

Technology

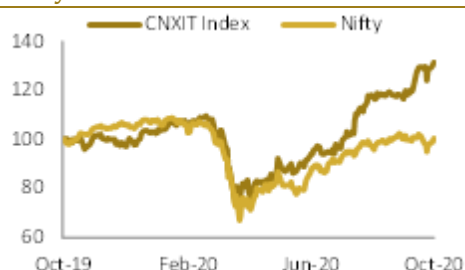
Sector Update

Deal flow recovers; CY20 outlook upgraded

	CMP (₹)	3M ret.(%)	Yearly (%)
Index Returns			
Nifty	11,931	12.5	5.2
CNX IT	22,202	42.0	45.3
Large-Caps			
TCS	2,831	27.5	40.1
INFO	1,132	44.6	44.0
WPRO	378	67.8	55.1
HCLT	866	46.5	59.4
TECHM	857	43.2	18.9
Mid-Caps			
MTCL	1,564	55.2	114.1
MPHL	1,391	50.6	53.8
HEXW	467	34.9	26.0
ECLX	708	47.5	80.1
NITEC	2,674	68.5	91.5
CYL	378	41.8	(17.5)
PSYS	1,304	79.9	123.2

	Rating	FDEPS (₹)	
		FY21E	FY22E
TCS	Hold	86.5	97.8
INFO	Buy	41.8	46.4
WPRO	Hold	17.2	18.4
HCLT	Buy	42.4	46.9
TECHM	Buy	44.2	51.9
MTCL	Hold	55.0	62.5
MPHL	Buy	66.0	75.5
HEXW	Hold	22.6	25.7
ECLX	Buy	61.3	67.8
NITEC	Buy	78.7	91.5
CYL	Buy	28.1	32.4
PSYS	Hold	51.2	57.5

Nifty vs CNX IT



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ISG announced Q3CY20 deal flow data recently. The ISG Q3CY20 dealflow data depicted deal momentum recovering from Q2 trough in both traditional and As-a-service deals. The CY20 outlook has marginally been upgraded in both service lines.

Quarterly details - ACV of US\$14.6bn (+5.8% YoY, +10.6% QoQ) - last quarter (-10.8% QoQ). Traditional deals at US\$6.6bn, -1.5% YoY, (+10.0% QoQ) - recovered after weak Q2 (-11.8% QoQ). As-a-Service grew to US\$8.0bn (+12.7% YoY, +11.1% QoQ) - recovering strongly after last quarter (-10% QoQ).

Geographies: EMEA reported strongest recovery at +12.2% YoY (+2.2% QoQ), followed by Americas at +3.9% YoY (+17.6% QoQ) while Asia Pacific declined by -3.4% YoY (+4.2% QoQ). **Segments (2020 YTD growth YoY):** Business services (+12% YoY), Energy (+12% YoY), Retail & CPG (+11% YoY), BFSI (+6% YoY), Healthcare (+5% YoY) led the growth; Manufacturing (+1% YoY), Travel (+4% YoY) and Telecom (-16% YoY). **Guidance for CY20:** Traditional is expected to decline -6.0% YoY (earlier -7.5% YoY) and As-a-Services to grow by +15.5% YoY (earlier +11% YoY).

Conference call takeaways: Managed services ACV are driven by lot of smaller deals with 85% of ACV comprised of deals <US\$20mn in size. **BFSI:** Deal activity picked up in US in As-a-service deals - Some banks are outsourcing through captives; Remote and contact less banking, Regulatory compliance, moving to cloud are few areas of spend. Also, traction in Insurance. **Retail & CPG** - Grown despite bankruptcies - those retailers who had invested in omni-channel and ecommerce are doing better. Managed Services has remained weak mainly due to CPG industry. **Manufacturing** - EMEA is a bright spot with 13% YoY growth; Strong recovery in the long-term post Covid is expected. IoT, Digital Twins, maintaining operations are areas of spends. Manufacturers are reconfiguring supply chains and alternative sources for raw materials. **Telecom & Media:** Lot of cinemas and movie releases are under pressure and leading to cut in spends within the media industry. **Healthcare:** down a little bit; Elective surgeries and drugs consumption is not getting traction leading to softness. **Pipeline:** ACV growth can still accelerate from here. Pipeline of deals is much healthier. ISG mentioned that some of the deals can be quite promising (large). **Digital transformation accelerating in many industries, cloud adoption happening across the globe**

