# Technology

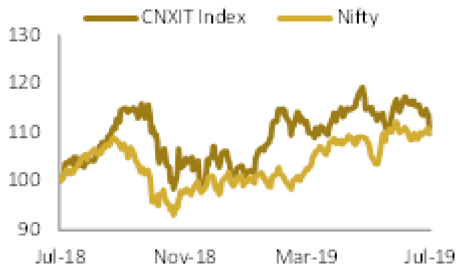
## Sector Update

*Traditional sourcing growth forecast at 3.5% for CY19*

| | CMP(`) | 3M ret.(%) | Yearly (%) |
|---|---|---|---|
| **Index Returns** | | | |
| Nifty | 11,583 | (0) | 6 |
| CNX IT | 15,214 | (4) | 5 |
| **Large-Caps** | | | |
| TCS | 2,103 | 4 | 6 |
| INFO | 722 | (3) | 10 |
| WPRO | 268 | (5) | 31 |
| HCLT | 1,021 | (6) | 3 |
| TECHM | 666 | (15) | 2 |
| **Mid-Caps** | | | |
| MTCL | 759 | (20) | (26) |
| MPHL | 943 | (7) | (18) |
| HEXW | 355 | 4 | (27) |
| ECLX | 671 | (40) | (48) |
| NITEC | 75 | (25) | (59) |
| CYL | 1,317 | 1 | 17 |
| PSYS | 538 | (8) | (27) |

| | Rating | FDEPS (`) | |
|---|---|---|---|
| | | FY20E | FY21E |
| TCS | Hold | 91.0 | 99.2 |
| INFO | Buy | 39.5 | 43.8 |
| WPRO | Hold | 16.8 | 18.0 |
| HCLT | Buy | 79.1 | 88.1 |
| TECHM | Buy | 52.8 | 56.3 |
| MTCL | Buy | 53.3 | 60.7 |
| MPHL | Buy | 63.2 | 72.4 |
| HEXW | Hold | 22.7 | 25.5 |
| ECLX | Hold | 61.3 | 71.5 |
| NITEC | Buy | 73.3 | 82.8 |
| CYL | Buy | 47.1 | 52.5 |
| PSYS | Hold | 50.8 | 56.2 |

**Nifty vs CNX IT**





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**ISG Outsourcing (TPI) came out with its findings on global outsourcing industry for Q2CY19. Commercial Combined Market ACV, up 5% YoY. Traditional Sourcing declined 3% to US$7bn. For CY19, on a global basis, ISG forecasts 22% growth in as-a-service sourcing, and 3.5% growth in traditional sourcing.**

**Key highlights:** 1) **Global Combined Market ACV rose 5% YoY;** As-a-Service ACV hit second highest result; Managed Services dipped 3% YoY against a difficult 2Q18 compare. 2) **Americas -** Up 6% YoY; As-a-Service surpassed 55% of Combined Market ACV; Managed Services retreated 10% as ACV fell under US$3bn level. 3) **EMEA -** Advanced 3% YoY; double-digit growth in As-a-Service; Managed Services had back-to-back quarters over US$3bn; Nordics, Benelux and Southern Europe compensated for uneven results in largest markets. 4) **Asia Pacific** - Grew 6% as larger transactions pushed up Managed Services ACV; As-a-Service growth paused due to choppy results in China.

**Trends across geographies:** **Global Contracting Trends** – 1H19 Combined Market ACV up 10% YoY, Managed Services ACV flat YoY, As-a-Service Market ACV up 23% YoY. Activity in infrastructure renewals made up for softer ADM results. IaaS ACV has more than doubled since 1H17. **Americas Contracting Trends** - 1H19 Combined Market ACV up 6% YoY, Managed Services ACV declined 13% YoY, As-a-Service Market ACV up 28% YoY. Managed Services fell below US$3bn in ACV for the first time since 2017. Mirroring market segments: Decrease in ITO ACV more than offset by increase in IaaS ACV. **Asia Pacific Contracting Trends** - 1H19 Combined Market ACV up 19% YoY, Managed Services ACV up 22% YoY, As-a-Service Market ACV up 17% YoY. Managed Services had best quarter since 2014 due to uptick in larger awards over US$20mn in ACV. As-a-Service pulled back sequentially due to some uneven activity in China. **EMEA Contracting Trends -** 1H19 Combined Market ACV up 12% YoY, Managed Services ACV up 10% YoY, As-a-Service Market ACV up 17% YoY. Managed Services posts two consecutive US$3bn quarter for the first time since 2015. Infrastructure is transitioning to become the digital foundation of enterprise businesses.

