

Technology

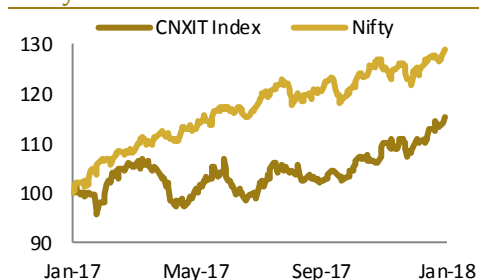
Sector Update

Traditional sourcing to grow at 4% in CY18

	CMP(₹)	3M ret.(%)	Yearly (%)
Index Returns			
Nifty	10,777	6	28
CNX IT	12,103	11	18
Large-Caps			
TCS	2,779	9	24
INFO	1,083	16	11
WPRO	321	10	33
HCLT	918	(1)	8
TECHM	552	16	13
Mid-Caps			
MTCL	634	31	30
MPHL	767	19	47
HEXW	360	31	80
ECLX	1,542	23	8
KPIT	206	60	45
NITEC	705	13	66
CYL	586	9	17
PSYS	771	17	22

	Rating	FDEPS (₹)	
		FY18E	FY19E
TCS	Hold	134.5	149.0
INFO	Buy	74.1	71.6
WPRO	Hold	17.9	19.0
HCLT	Buy	62.7	68.2
TECHM	Buy	35.0	39.6
MTCL	Hold	30.6	34.1
MPHL	Sell	39.8	44.2
HEXW	Hold	16.8	17.5
ECLX	Hold	74.3	84.1
KPIT	Hold	11.8	14.1
NITEC	Buy	42.3	51.7
CYL	Buy	36.7	41.2
PSYS	Hold	41.3	48.2

Nifty vs CNX IT



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ISG Outsourcing (TPI) came out with its findings on global outsourcing industry for Q4CY17. Full-year ACV for the combined global market (including both as-a-service and traditional sourcing) climbed 15%, to a record US\$43.3bn, driven principally by a 36% jump in the as-a-service segment, to US\$18.7bn. Although traditional sourcing was up 3% for the year, to US\$24.6bn, it reached US\$6bn in ACV – a sign of a robust market – in three of the four quarters. Deal values are expected to remain small with focus on security, Digital and Cloud. For 2018, on a global basis, ISG forecasts 20%+ growth in as-a-service sourcing, and 4% growth in traditional sourcing.

Key highlights: 1) 4Q17 Combined Market up 16% YoY; Best-ever quarterly ACV in both IaaS and SaaS; Traditional Sourcing up 8% YoY. 2) For the full year, Combined Market up 15%, double from year ago, 3) In 2017, Americas up 23% versus 2016 with Traditional Sourcing up moderately and As-a-Service ACV up significantly, 4) EMEA up against 2016 with strong As-a-Service ACV growth but with the fourth successive yearly decline in Traditional Sourcing ACV. 5) Asia Pacific up 19% over 2016 with As-a-Service growth slightly outpacing Traditional Sourcing.

Trends across geographies: **Global Contracting Trends** - 4Q17 Combined Market ACV up 16% YoY as business spends more on technology to drive digital transformation; for the full year, Traditional Sourcing remains in a very tight range as As-a-Service (specifically IaaS) continues to increase. **Americas Contracting Trends** Americas 4Q17 ACV is up 28% YoY with As-a-Service seeing continued growth and Traditional Sourcing surging past \$3B for the second consecutive quarter; for the full year, Combined Market is up 23% on record highs in both Traditional Sourcing and As-a-Service. **Asia Pacific Contracting Trends** - Combined Market 4Q17 ACV up 16% YoY on best quarter ever for As-a-Service awards and moderately good quarter for Traditional Sourcing; for the full year, Asia Pacific ACV increases 19% on continued growth in As-a-Service ACV and best Traditional Sourcing results since 2014. **EMEA Contracting Trends** - 4Q17 Combined Market in EMEA is up 27% QoQ and flat YoY; for the full year, ACV results rise slightly compared to 2016 with As-a-Service highs offsetting declines in Traditional Sourcing.

