

Technology

Sector Update

Traditional sourcing expected to decline 7.5% for CY20

	CMP (₹)	3M ret.(%)	Yearly (%)
Index Returns			
Nifty	10,768	18.2	(6.8)
CNX IT	15,565	22.3	2.2
Large-Caps			
TCS	2,222	25.8	5.4
INFO	782	22.9	7.6
WPRO	222	12.9	(14.2)
HCLT	582	24.1	13.7
TECHM	569	4.4	(14.5)
Mid-Caps			
MTCL	1,008	37.4	34.0
MPHL	919	36.0	(2.7)
HEXW	342	29.1	(4.5)
ECLX	475	27.0	(28.5)
NITEC	1,593	43.4	18.2
CYL	250	14.0	(53.5)
PSYS	732	42.4	17.5

ISG announced Q2CY20 deal flow data recently. ISG among the leading outsourcing consultants in the world, works with both enterprise buyers and service providers. In its latest edition of the quarterly index call (2QCY20), ISG presented its assessment on deal awards in 2QCY20 and its outlook for 3QCY20.

Marginal downgrade to earlier guidance - ISG anticipates the number of large transactions to remain depressed as clients focus on business resilience and operational issues. While digital transformation is likely to accelerate post-COVID, ISG expects this to happen at a slower pace over 2HCY20. As-a-Service spend is likely to shift to cybersecurity, cloud migration, etc. In Managed Services, ISG now expects 7.5% YoY decline (vs 7% earlier) in CY20. As-a-Service is now anticipated to grow 11% YoY (vs 12% earlier). In 3QCY20, deal activity in some of the key verticals – such as Financial Services, Healthcare and Pharma, Travel, Transportation and Hospitality, and Retail and CPG – is expected to plummet.

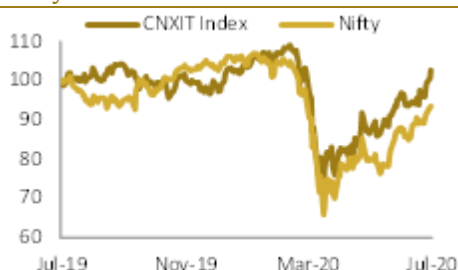
Weak deal activity in BFSI disappoints: Overall annual contract value (ACV) declined 4.7% YoY in 2QCY20. Deal activity in Managed Services (-15.7% YoY) remained a key drag, while As-A-Service ACV increased 6.9% YoY. The depressed deal activity in Managed Services was attributed to end industries' focus on operational resilience amid the COVID-19 disruption. While fewer license deals remained an overhang on the Software-as-a-Service (SaaS) segment (-2% YoY), Infrastructure-as-a-Service (IaaS) providers grew ~11% YoY, led by public cloud adoption. Across geographies, the Americas reported 6.5% YoY growth, aided by a soft base. EMEA (-9.4% YoY) and APAC (-24.4% YoY) reported sharp declines. Contrary to consensus expectations, deal activity in Financial Services (overall: 11%; Managed Services: 25%; 1HCY20, YoY) was a major disappointment - was ascribed to low interest rates & delays witnessed in the shift to the remote work model, led by compliance/security requirements, etc. Verticals such as Energy (+9% YoY) and Retail & CPG (+7% YoY) surprised despite severe disruption on both the operational and financial fronts.

Deal activity largely skewed toward small deals - ISG indicated large deal activity in 2QCY20 was significantly lower than usual. The company added that ~90% deals were in the US\$5-10mn ACV bucket as clients were looking at additional/modified scope to enable operational resilience. US\$50mn+ worth of ACV deals declined by ~75% YoY. A significant share of large deals has been deferred to subsequent quarters due to COVID-19. Besides the deflation in deal sizes, the company hinted at the elongation of deal cycles. Reduced/Modified scope, requests for price discounts, and the extension of payment terms seem to be the trends in deal renewals.

Valuation and view – Await Indian IT commentary on deal flow - As majority of Indian IT companies report their 1QFY21 results from this week (TCS reported strong order booking of US\$6.9bn, up 21%YoY), we keenly await details on deal signing trends and outlooks from other IT companies. Despite near-term uncertainties due to the COVID-19 crisis and the US Presidential elections, we continue to like Infosys/TCS/HCLT among Tier I (TCS is a Hold on account of expensive valuations). This is attributable to their robust business models, high return ratios and strong management teams. These companies have the legacy of having overcome multiple business challenges and technology change cycles in the past. Accordingly, we believe they would be able to adapt and overcome any transient challenges posed by the COVID-19 crisis.