**Market Summary:** 1) **Global Macro Perspective**: Market is in a more neutral position versus six-months ago. Technology spending sentiment remains positive in the near term. 2) **Combined Market:** Double-digit growth year to date with flat award trends in Managed Services offset by 20%+ growth in As-a-Service. 3) **Regional Observations:** Each region was up in 1H19 by varying degrees, with Asia Pacific growing at the fastest pace. Both Asia Pacific and EMEA saw double digit increases in Managed Services while the Americas fell back 13%. As-a-Service is growing fastest in the Americas, surpassing 50% of Combined Market ACV for the first time.

**Market Outlook:** 1) **As-a-Service Market Forecast:** Slightly more optimistic view of SaaS while factoring in uncertainty in the IaaS market that may impact China and the Asia Pacific region, expected to grow 22% in CY19. 2) **Services Market Forecast:** Forecast raised by 30bps to 3.5% growth; closely monitoring negative commentary from the largest firms in the sector as that could represent downside to forecast.

**Mphasis and Mindtree had strong deal signings across Americas and APAC/EMEA respectively among midcaps:** Top-5 omnipresent: Among the mid-caps in our coverage universe, Mindtree (Americas, EMEA), Birlasoft (Americas), Mphasis (Americas, APAC), Virtusa (Americas), and LTI (Americas) was mentioned in "The Breakthrough 15 Sourcing Standouts".

1) **Global Combined Market ACV rose 5% YoY;** As-a-Service ACV hit second highest result; Managed Services dipped 3% YoY against a difficult 2Q18 compare. 2) **Americas -** Up 6% YoY; As-a-Service surpassed 55% of Combined Market ACV; Managed Services retreated 10% as ACV fell under US$3bn level. 3) **EMEA -** Advanced 3% YoY; double-digit growth in As-a-Service; Managed Services had back-to-back quarters over US$3bn; Nordics, Benelux and Southern Europe compensated for uneven results in largest markets. 4) **Asia Pacific** - Grew 6% as larger transactions pushed up Managed Services ACV; As-a-Service growth paused due to choppy results in China.

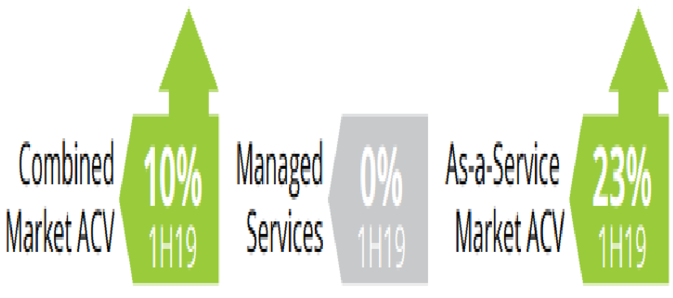
**Exhibit 1:** Deal signings in Q2CY19 – At a glance

| Scorecard | 2Q19 ACV (US$ bn)* | 2Q YoY Change (%) | 1H19 ACV (US$ bn) | 1H19 Change (%) |
|---|---|---|---|---|
| **Global Commercial Combined Market** | **13.7** | **5** | **27.7** | **10** |
| By Type – Outsourcing | 7.0 | (3) | 14.0 | - |
| By Type – As-a-Service | 6.7 | 14 | 13.7 | 23 |
| By Region – Americas | 6.5 | 6 | 13.4 | 6 |
| By Region – EMEA | 5.0 | 3 | 10.0 | 12 |
| By Region – Asia Pacific | 2.2 | 6 | 4.3 | 19 |