Global Commercial Sector Industry Award Trends: Financial Services leads among several industry verticals (along with Business Services, Healthcare and Transportation) that generated ACV growth in both Traditional Sourcing and As-a-Service segments.

Market Summary: 1) Combined Market saw double-digit Y/Y growth for the quarter led by the Americas and Asia-Pacific. 2). For 2017, As-a-Service segment continued to surge ahead with Public Cloud leading the market; SaaS and Traditional Sourcing segments still showed slow but positive growth. 3) Financial Services grew both its Traditional Sourcing and As-a-Service profile; other industries such as Business Services, Travel and Healthcare also featured similar gains.

Market Outlook: 1) Changes in U.S. tax laws should free up money to be invested in projects and digital transformation, ensuring that both IaaS and SaaS will flourish. 2) Expect to see As-a-Service growth of 20%+ in 2018 with 4% growth in Traditional Sourcing.

Hexaware, Polaris, L&T Infotech had deal signings across geographies among midcaps: Top-5 omnipresent: Among the mid-caps in our coverage universe, Mindtree (Americas), L&T Infotech (Americas, EMEA), Hexaware (Americas, EMEA, APAC), Polaris (Americas, EMEA, APAC) was mentioned in “The Breakthrough 15 Sourcing Standouts”. However, Top-5 Indian IT companies continue to have a strong presence across geographies.



1) 4Q17 Combined Market up 16% YoY; Best-ever quarterly ACV in both IaaS and SaaS; Traditional Sourcing up 8% YoY. 2) For the full year, Combined Market up 15%, double from year ago, 3) In 2017, Americas up 23% versus 2016 with Traditional Sourcing up moderately and As-a-Service ACV up significantly, 4) EMEA up against 2016 with strong As-a-Service ACV growth but with the fourth successive yearly decline in Traditional Sourcing ACV. 5) Asia Pacific up 19% over 2016 with As-a-Service growth slightly outpacing Traditional Sourcing.

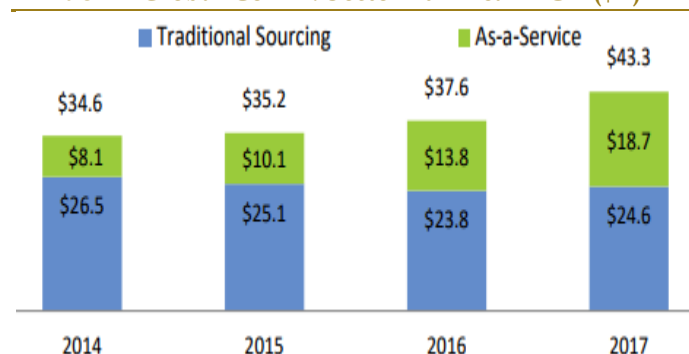
Exhibit 1: Deal signings in Q3CY17 – At a glance

Scorecard	4Q17 ACV (US\$ bn)*	4Q YoY Change (%)	Full Year ACV (US\$ bn)	Full Year Change (%)
Global Commercial Combined Market	11.3	16	43.3	15
By Type – Outsourcing	6	8	24.6	3
By Type – As-a-Service	5.3	26	18.7	36
By Region – Americas	6.3	28	23.1	23
By Region – EMEA	3.8	-	15.3	3
By Region – Asia Pacific	1.2	16	4.9	19

Source: 4Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

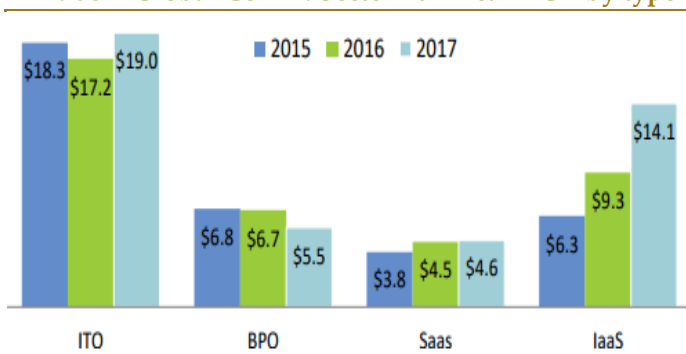
Global Commercial Sector Contracting Trends - 4Q17 Combined Market ACV up 16% YoY as business spends more on technology to drive digital transformation; for the full year, Traditional Sourcing remains in a very tight range as As-a-Service (specifically IaaS) continues to increase.