	Rating	FDEPS (₹)	
		FY21E	FY22E
TCS	Hold	82.7	92.5
INFO	Buy	37.3	41.1
WPRO	Hold	15.7	17.1
HCLT	Buy	39.2	43.3
TECHM	Buy	41.5	48.4
MTCL	Hold	47.6	55.1
MPHL	Buy	58.0	65.7
HEXW	Hold	19.9	22.8
ECLX	Buy	46.2	55.4
NITEC	Buy	75.0	86.5
CYL	Buy	24.3	28.8
PSYS	Hold	42.6	47.6

Nifty vs CNX IT



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1) **Global Combined Market** - Combined Market ACV fell nearly 5% YoY; Managed Services was weaker during the first half of the quarter; declining 16% YoY; As-a-Service ACV improved 7% with IaaS growth offsetting softer SaaS results. 2) **Impact of COVID-19** - COVID impact highlighted at the end of March worsened in April; businesses began to slowly emerge in May and June from the lockdown but with a digital mandate; the pandemic has accelerated digital business initiatives. 3) **Regional Perspective** - The Americas was up based on a very weak comparison with 2Q19 while EMEA and Asia Pacific fell as Managed Services and SaaS weighed on the results; IaaS growth, while still positive, slowed to just over 10% with the three largest hyperscalers continuing to outpace the market.

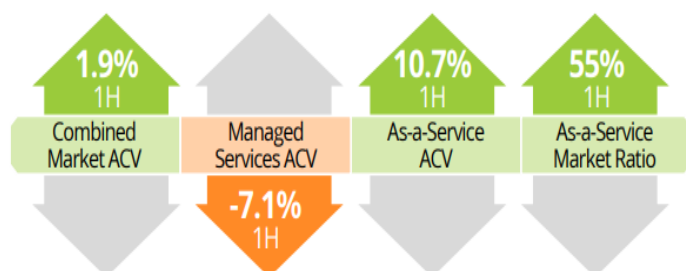
Exhibit 1: Deal signings in Q2CY20 - At a glance

Scorecard	2Q20 ACV (US\$ bn)*	2Q YoY Change (%)	1H20 ACV (US\$ bn)	1H Change (%)
Global Commercial Combined Market	13.2	(4.7)	28.2	1.9
By Type - Managed Services*	6.0	(15.7)	12.8	(7.1)
By Type - As-a-Service	7.2	6.9	15.4	10.7
By Region - Americas	6.8	6.5	14.6	9.4
By Region - EMEA	4.5	(9.4)	9.5	(2.2)
By Region - Asia Pacific	1.9	(24.4)	4.1	(11.3)

Source: 2Q20 - ISG - Outsourcing - Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase, *Managed Services, formerly called Traditional Sourcing, is defined as ITO/BPO, Infrastructure, ADM and Network markets

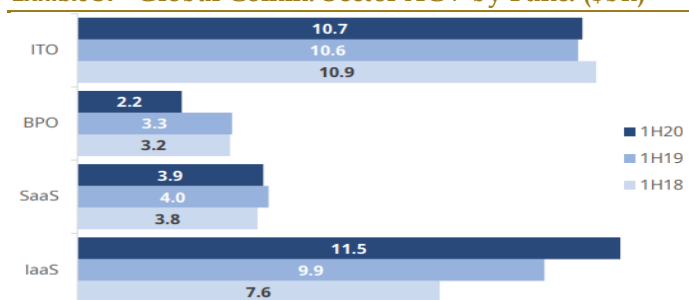
Global Commercial Sector Contracting Trends - Combined Market fell nearly US\$2bn QoQ to a little over US\$13.2bn, its lowest level since 4Q18. Managed Services was down in the mid-teens both YoY and QoQ as large deal activity was either delayed or cancelled. Largest Public Cloud providers like Azure, AWS and Google grew ACV by 16% YoY, outpacing growth in the As-a-Service market.

