

Technology

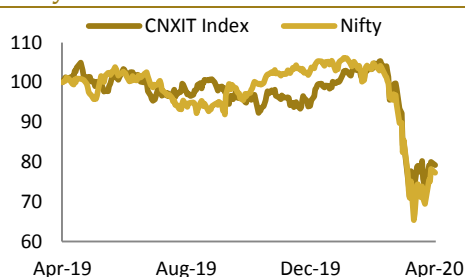
Sector Update

Traditional sourcing expected to decline 7% for CY20

	CMP(₹)	3M ret.(%)	Yearly (%)
Index Returns			
Nifty	8,994	(25.4)	(21.9)
CNX IT	12,603	(22.3)	(20.8)
Large-Caps			
TCS	1,758	(19.7)	(16.7)
INFO	637	(17.6)	(12.3)
WPRO	189	(25.6)	(34.2)
HCLT	458	(21.9)	(16.9)
TECHM	527	(32.9)	(33.9)
Mid-Caps			
MTCL	739	(12.0)	(24.6)
MPHL	671	(24.0)	(32.5)
HEXW	277	(14.9)	(20.6)
ECLX	407	(39.8)	(63.7)
NITEC	1,074	(41.0)	(17.0)
CYL	222	(50.4)	(62.2)
PSYS	510	(25.3)	(15.9)

	Rating	FDEPS (₹)	
		FY20E	FY21E
TCS	Buy	96.0	105.8
INFO	Buy	42.0	46.0
WPRO	Hold	18.0	19.3
HCLT	Buy	43.8	48.7
TECHM	Buy	55.0	60.8
MTCL	Buy	52.5	63.3
MPHL	Buy	67.3	76.6
HEXW	Hold	23.3	26.0
ECLX	Buy	61.6	69.9
NITEC	Buy	86.0	98.5
CYL	Buy	44.8	48.7
PSYS	Hold	53.1	59.5

Nifty vs CNX IT



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ISG announced Q1CY20 deal flow data recently. The deal momentum remained decent in Q1, though with limited impact of Covid-19. The CY20 outlook has turned highly bleak, with the Covid-19 expected to dent the deal flows significantly. ACV of US\$14.8bn (+6.5% YoY). Traditional deals grew to US\$6.8bn, -2.9% YoY. As-a-Service grew by +15.9% YoY to US\$8.0bn. Geographies: Americas grew 10.1% YoY and APAC grew 9.8% YoY; while EMEA reported decline of -2% YoY.

Covid-19 impact: Covid-19 impacted traditional deals by 700bps in Q1 and is expected to decline 17% QoQ in Q2. 85% of the traditional deals in Q1, were already booked in January/February. As-a-Services segment may get a boost in post-Covid world. Overall, for CY20, Traditional is expected to decline 7% YoY (earlier +3.2% YoY) and As-a-Services to grow by +12% YoY (earlier +23.5% YoY). Due to Covid-19, few segments are expected to be badly impacted in Q2: Travel (-45% YoY), Retail (-28%), Energy (-16%), Manufacturing (-16%), BFSI (-14%), Healthcare (-8%) and Telecom (-3%). COVID-19 impacted the Americas later in the quarter, resulting in stronger numbers than in the other regions.

Conference call highlights: 1) Travel and Hospitality segment will be worst hit by Covid-19, as shipping/airline run out of cash and hotels close down properties and fire people – expecting to be down 45% in Q2. 2) Some recovery can be expected in July/August, but will be slow – things will start to recover in September. 3) Covid-19 will have a negative impact on 1400 captives in India, and over 2000 in other parts of Asia, as companies might actively start looking at their monetization. 3) In the post Covid world, demand for BOTs and cloud platforms will increase, along with cyber security concerns.