Exhibit 2: Global Comm. Sector Full Year ACV (\$B)*



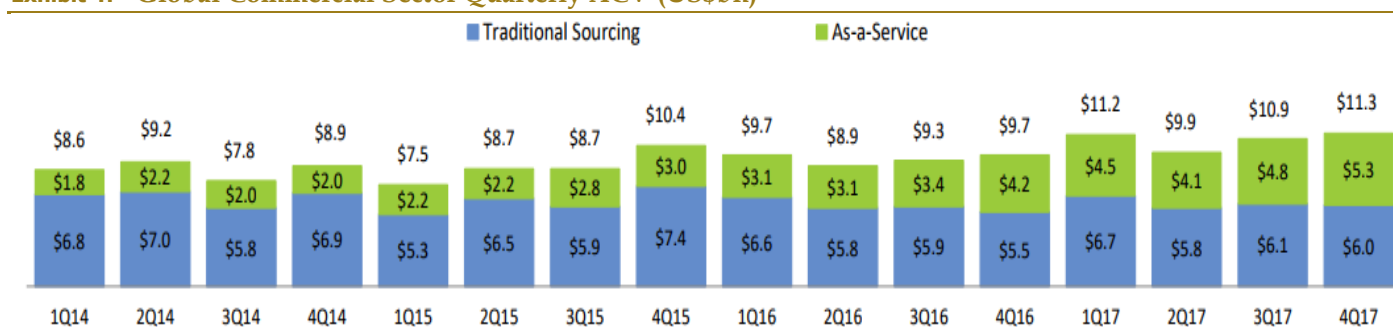
Source: 4Q17 – ISG – Outsourcing – Index

Exhibit 3: Global Comm. Sector Full Year ACV by type



Source: 4Q17 – ISG – Outsourcing – Index

Exhibit 4: Global Commercial Sector Quarterly ACV (US\$bn)*



Source: 4Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

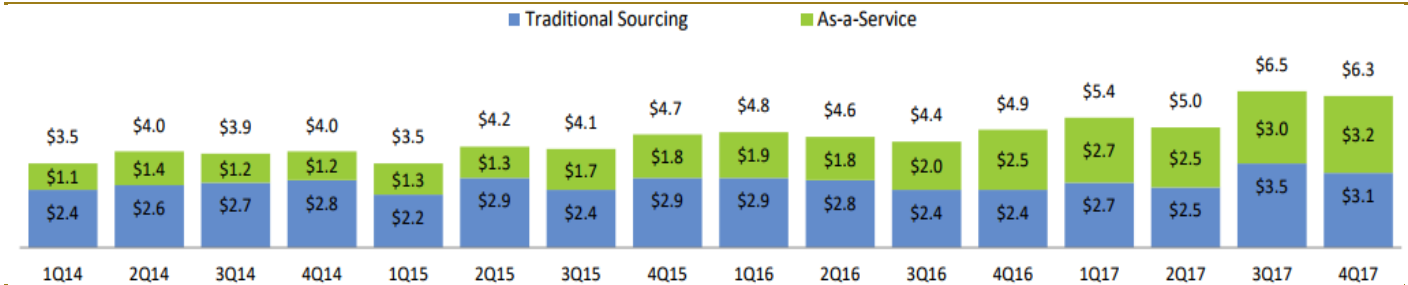
Our view: ISG commentary is in sync with the financial performance of Indian IT companies – with companies pointing out to revenue visibility being better than CY17, since Indian IT companies are still dependent on traditional outsourcing as their main business. We continue to prefer companies with stronger revenue momentum and margin of safety in valuations – HCLT and Tech Mahindra in large-caps.