Exhibit 2: Global Commercial Sector ACV



Source: 2Q20 - ISG - Outsourcing - Index

Exhibit 3: Global Comm. Sector ACV by Func. (\$bn)*



Source: 2Q20 - ISG - Outsourcing - Index

Exhibit 4: Global Combined Market Quarterly ACV (US\$bn)*



Source: 2Q20 - ISG - Outsourcing - Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

**Exhibit 5: Global Sourcing Standouts – Sourcing standouts grouped by company size**

The Big 15	The Building 15	The Breakthrough 15	The Booming 15
Revenues > \$10B	Revenues \$3B-\$10B	Revenues \$1B-\$3B	Revenues <\$1B
Managed Services Market			
Accenture Atos Capgemini Cognizant DXC Technology	IBM Global Services Infosys NTT Data TCS	Amdocs Bechtle Computacenter Genpact * Global Payments HCL	OptumInsight Tech Mahindra Teleperformance T-Systems Wipro
		EPAM Systems JLL LTI Mindtree MITIE *	Mphasis Sutherland TietoEvry * Unisys Virtusa
			Birlasoft * CSG Systems Ensono EXL Globant Persistent Systems
As-a-Service Market			
Alibaba Amazon Google	Microsoft Salesforce Tencent *	Adobe Systems Equinix ServiceNow Workday	ACI Worldwide * Allscripts Autodesk
		Digital Realty Twilio *	Atlassian CyrusOne DocuSign Flexential Okta *
			OVH QTS * RingCentral Veeva Systems *

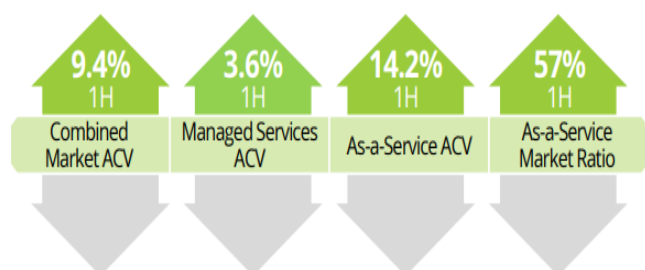
Source: 2Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

Exhibit 6: Global Commercial Sector Industry Award trends (US\$bn)*

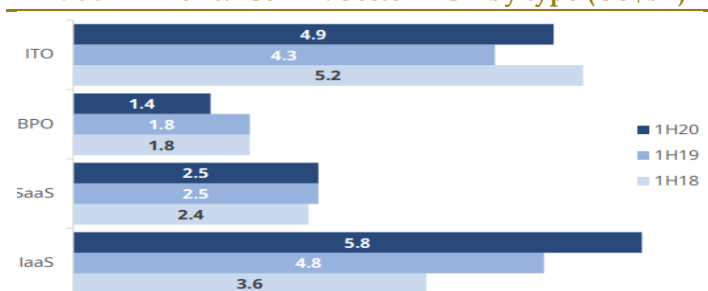
1H20 Y/Y Growth	Global Broader Market	Business Services	Retail & Consumer Packaged Goods	Energy	Financial Services	Healthcare & Pharma	Manufacturing	Telecom & Media	Travel, Transport Leisure
	\$28.21B ACV	\$5.29 ACV	\$3.39B ACV	\$1.82B ACV	\$5.57B ACV	\$2.65B ACV	\$4.31B ACV	\$2.72B ACV	\$2.47B ACV
Combined Market	2%	18%	7%	9%	-11%	6%	1%	-2%	-3%
Managed Services	-7%	35%	-3%	12%	-25%	4%	2%	-9%	-17%
As-a-Service	11%	15%	13%	4%	17%	10%	0%	6%	10%
Americas	9%	18%	4%	4%	11%	7%	8%	5%	9%
EMEA	-2%	13%	14%	10%	-29%	15%	11%	4%	-2%
Asia Pacific	-11%	23%	6%	27%	-29%	-13%	-33%	-26%	-36%

Source: 2Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

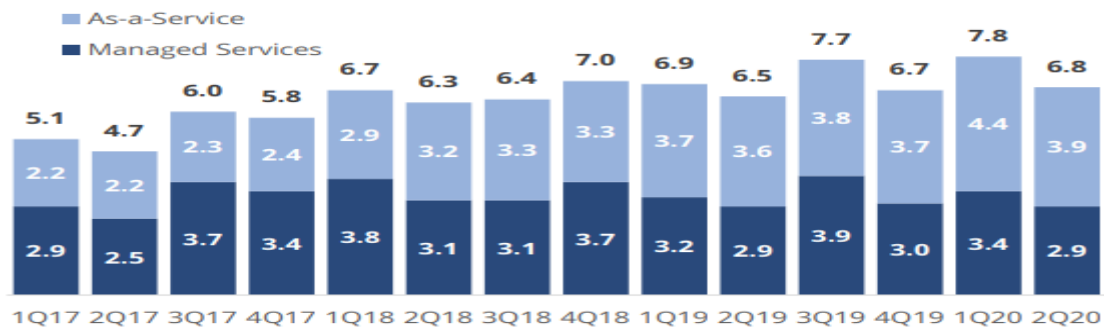
Americas Commercial Sector Contracting Trends – 2Q20 Combined Market YoY gains were against a weaker 2Q19. Managed Services declined 12% vs five-quarter average. As-a-service ACV dipped below US\$4bn but still rallied to finish up 11% YoY.