Summary - Global Sourcing Industry Slowly Recovering - 3Q20 outperformed expectations due to several form factors (including mega-deals, restructurings, BFSI, U.K. industry-specific BPO). **Managed Services** - Year-to-date, ITO activity is down slightly with growth in ADM transactions offset by uneven Infrastructure awards; BPO has seen slowing activity in contact centers and facilities management. **As-a-Service** - Year-to-date, As-a-Service has steadily increased with IaaS experiencing double-digit gains across each of the regions; SaaS market remains in positive territory only in the Americas.

Valuation and view - More important than the Q3CY20 ISG dealflow data, was the CY20 outlook the agency provided. The 150bps upgrade in the Managed Services forecast (from -7.5% to -6.0%) augurs well for the Indian IT companies, and reinforces our long term positive stance of (1) strong fundamentals, (2) IT companies benefitting from accelerated digital adoption and (3) strong recovery in FY22 on pent up demand. Maintain BUY on Infosys, HCL Tech and Tech Mahindra (in Large cap IT companies) - and on Mphasis, Coforge and eClerx (in midcaps).



1) Global Combined Market - Slowly recovering from Q2 trough. **2) Q3 Combined Market** - Up 3%, to \$14.6 billion, second-best quarter ever behind 1Q20. **3) Managed Services up 10%** - Sequentially on increase in mega-deals, contract restructurings, banking demand and industry-specific BPO. **4) As-a-Service up 10.5% YoY** - On strong IaaS demand fueled by accelerated digital transformation.

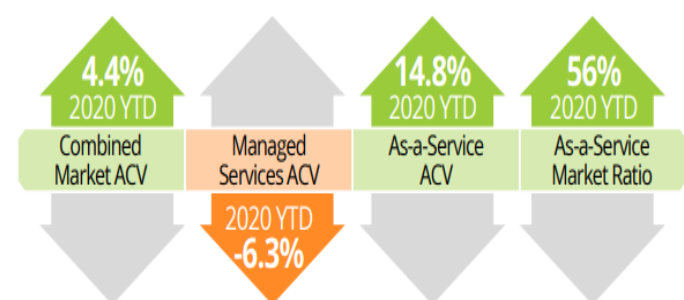
Exhibit 1: Deal signings in Q3CY20 - At a glance

Scorecard	3Q20 ACV (US\$ bn)*	3Q YoY Change (%)	YTD ACV (US\$ bn)	YTD Change (%)
Global Commercial Combined Market	14.6	3.0	43.9	4.4
By Type - Managed Services*	6.6	(4.8)	19.5	(6.3)
By Type - As-a-Service	8.0	10.5	24.4	14.8
By Region - Americas	8.0	3.2	23.2	9.2
By Region - EMEA	4.6	9.4	14.3	2.6
By Region - Asia Pacific	2.0	(10.0)	6.4	(6.9)

Source: 3Q20 - 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

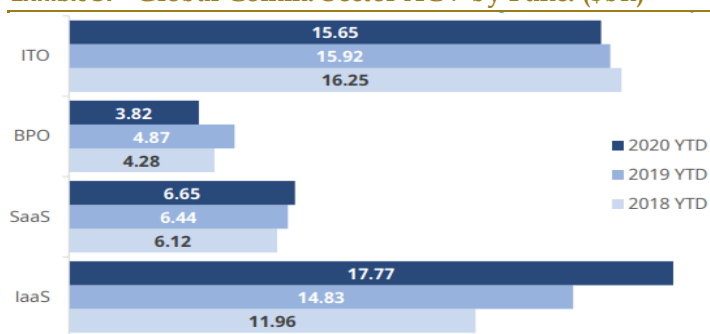
Global Commercial Sector Contracting Trends - Combined Market up 3% with its second-best quarterly result ever. Despite COVID overhang, Managed Services surpassed expectations, up 10% QoQ due to increased activity in mega-deals, contract restructurings (up 50+%), BFSI (up 50+%) and industry specific BPO (up 90+%).