Other highlights: 1) Travel will be significantly impacted, expected to decline 45% QoQ in Q2; represents 5% of overall outsourcing market. 2) Q2CY20 will be going to be very difficult; Most companies have had bookings through March. 3) Active Pipeline - 117 active deals with US\$6.5bn value – 20% will shift to Q3/Q4. 4) Clients are reducing costs - renegotiation in Licenses, networks, pricing. 5) For traditional deals, ISG expects 17% QoQ / 21% YoY decline in Q2CY20. And for full year 7% YoY decline – expecting H2 to be 8% better than H1. 6) Expect July & August will be slow but some recovery; Things will start to recover in September.

Changes in Delivery: 1) 80% employees all employees are WFH; In IT Outsourcing 90-95% of employees are WFH while in BPO 75% of employees are WFH; security and privacy issues, access issue limit BPOs. 2) Productivity – 80% of previous productivity levels.

Clients behavior in response to Covid 19 crisis: 1) 60% of clients expect 90 days delays in discretionary spending. 2) Discretionary spending is 30% of total spend – 15-20% cut in near term. 3) Clients requesting discounts – 60% of clients asking for 20-50% pricing reductions – but only for next 120 days. 4) Payment terms will get extended – from 30-60 days to 120+ days.

Outlook and read across for Indian IT: More important than the Q1CY20 ISG deal flow data, was the CY20 outlook the agency provided. An overall 7% YoY decline in traditional deal flow for CY20 is negative for the Indian IT companies. We continue to believe that a recovery in IT, would be led by large-caps - for their relatively stable business models, and attractive valuations.



1) **Global Combined Market** - Combined Market ACV up 7%; Managed Services up 2%, as demand slowed in March on COVID-19 concerns; As-a-Service up 11% on demand for hyperscale services, offsetting weakness in SaaS. 2) **Impact of COVID-19** - 85% of Q1 Managed Services deals awarded in January and February; pandemic-related drop-off began in early March across Europe and later in the Americas; Americas results saw less of an impact due to late-March timing. 3) **Regional Perspective** - Each region delivered YoY Combined Market growth: Americas grew in both As-a-Service and Managed Services; EMEA up in Managed Services only; Asia Pacific up in As-a-Service only.

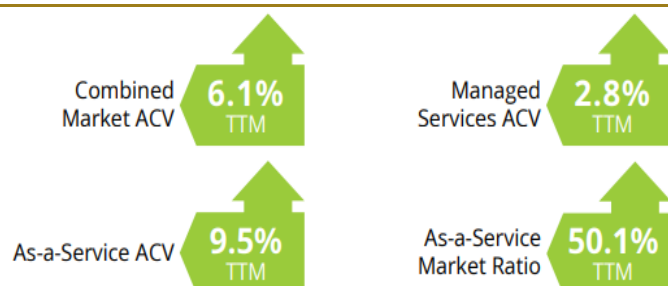
Exhibit 1: Deal signings in Q1CY20 - At a glance

Scorecard	1Q20 ACV (US\$ bn)*	1Q YoY Change (%)	TTM ACV (US\$ bn)	TTM Change (%)
Global Commercial Combined Market	14.8	6.9	55.9	6.1
By Type - Managed Services*	6.8	2.2	27.9	2.8
By Type - As-a-Service	8.0	11.3	28.0	9.5
By Region - Americas	7.6	8.7	28.4	5.6
By Region - EMEA	4.9	3.8	19.2	5.0
By Region - Asia Pacific	2.3	7.6	8.3	10.2

Source: 1Q20 - 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

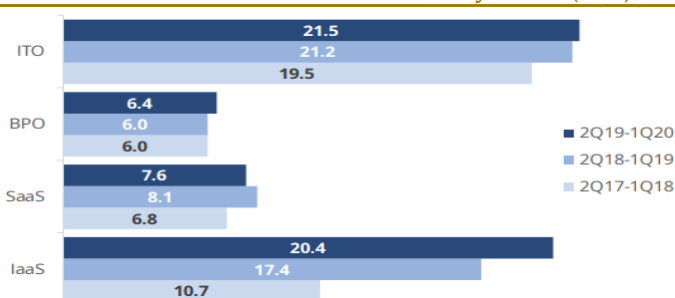
Global Commercial Sector Contracting Trends - 1Q20 Combined Market surpassed US\$14bn for the first time ever. Managed Services advanced slightly after starting the quarter strong with some larger deals. Pandemic has seen strong hyperscale demand, as providers like Microsoft, AWS and Google regularly see peak loads.