*Source: 2Q19 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

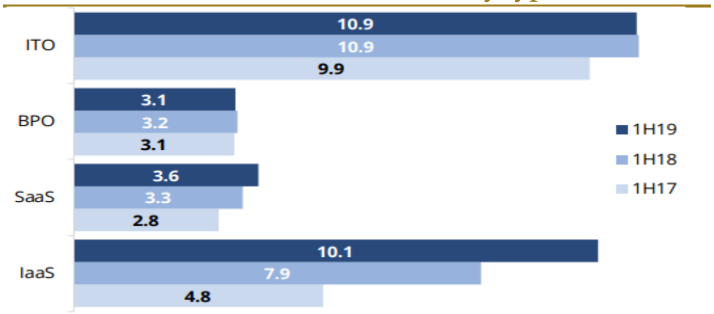
**Global Commercial Sector Contracting Trends -** 1H19 Combined Market ACV up 10% YoY, Managed Services ACV flat YoY, As-a-Service Market ACV up 23% YoY. Activity in infrastructure renewals made up for softer ADM results. IaaS ACV has more than doubled since 1H17.

**Exhibit 2:** Global Commercial Sector ACV ($B)*



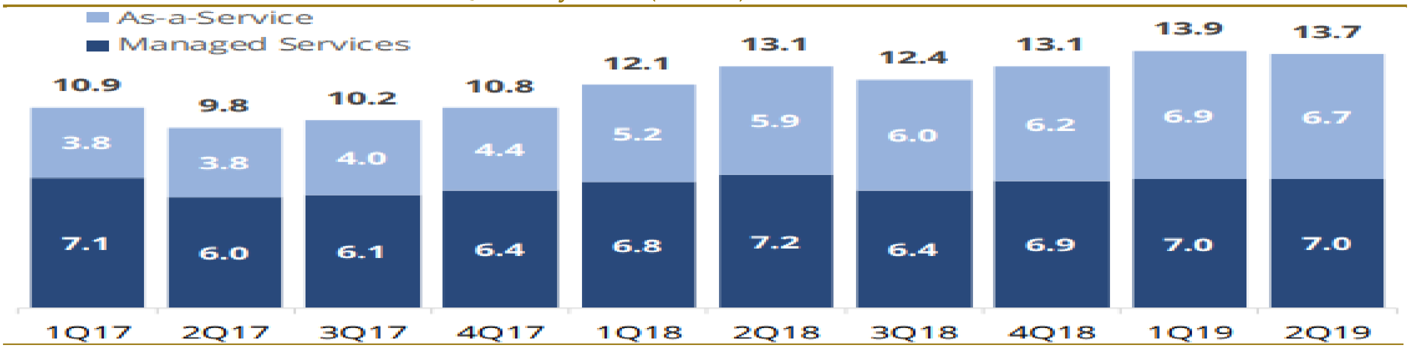

*Source: 2Q19 – ISG – Outsourcing – Index*

**Exhibit 3:** Global Comm. Sector ACV by type




*Source: 2Q19 – ISG – Outsourcing – Index*

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




*Source: 2Q19 – 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<br>Atos<br>Capgemini<br>CBRE<br>Cognizant<br>DXC Technology<br>IBM Global Services<br>Infosys<br>NTT Data*<br>TCS | Amdocs<br>Bechtle<br>Concentrix*<br>Conduent<br>First Data<br>Genpact<br>HCL<br>Tech Mahindra<br>T-Systems*<br>Wipro | Altran<br>Atento*<br>Axians*<br>Diebold Nixdorf<br>EPAM Systems*<br>JLL<br>LTI<br>Mphasis<br>Sutherland Global Services<br>TTEC<br>Unisys<br>Virtusa*<br>Webhelp* | ChinaSoft*<br>Ensono*<br>Mindtree<br>Posco ICT<br>Reply SpA*<br>Startek*<br>WNS<br>Zensar Technologies |
| **As-a-Service Market** | Amazon Web Services<br>Google<br>Microsoft<br>Salesforce | Adobe Systems<br>Equinix<br>ServiceNow*<br>SS&C Technologies*<br>United Internet | Autodesk<br>Digital Realty | Atlassian<br>CyrusOne<br>DocuSign*<br>IPSoft<br>OVH<br>Peak 10<br>Proofpoint |

* New to leaderboard in 2Q19

Providers in alphabetical order; no rankings implied. Revenues sourced from D&B and individual company financial fillings.