Top-5 omnipresent: Among the mid-caps in our coverage universe, Mindtree (Americas), L&T Infotech (Americas, EMEA), Hexaware (Americas, EMEA, APAC), Polaris (Americas, EMEA, APAC) was mentioned in “The Breakthrough 15 Sourcing Standouts”. However, Top-5 Indian IT companies continue to have a strong presence across geographies.



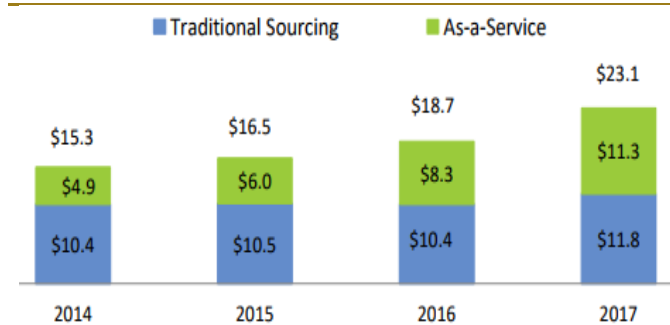
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Exhibit 5: Americas Commercial Sector Quarterly ACV (US\$bn)*



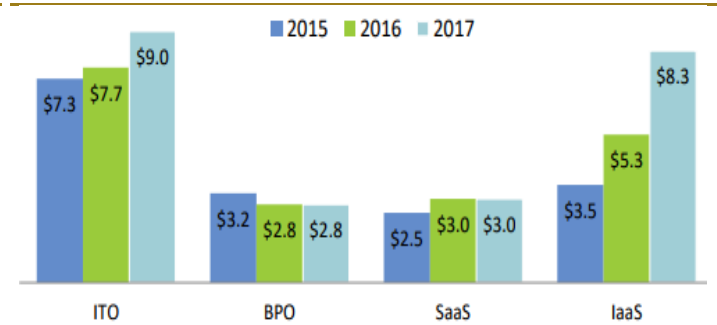
Source: 4Q17 - ISG - Outsourcing - Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

Exhibit 6: Americas Commercial Sector Full Year ACV



Source: 4Q17 - ISG - Outsourcing - Index

Exhibit 7: America Comm. Sector Full Year ACV



Source: 4Q17 - ISG - Outsourcing - Index

Exhibit 8: Americas Top 15s - Sourcing standouts grouped by company size

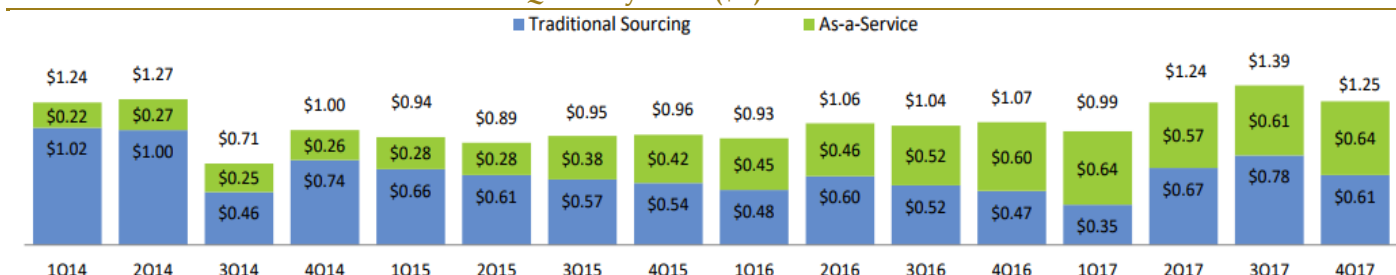


Source: 4Q17 - ISG - Outsourcing - Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase



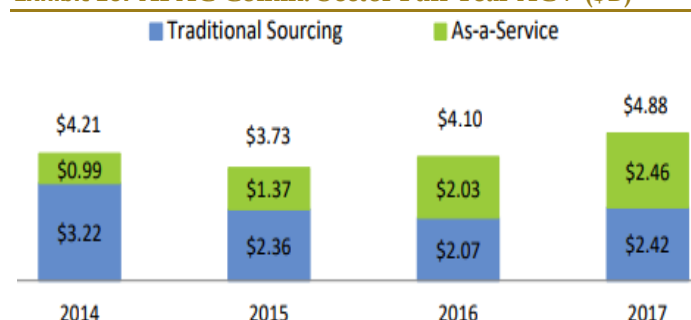
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Exhibit 9: Asia Pacific Commercial Sector Quarterly ACV (\$B) *