Exhibit 2: Global Commercial Sector ACV



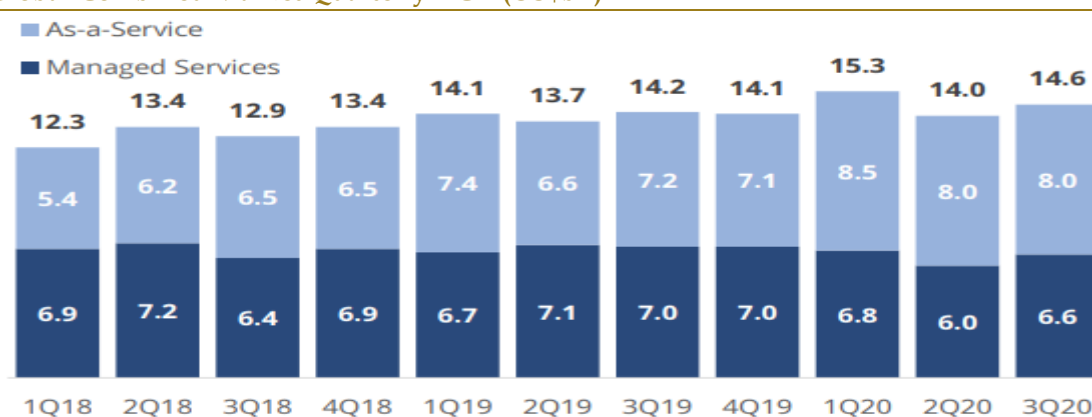
Source: 3Q20 - ISG - Outsourcing - Index

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



Source: 3Q20 - ISG - Outsourcing - Index

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



Source: 3Q20 - 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 Concentrix * Genpact	HCL OptumInsight Tech Mahindra T-Systems Wipro
		Digital China * EPAM Systems JLL LTI Mindtree	Mphasis Sutherland TietoEvy Unisys Virtusa
			Birlasoft CSG Systems Ensono EXL HGS * Persistent Systems
As-a-Service Market			
Alibaba Amazon Web Services Google	Microsoft Salesforce Tencent	Adobe Systems Equinix ServiceNow VMware * Workday	Allscripts Autodesk Digital Realty Palo Alto Networks * Rackspace *
			Atlassian Coresite * CrowdStrike * CyrusOne DocuSign RingCentral Slack * Veeva Systems Zoom Video *

* New to leaderboard in 3Q20

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

Source: 3Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

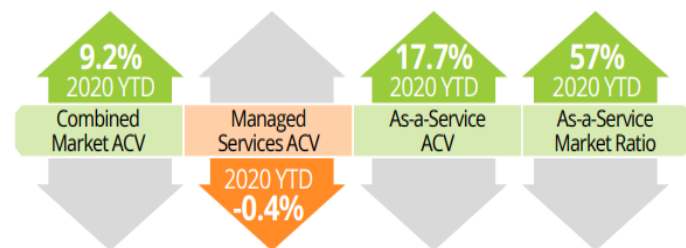
Exhibit 6: Global Commercial Sector Industry Award trends (US\$bn)*