*Source: 2Q19 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase*

**Global Commercial Sector Industry Award Trends** - Some industries are further along on their digital journey than others. In BFSI, we continue to observe strong growth in digital banking, cybersecurity asset management, FinTech, and card payment and processing.

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

| 1H 2019 | Business Services | Retail & Consumer Packaged Goods | Energy | Financial Services | Healthcare & Pharma | Manufacturing | Telecom & Media | Travel, Transport & Leisure |
|---|---|---|---|---|---|---|---|---|
| | $4.6B ACV | $3.1B ACV | $1.8B ACV | $6.1B ACV | $2.5B ACV | $4.3B ACV | $2.7B ACV | $2.6B ACV |
| Combined Market | 17% | 5% | -15% | 5% | -5% | 32% | 20% | 13% |
| Managed Services | 0% | -19% | -26% | -1% | -20% | 38% | 27% | -1% |
| As-a-Service | 22% | 26% | 23% | 21% | 24% | 25% | 12% | 31% |
| Americas | 17% | 7% | 3% | -4% | -14% | 22% | 3% | 27% |
| EMEA | 18% | -11% | -28% | 29% | 9% | 24% | 40% | 12% |
| Asia Pacific | 13% | 36% | 11% | -21% | 55% | 106% | 35% | -15% |

*Source: 2Q19 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

**Our view:** ISG commentary is in sync with the financial performance of Indian IT companies – with companies pointing out to revenue visibility being better than CY18, since Indian IT companies are still dependent on traditional outsourcing as their main business. We continue to prefer companies with stronger revenue momentum and margin of safety in valuations – HCLT, Tech Mahindra and INFO in large-caps.

**Top-5 omnipresent:** Among the mid-caps in our coverage universe, Mindtree (Americas, EMEA), Birlasoft (Americas), Mphasis (Americas, APAC), Virtusa (Americas), and LTI (Americas) was mentioned in “The Breakthrough 15 Sourcing Standouts”.

**Americas Commercial Sector Contracting Trends -** 1H19 Combined Market ACV up 6% YoY, Managed Services ACV declined 13% YoY, As-a-Service Market ACV up 28% YoY. Managed Services fell below US$3bn in ACV for the first time since 2017. Mirroring market segments: Decrease in ITO ACV more than offset by increase in IaaS ACV.

