	HOLD	HOLD	490	440	11.4%	905.2	900.2	0.6%	949.3	940.6	0.9%	114.8	114.3	0.4%	122.9	121.6	1.1%	22.0	21.9	0.4%	23.5	23.3	1.1%

Source: Company, PL C=Current / P=Previous / Acc=Accumulate



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	HCL Technologies	Accumulate	1,550	1,474
2	Infosys	Hold	1,375	1,419
3	LTIMindtree	Accumulate	5,015	4,733
4	Tata Consultancy Services	Accumulate	4,360	4,001
5	Tech Mahindra	Hold	1,135	1,190
6	Wipro	Hold	440	453

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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