2020 YTD Growth	Business Services 	Retail & Consumer Packaged Goods 	Energy 	Financial Services 	Healthcare & Pharma 	Manufacturing 	Telecom & Media 	Travel, Transport Leisure
	\$8.3 ACV	\$5.4B ACV	\$2.8B ACV	\$9.1B ACV	\$4.1B ACV	\$6.5B ACV	\$4.0B ACV	\$3.8B ACV
Combined Market	12%	11%	12%	6%	5%	1%	-16%	4%
Managed Services	-6%	2%	14%	-3%	-3%	-4%	-34%	-8%
As-a-Service	17%	16%	8%	21%	14%	6%	13%	14%
Americas	6%	10%	10%	30%	5%	7%	-22%	25%
EMEA	24%	13%	11%	-13%	5%	13%	-6%	-5%
Asia Pacific	19%	11%	24%	-19%	-3%	-34%	-17%	-23%

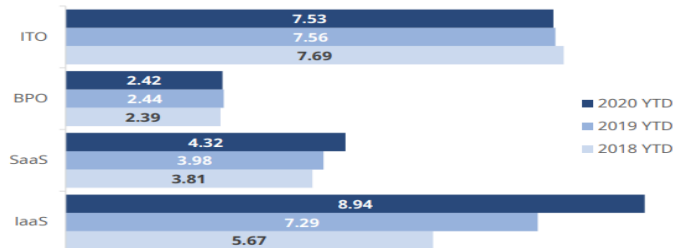
Source: 3Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase



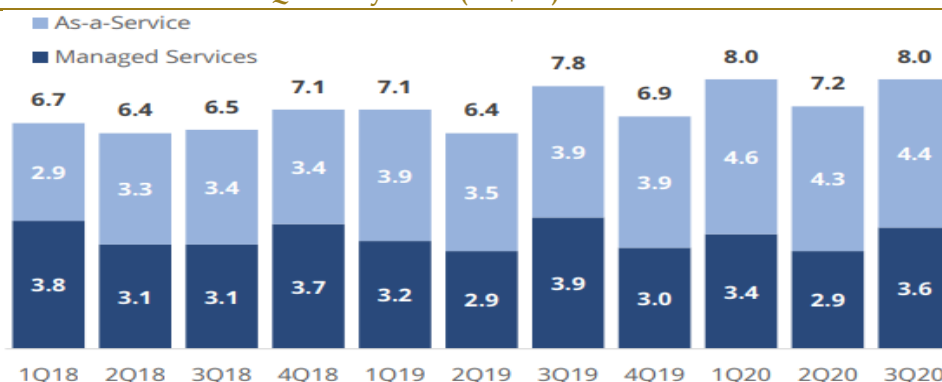
Americas Commercial Sector Contracting Trends – 3Q20 Combined Market posted best quarterly result ever, up 3.2% YoY due to strong marks in IaaS and SaaS. Managed Services declined 7% YoY versus a very difficult comparison to 3Q19 but was up 26% sequentially due to strength in BFSI and industry-specific BPO awards.

Exhibit 7: Americas Commercial Sector

Source: 3Q20 – ISG – Outsourcing – Index

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

Source: 3Q20 – ISG – Outsourcing – Index

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

Source: 3Q20 – 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	DXC Technology	Amdocs	Global Payments	EPAM Systems	Sutherland	Birlasoft	
AT&T	IBM Global Services	Concentrix*	HCL	LTI	TTEC	CSG Systems	
Atos	Infosys	Cushman & Wakefield	OptumInsight	Mindtree	Unisys	Ensono	
Capgemini	NTT DATA	FIS Global *	Tech Mahindra	Mphasis	Virtusa	EXL	
Cognizant	TCS	FIS Global *	Wipro			Globant	
	Verizon	Genpact				Persistent Systems	
As-a-Service Market							
Amazon Web Services		Adobe Systems	VMware *	Allscripts	Rackspace *	Coresite	QTS
Google		Equinix	Workday	Autodesk	Twilio	Crowdstrike *	RingCentral
Microsoft		ServiceNow		Digital Realty	UKG	CyrusOne	Snowflake
Salesforce				Palo Alto Networks *		Datadog *	Computing *
						Docusign	Zoom Video *