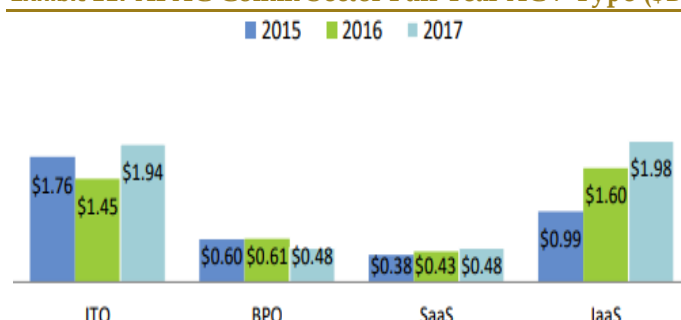
Source: 4Q17 - ISG - Outsourcing - Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

Exhibit 10: APAC Comm. Sector Full Year ACV (\$B) *



Source: 4Q17 - ISG - Outsourcing - Index

Exhibit 11: APAC Comm Sector Full Year ACV Type (\$B)



Source: 4Q17 - ISG - Outsourcing - Index

Exhibit 12: Asia Pacific Top 15s - Sourcing standouts grouped by company size

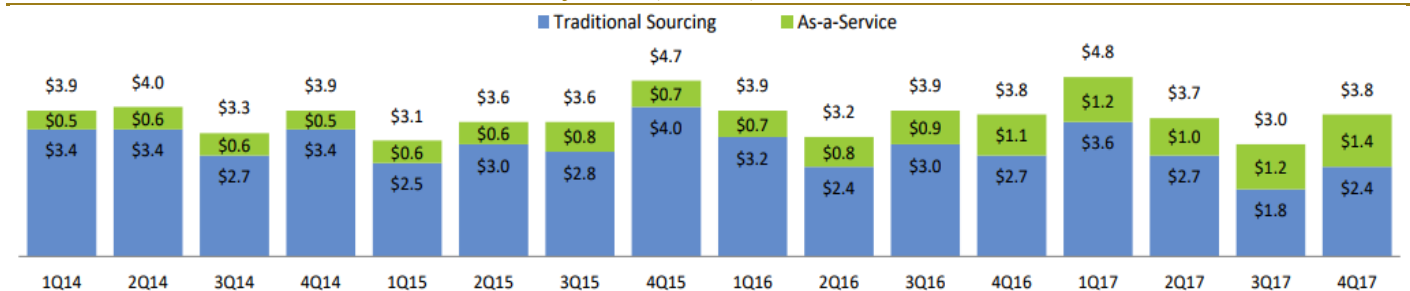


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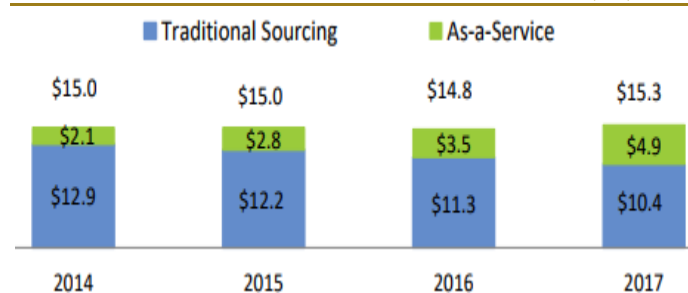
EMEA Commercial Sector Contracting Trends - 4Q17 Combined Market in EMEA is up 27% QoQ and flat YoY; for the full year, ACV results rise slightly compared to 2016 with As-a-Service highs offsetting declines in Traditional Sourcing.