Exhibit 7: Americas Commercial Sector

Source: 2Q20 – ISG – Outsourcing – Index

Exhibit 8: America Comm. Sector ACV by type (US\$bn)*

Source: 2Q20 – ISG – Outsourcing – Index

**Exhibit 9: Americas Commercial Sector Quarterly ACV (US\$bn)***

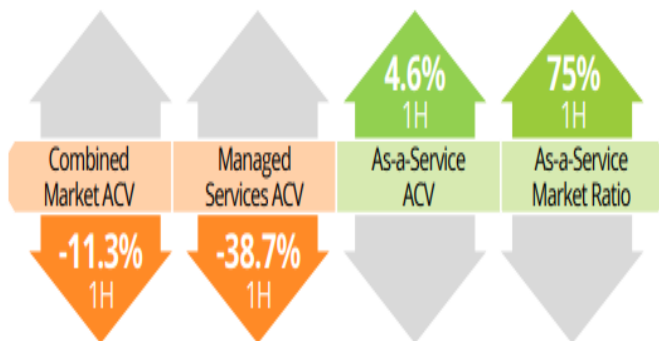
Source: 2Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

Exhibit 10: Americas Top 15s – Sourcing standouts grouped by company size

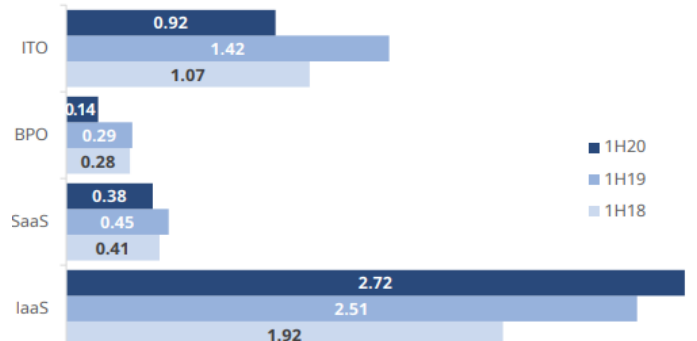
The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
Managed Services Market							
Accenture AT&T Atos Capgemini Cognizant	DXC Technology IBM Global Services Infosys NTT DATA TCS Verizon *	Amdocs Cushman & Wakefield Genpact * Global Payments * HCL	OptumInsight SS&C Technologies Tech Mahindra Teleperformance Wipro	EPAM Systems JLL LTI Mindtree Mphasis	Sutherland TTEC Unisys Virtusa	Birlasoft * CSG Systems Ensono EXL Globant * Persistent Systems	
As-a-Service Market							
Amazon Google Microsoft Salesforce	Adobe Systems Equinix	Paychex ServiceNow Workday	ACI Worldwide* Allscripts Autodesk	Digital Realty Twilio * Ultimate Software	Ceridian HCM Coresite * CyrusOne DocuSign * Flexential	HubSpot* Paycom QTS * RingCentral	

Source: 2Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

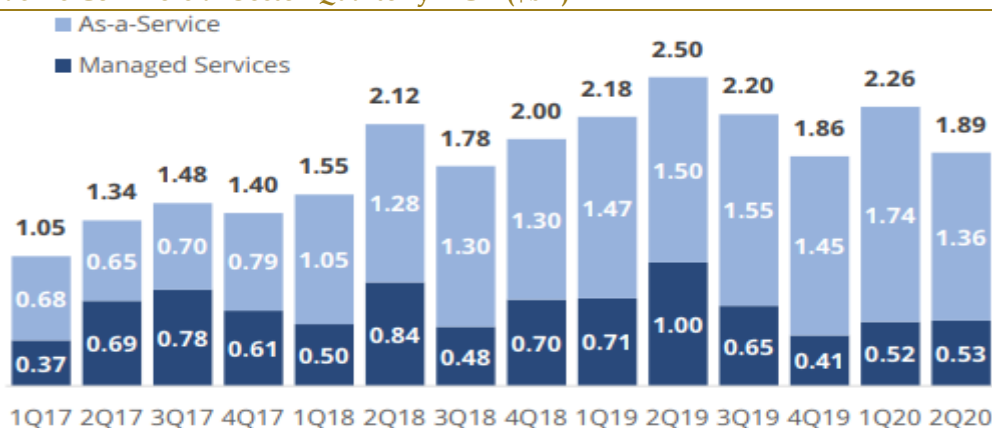
Asia Pacific Commercial Sector Contracting Trends - Managed Services ACV was down significantly YoY due to a very strong 2Q19, which had three mega deals. Number of managed Services awards (57) was the most seen since 4Q18 but it was confined to lower ACV bands. As-a-Service market fell back to levels not seen since 4Q18.