Exhibit 2: Global Commercial Sector ACV



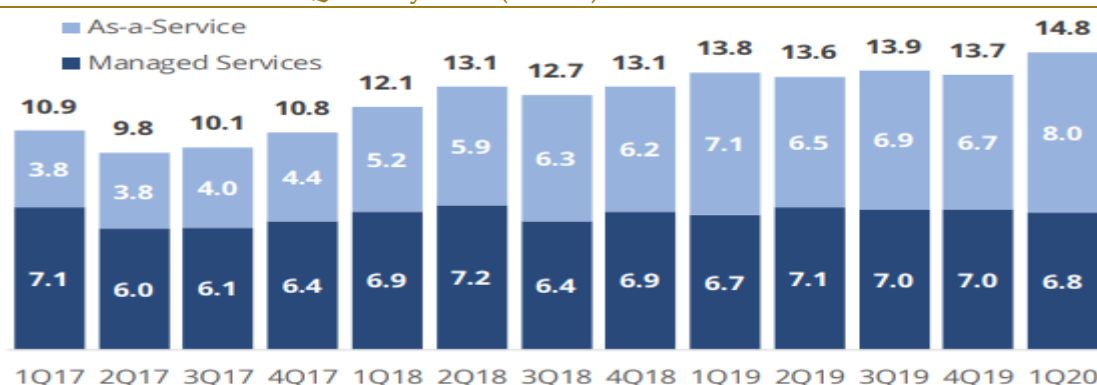
Source: 1Q20 - ISG - Outsourcing - Index

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



Source: 1Q20 - ISG - Outsourcing - Index

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



Source: 1Q20 - 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	DXC Technology	Alight Solutions	OptumInsight*	Atento	Mphasis	CSG Systems	Persistent Systems
AT&T*	IBM Global Services	Amdocs	Tech Mahindra	Axians	NS Solutions	Digita*	SoftwareONE*
Atos	Infosys	Bechtle	Teleperformance	EPAM Systems*	Sutherland	Ensono	Startek
Capgemini	NTT Data	Computacenter	T-Systems	JLL	Unisys	EXL	
Cognizant	TCS	HCL	Wipro	LTI	Virtusa		
				Mindtree			
As-a-Service Market							
Alibaba	Microsoft	Adobe Systems	Intuit*	Allscripts*	CDK Global*	Atlassian	JDA Software*
Amazon	Salesforce	Equinix	ServiceNow	Autodesk	Digital Realty	CyrusOne	OVH
Google			Workday*			DocuSign	Proofpoint*
						Flexential	RingCentral*

* New to leaderboard in 1Q20

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

Source: 1Q20 – 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)*

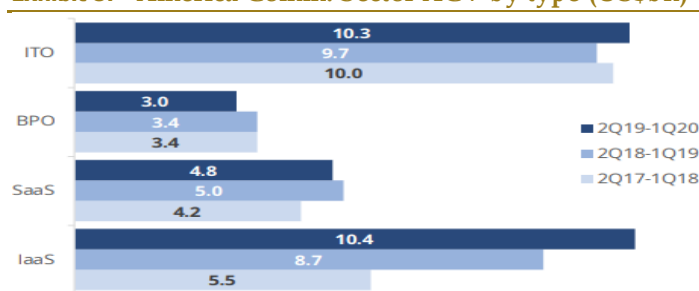
2Q19-1Q20 (TTM) Annual Growth	Global Market 2019 Full Year	Business Services	Retail & Consumer Packaged Goods	Energy	Financial Services	Healthcare & Pharma	Manufacturing	Telecom & Media	Travel, Transport Leisure
	\$55.9B ACV	\$9.9 ACV	\$6.5B ACV	\$3.5B ACV	\$11.3B ACV	\$5.8B ACV	\$8.4B ACV	\$5.8B ACV	\$4.7B ACV
Combined Market	6.1%	12%	-1%	-9%	0%	16%	2%	30%	5%
Managed Services	2.8%	8%	-20%	-14%	-6%	24%	3%	54%	0%
As-a-Service	9.5%	13%	14%	3%	12%	6%	1%	6%	9%
Americas	5.6%	13%	-6%	-1%	8%	13%	-10%	30%	1%
EMEA	5.0%	4%	2%	-15%	-1%	28%	7%	23%	14%
Asia Pacific	10.2%	18%	11%	-6%	-23%	13%	41%	50%	-11%