* New to leaderboard in 3Q20

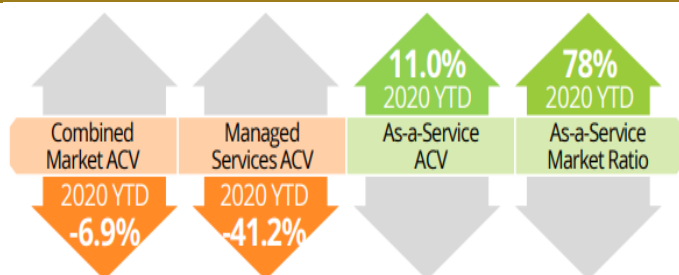
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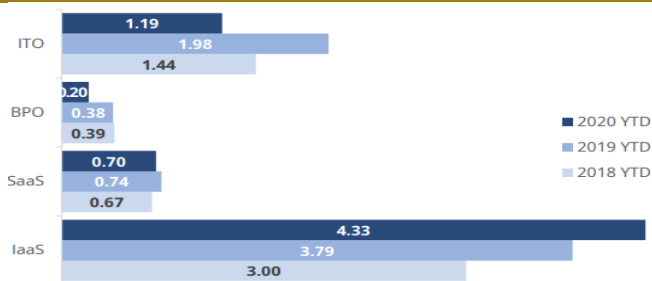
Asia Pacific Commercial Sector Contracting Trends - Combined Market ACV fell 10% YoY due to continued soft results in Managed Services. Managed Services ACV declined over 40% due to lack of large transactions across the region.

Exhibit 11: APAC Comm. Sector ACV



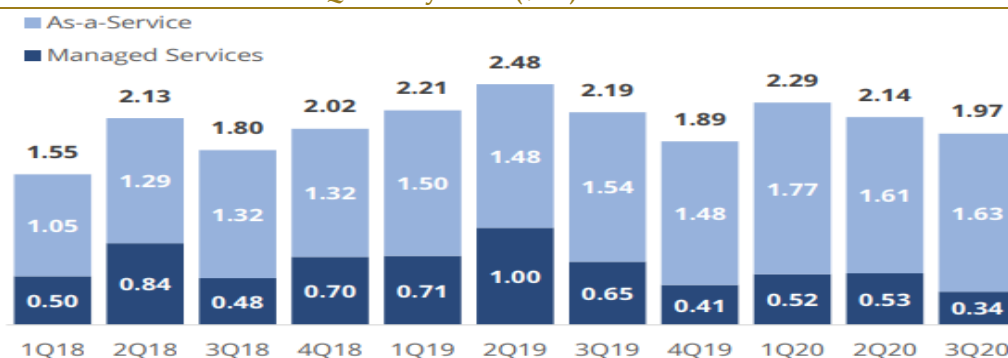
Source: 3Q20 – ISG – Outsourcing – Index

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



Source: 3Q20 – ISG – Outsourcing – Index

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



Source: 3Q20 – 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 Capgemini Cognizant DXC Technology	IBM Global Services NTT Data Ricoh * TCS	Amadeus Amdocs Genpact HCL IT Holdings (TIS) ITOCHU Techno-Solutions (CTC)	Nomura Research Institute Serco * Sodexho Tech Mahindra T-Systems Wipro
Digital China Neusoft Nihon Unisys SCSK	Sutherland transcosmos TTEC Unisys	21Vianet * Beyondsoft ChinaSoft Data#3 Empired	Fuji Soft PLDT * Relia Taiji Computer
As-a-Service Market			
Alibaba Amazon Web Services China Telecom *	Google Microsoft Salesforce Tencent	Adobe Systems Equinix ServiceNow *	Akamai * Autodesk Digital Realty * Dropbox *
		Palo Alto Networks * Sage Twilio	Atlassian Cloudera * CrowdStrike *
			Kingdee Slack * Veeva Systems