**Exhibit 7:** Americas Commercial Sector Quarterly ACV (US$bn)*

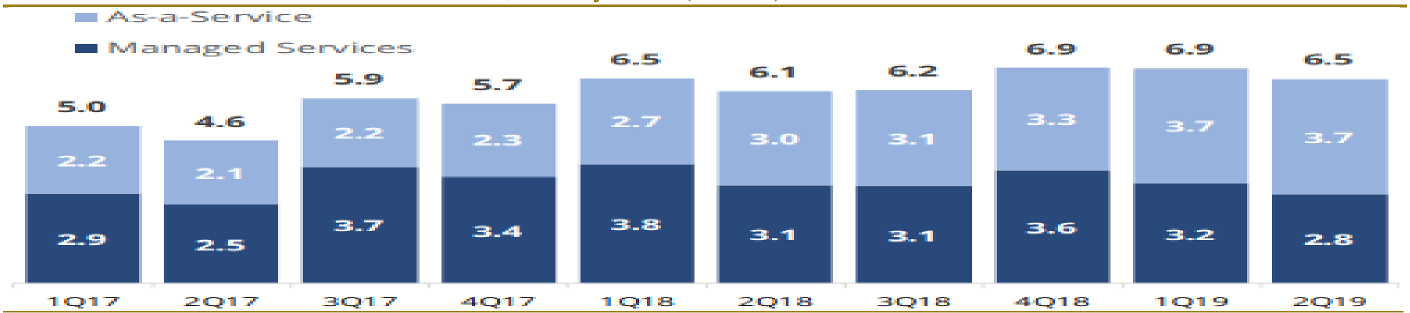



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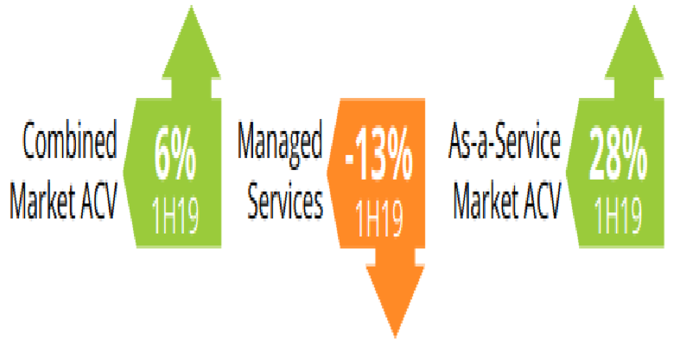
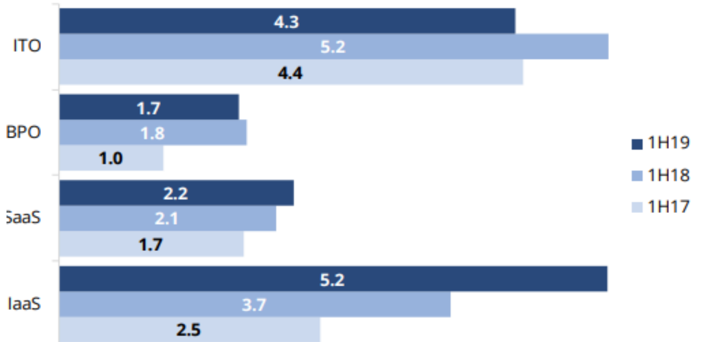
**Exhibit 8:** Americas Commercial Sector




*Source: 2Q19 – ISG – Outsourcing – Index*

**Exhibit 9:** America Comm. Sector ACV by type




*Source: 2Q19 – ISG – Outsourcing – Index*

**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 | DXC Technology | Concentrix | HCL | Atento* | Mphasis | Birlasoft* | Mindtree |
| BONY Mellon | IBM Global Services | Conduent | OptumInsight | Diebold Nixdorf | Sitel* | CSG Systems* | Startek |
| Capgemini | Infosys | First Data/Fiserv | Tech Mahindra | EPAM Systems* | Sykes* | Ensono* | WNS Global Services |
| CBRE | NTT DATA | FIS Global | Wipro | InnerWorkings | TTEC | EXL | Zensar Technologies |
| Cognizant | TCS | Genpact | | JLL* | Unisys | | |
| | | | | LTI | Virtusa* | | |
| **As-a-Service Market** | | | | | | | |
| Amazon Web Services | Microsoft | Adobe Systems | ServiceNow* | Autodesk | Dropbox* | Blackbaud | Peak 10* |
| Google | Salesforce | Equinix | SS&C Technologies* | Digital Realty | | CyrusOne | Proofpoint |
| | SAP* | Iron Mountain | Workday* | | | IPSoft | RingCentral |
| | | | | | | Paycom | |