Exhibit 11: APAC Comm. Sector ACV

Source: 2Q20 – ISG – Outsourcing – Index

Exhibit 12: APAC Comm. Sector ACV Type (\$bn)*

Source: 2Q20 – ISG – Outsourcing – Index


Exhibit 13: Asia Pacific Commercial Sector Quarterly ACV (\$bn) *


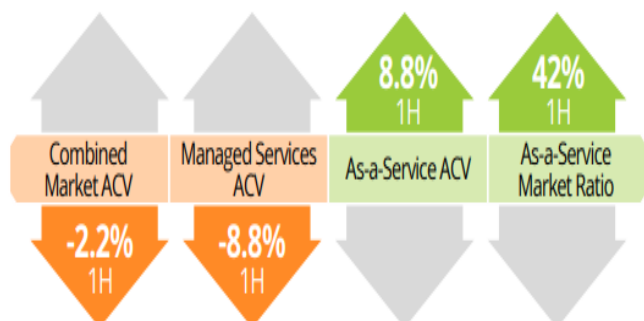
Source: 2Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

Exhibit 14: Asia Pacific Top 15s – Sourcing standouts grouped by company size

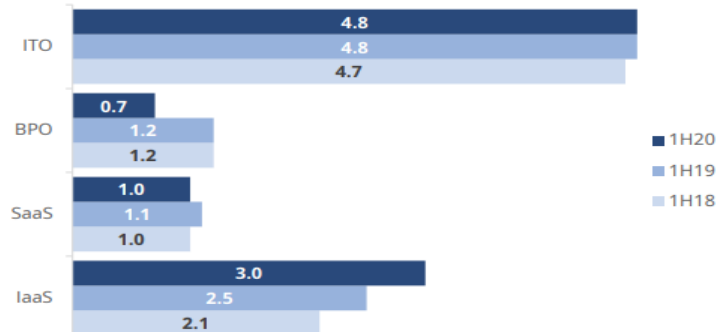
The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
Managed Services Market							
Accenture	Hitachi	Amadeus	Nomura Research Institute	Digital China	SCSK	Beyondsoft	Fuji Soft
Capgemini *	IBM Global Services	Amdocs	Orange *	JLL	Sutherland	ChinaSoft	Relia
Cognizant	NTT Data	Genpact	Sodexho	Neusoft	transcosmos	Data#3 *	Shinsegae I&C
DXC Technology	TCS	HCL	Tech Mahindra	Nihon Unisys	TTEC	Empired *	Taiji Computer
		IT Holdings (TIS)	T-Systems*	NS Solutions	Unisys		
		ITOCHU Techno-Solutions	Wipro				
As-a-Service Market							
Alibaba	Microsoft	Adobe Systems		ACI Worldwide *	Sage	Atlassian	Xero
Amazon	Salesforce *	Equinix		Autodesk	Twillio *	Docusign *	Zendesk *
Google	SAP *	ServiceNow *		DropBox *		Kingdee	Zoho Corp.
	Tencent					Veeva Systems	

Source: 2Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

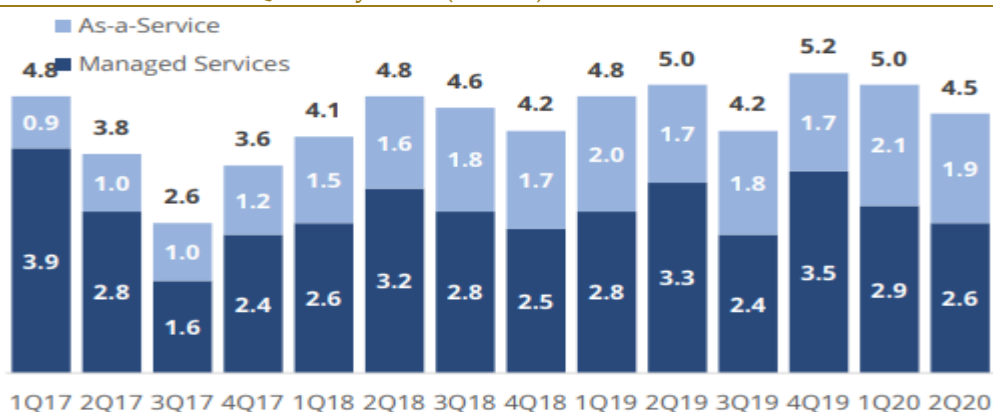
EMEA Commercial Sector Contracting Trends – Combined Market ACV registered back-to-back quarterly declines for the first time since 2018. Managed Services ACV fell by double digits both QoQ and YoY. As-a-Service ACV was up 13% YoY pulled ahead by a 23% gain in Infrastructure-as-a-Service.