Exhibit 13: EMEA Commercial Sector Quarterly ACV (US\$ bn)*



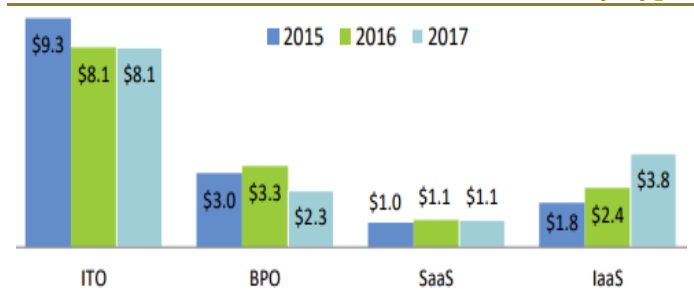
Source: 4Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

Exhibit 14: EMEA Comm. Sector Full Year ACV (\$B)*



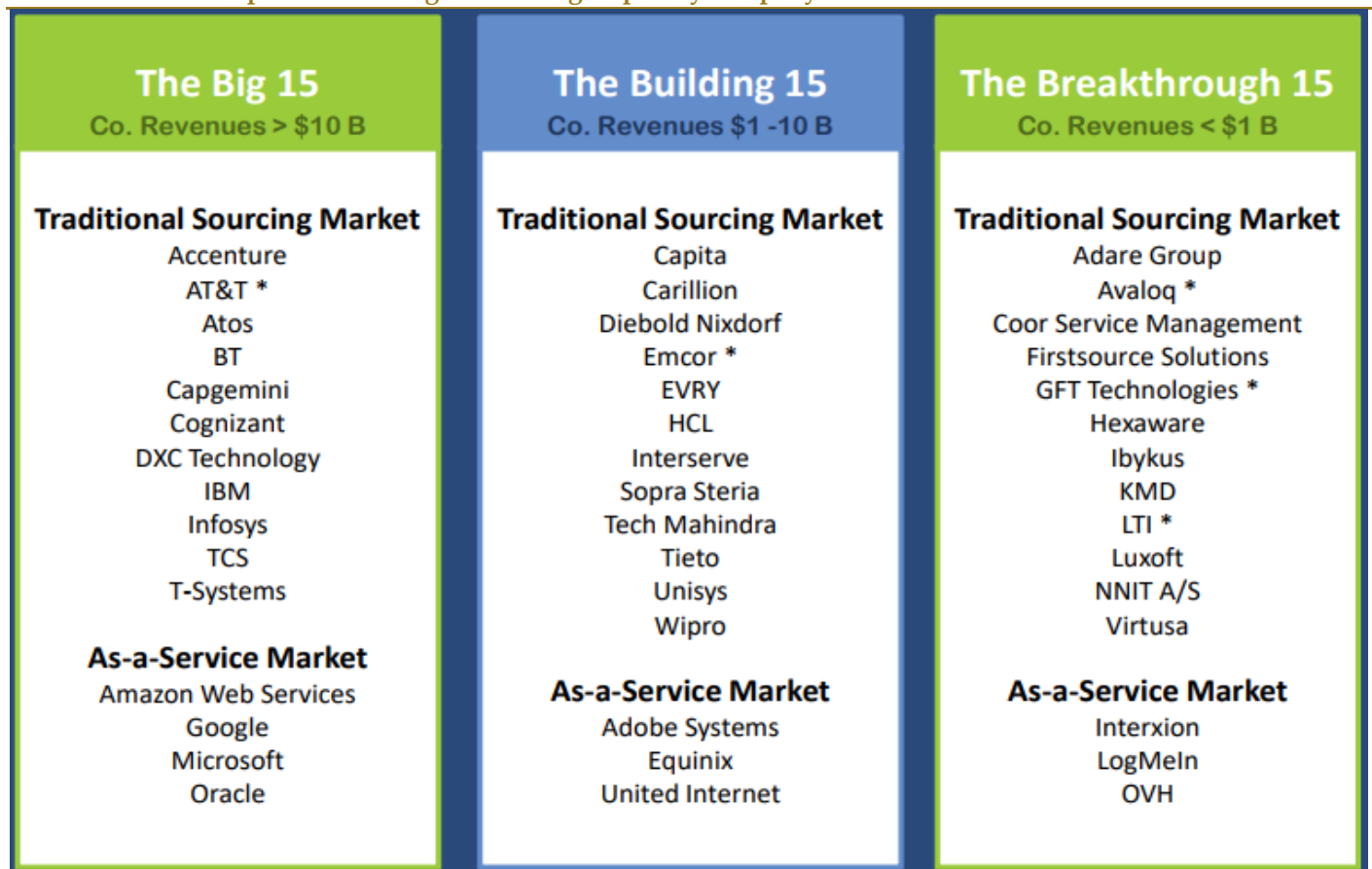
Source: 4Q17 – ISG – Outsourcing – Index