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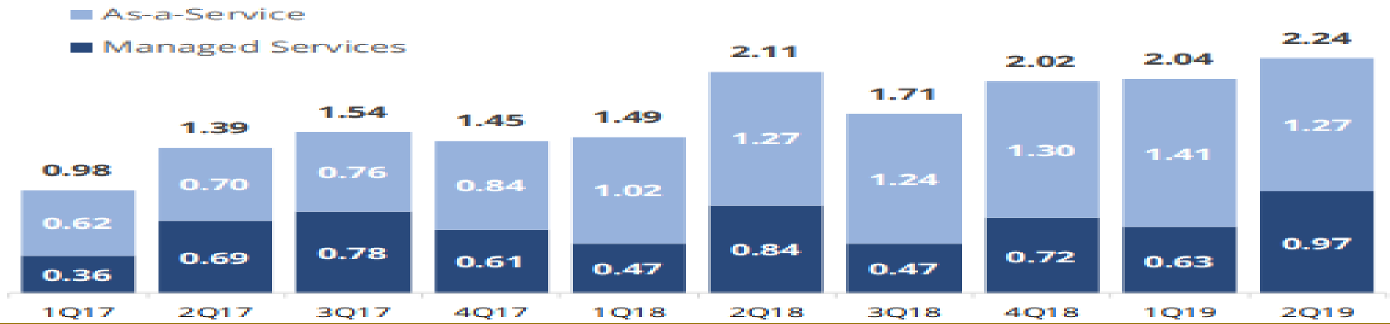
**Asia Pacific Commercial Sector Contracting Trends -** 1H19 Combined Market ACV up 19% YoY, Managed Services ACV up 22% YoY, As-a-Service Market ACV up 17% YoY. Managed Services had best quarter since 2014 due to uptick in larger awards over US$20mn in ACV. As-a-Service pulled back sequentially due to some uneven activity in China.

**Exhibit 11: Asia Pacific Commercial Sector Quarterly ACV ($B) ***

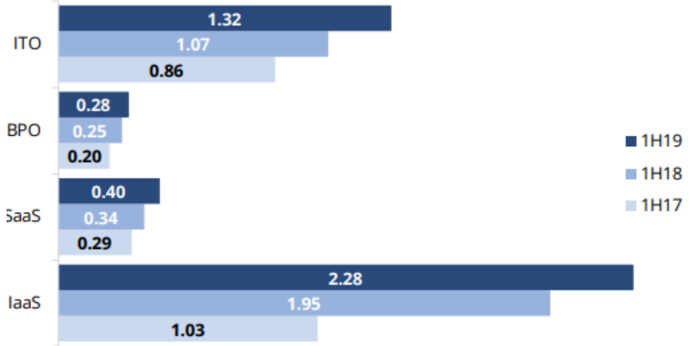



*Source: 2Q19 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

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


*Source: 2Q19 – ISG – Outsourcing – Index*

**Exhibit 13: APAC Comm. Sector ACV Type ($bn)**




*Source: 2Q19 – ISG – Outsourcing – Index*

**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<br>CBRE*<br>Cognizant<br>DXC Technology<br>Fujitsu<br>Hitachi<br>IBM Global Services<br>Infosys<br>NTT Data<br>TCS | Amdocs<br>Genpact<br>HCL<br>ITOCHU Techno-Solutions<br>Nomura Research Institute<br>Sabre*<br>Samsung SDS<br>Sodexo*<br>Tech Mahindra<br>Telstra<br>TIS Intec*<br>Wipro Limited | Diebold Nixdorf<br>Digital China<br>JLL<br>Konica Minolta<br>Mphasis<br>Nihon Unisys<br>NS Solutions<br>SCSK<br>Sutherland Global Services<br>transcosmos<br>Unisys<br>WEX* | Beyondsoft<br>ChinaSoft<br>Fuji Soft*<br>Hyundai Information Technology*<br>Neusoft<br>PLDT*<br>Posco ICT<br>Relia<br>Shinsegae I&C<br>Taiji Computer<br>WNS* |
| **As-a-Service Market** | Alibaba<br>Amazon Web Services<br>Google<br>Microsoft<br>Tencent | Adobe Systems<br>Equinix<br>ServiceNow* | Autodesk<br>PTC<br>Sage | Atlassian<br>Kingdee<br>Veeva Systems*<br>Xero |