Exhibit 15: EMEA Comm. Sector ACV


Source: 2Q20 – ISG – Outsourcing – Index

Exhibit 16: EMEA Comm. Sector ACV by Type (\$bn)*


Source: 2Q20 – ISG – Outsourcing – Index

**Exhibit 17: EMEA Commercial Sector Quarterly ACV (US\$bn)***

Source: 2Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

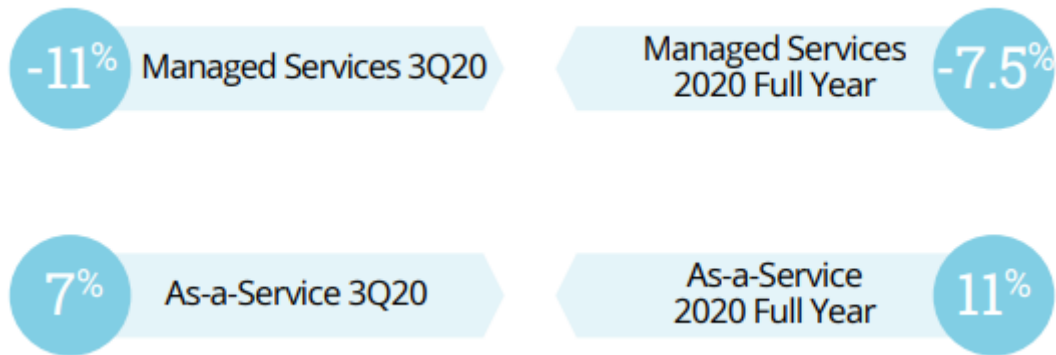
Exhibit 18: EMEA Top 15s – Sourcing standouts grouped by company size

The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
Managed Services Market							
Accenture	DXC Technology	Amdocs	SoftwareOne *	Alten	LTI	adesso AG *	HH Global
Atos	IBM Global Services	Bechtle	Sopra Steria	Arqiva *	Mindtree	Digita	NNIT A/S
BT Group	Infosys	Computacenter	Tech Mahindra	Asseco	MITIE	EXL	Persistent Systems *
Capgemini	ISS Global	HCL	Teleperformance	Cancom	Reply *	Fastweb	QIWI
Cognizant	TCS	Orange Business Services	T-Systems	EPAM Systems *	TietoEVERY	HGS *	WNS *
			Wipro	JLL	Unisys		
					Virtusa		
As-a-Service Market							
Amazon	Salesforce	Adobe Systems		ACI Worldwide *		Atlassian Corporation *	
Google	SAP	Equinix		Autodesk		DocuSign	
Microsoft		ServiceNow *				OVH	
		VMWare *				Veeva Systems *	
						Visma	

Source: 2Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

Exhibit 19: Q3 Outlook

Source: 2Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

**Exhibit 20: Revised market outlook (3Q YoY and Full Year)**

Source: 2Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

What is the Impact of COVID-19 on the Managed Services Market?

First Quarter - Managed Services was depressed 700 basis points. Managed Services ACV was on track for 9-10% rise YoY, As-a-Service impacted minimally; IaaS saw brief surge due to WFH mandate.

Second Quarter - Managed Services was down 16% YoY as industry focuses on operational resiliency. SaaS providers down 2% YoY and down 11% QoQ on fewer license deals. IaaS providers, led by hyperscalers, grew 10.5% YoY with significant moves to public cloud.

Second Half - Managed Services will have a slow recovery in 2H – projected to be up 3% QoQ. Overall ACV for the year forecasted to drop 7.5% YoY. Digital transformation still likely to accelerate post-COVID, but at a slower pace. As-a-Services spending likely to shift to cybersecurity, cloud migration and collaborative tools.

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