Exhibit 15: EMEA Comm. Sector Full Year ACV by Type



Source: 4Q17 – ISG – Outsourcing – Index

Exhibit 16: EMEA Top 15s – Sourcing standouts grouped by company size

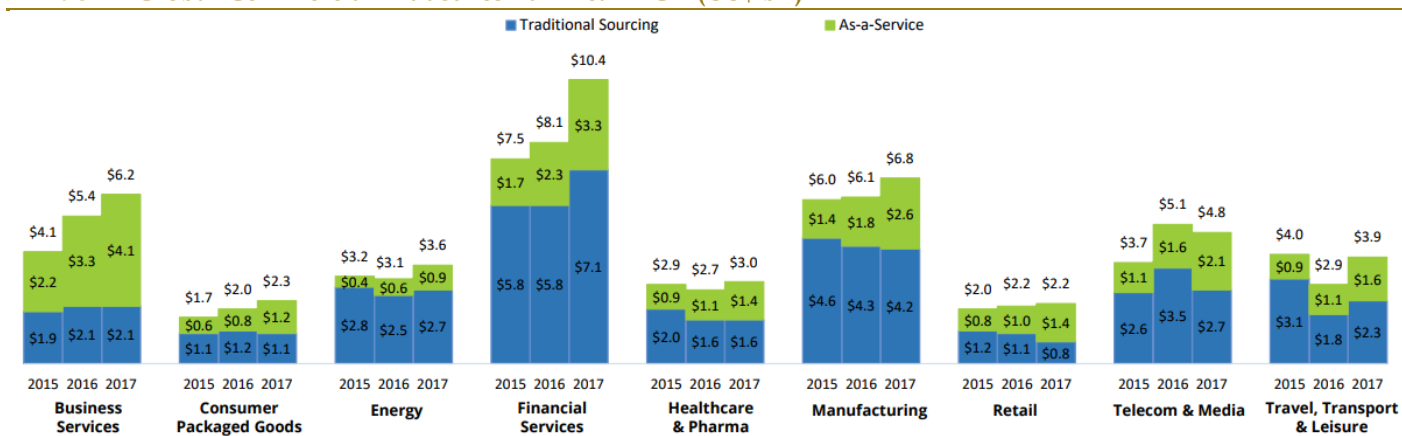


Source: 4Q17 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase



Global Commercial Sector Industry Award Trends - Financial Services leads among several industry verticals (along with Business Services, Healthcare and Transportation) that generated ACV growth in both Traditional Sourcing and As-a-Service segments.

Exhibit 17: Global Commercial Industries Full Year ACV (US\$ bn)*



Source: 4Q17 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

The past year began and ended strongly in terms of market value, and the demand for all things digital shows no signs of abating, as enterprises embrace these new technologies not only for increased efficiency, but to find new ways to grow and get closer to their customers. The seemingly insatiable digital demand, marked most notably by the dramatic move of infrastructure and software services to the cloud, is driving overall market growth, but traditional sourcing is also growing, thanks in large measure to improving economic conditions worldwide.

In traditional sourcing, information technology outsourcing (ITO) reached US\$19.0bn for the year, up 11% versus 2016, fueled by a record number (1,251) of contract awards, most notably in the applications space. Business process outsourcing (BPO), meanwhile, declined 17%, to US\$5.5bn. Within as-a-service, IaaS reached a record US\$14.1bn, up 51 percent, while SaaS, at US\$4.6bn, also established a new annual ACV record, but was up only 3% from the prior year.

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