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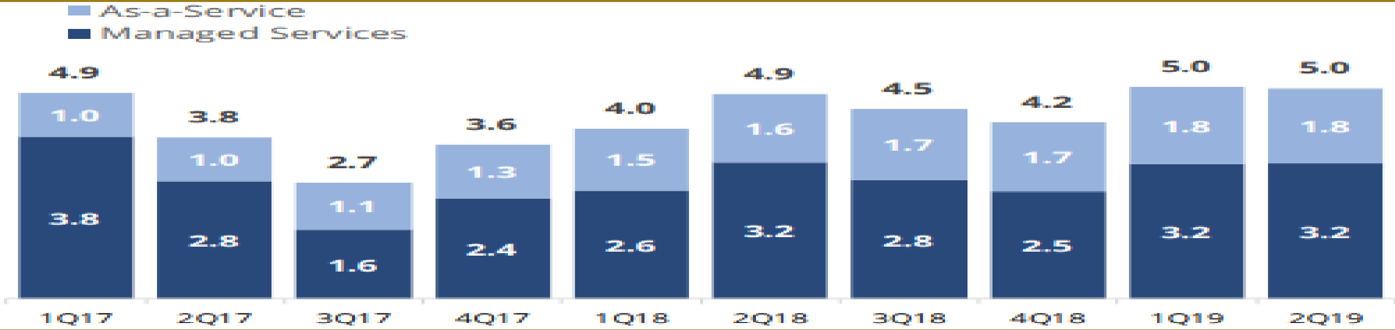
*Source: 2Q19 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase*

**EMEA Commercial Sector Contracting Trends -** 1H19 Combined Market ACV up 12% YoY, Managed Services ACV up 10% YoY, As-a-Service Market ACV up 17% YoY. Managed Services posts two consecutive US$3bn quarter for the first time since 2015. Infrastructure is transitioning to become the digital foundation of enterprise businesses.

**Exhibit 15: EMEA Commercial Sector Quarterly ACV (US$ bn)***

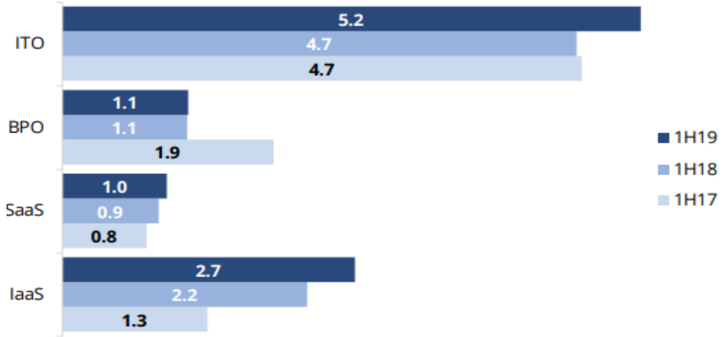



*Source: 2Q19 – ISG – Outsourcing – Index, *Contracts with ACV ≥ $5M from the ISG Contracts Knowledgebase*

**Exhibit 16: EMEA Comm. Sector ACV ($B)***


*Source: 2Q19 – ISG – Outsourcing – Index*

**Exhibit 17: EMEA Comm. Sector ACV by Type**




*Source: 2Q19 – ISG – Outsourcing – Index*

**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 | Alight Solutions* | SopraSteria | Alten | Fiducia IT AG* | Adesso AG | NNIT A/S |
| Atos | IBM Global Services | Bechtle | Tech Mahindra | Altran | Finanz Informatik* | Allgeier SE | QIWI |
| BT | Infosys | Computacenter* | Teleperformance | Asseco* | GFI Informatique | Comarch | QuEST Global |
| Capgemini | ISS Global A/S | HCL | T-Systems* | Axians | JLL | Comparex | Reply SpA |
| CBRE | TCS | Kuehne & Nagel | Wipro | Cancom | Tieto | Datagroup AG | SVA System Vertrieb Alexander GmbH |
| Cognizant | | Orange Business Services | | Diebold Nixdorf | Unisys | Devoteam | WNS |
| | | | | EVRY ASA | Webhelp | Mindtree | |
| **As-a-Service Market** | | | | | | | |
| Amazon Web Services | Microsoft | Adobe Systems | SS&C Technologies* | Autodesk | | Interxion | |
| Google | SAP | Equinix | United Internet | | | OVH | |

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*Source: 2Q19 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase*

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| Served as Director or Employee | No |

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| Recommendation | Expected absolute returns (%) over 12 months |
|---|---|
| Buy | More than 15% |
| Hold | 15% to -15% |
| Sell | Less than -15% |

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