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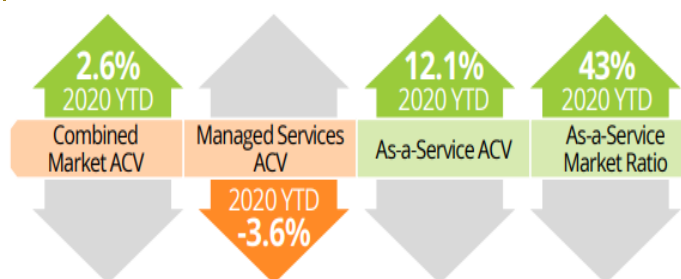
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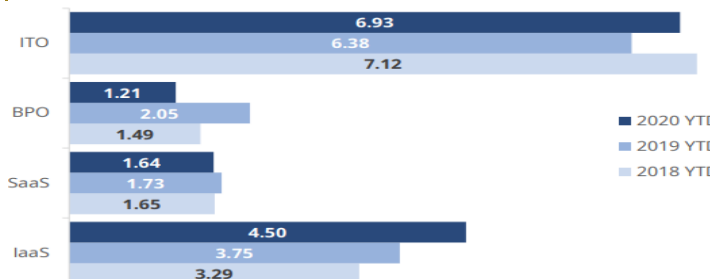
EMEA Commercial Sector Contracting Trends – Combined Market ACV was up over 9% YoY with equal contributions by both Managed Services and As-a-Service domains. 3Q20 Managed Services up both QoQ and YoY as most major markets accelerated led by U.K.

Exhibit 15: EMEA Comm. Sector ACV



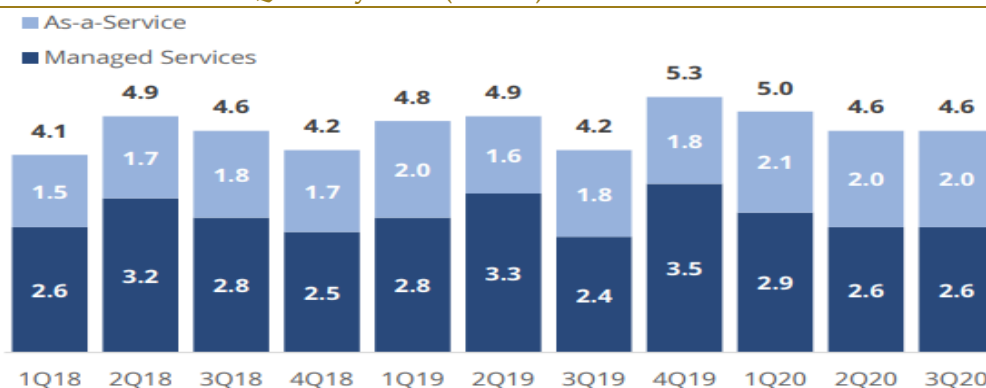
Source: 3Q20 – ISG – Outsourcing – Index

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



Source: 3Q20 – ISG – Outsourcing – Index

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



Source: 3Q20 – 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	Serco *	Asseco	MITIE	adesso	Kapsch Group *
Atos	IBM Global Services	Arvato *	Sopra Steria	EPAM Systems	Mphasis *	Coforge	NNIT A/S
BT Group	Infosys	Bechtle	Tech Mahindra	JLL	Sutherland *	Digita	Persistent Systems
Capgemini	NTT Data *	Computacenter	T-Systems	LTI	TietoEVRY	EXL	WNS
Cognizant	TCS	HCL	Wipro	Mindtree	Unisys	HGS	
		Orange Business Services					
As-a-Service Market							
Amazon	Microsoft	Adobe Systems	ServiceNow	Autodesk	Rackspace *	Atlassian	Veeva Systems
Web Services	Salesforce	Equinix	VMWare	Digital Realty *	Sage *	DocuSign	Visma
Google	SAP			Dropbox *		OVH	Zendesk *

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