Source: 1Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

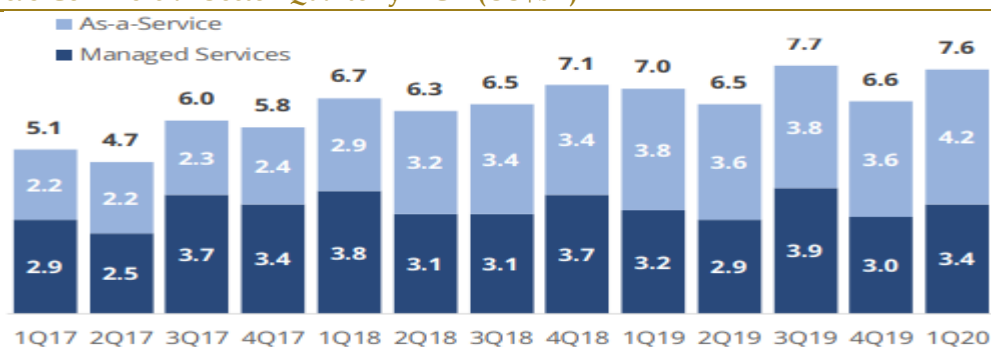
Americas Commercial Sector Contracting Trends - Managed Services advanced 6% YoY with three straight quarters over US\$3bn; Infrastructure ACV was up 20%+ on strong network activity. As-a-Service ACV surpassed US\$4bn for the first time. COVID-19 impacted the Americas later in the quarter, resulting in stronger numbers than in the other regions.

Exhibit 7: Americas Commercial Sector

Source: 1Q20 – ISG – Outsourcing – Index

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

Source: 1Q20 – ISG – Outsourcing – Index

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

Source: 1Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

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

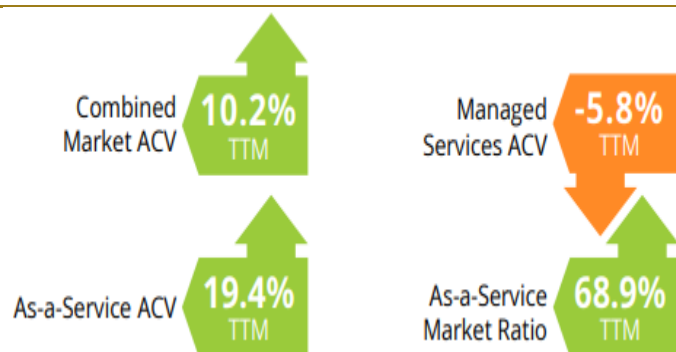
The Big 15		The Building 15		The Breakthrough 15		The Booming 15	
Revenues > \$10B		Revenues \$3B-\$10B		Revenues \$1B-\$3B		Revenues <\$1B	
Managed Services Market							
Accenture	DXC Technology	Alight Solutions	SS&C Technologies*	Atento	Sutherland	CSG Systems	KPIT Technologies*
AT&T	IBM Global Services	Amdocs	Tech Mahindra	EPAM Systems	Sykes	Ensono	Persistent Systems
Atos	Infosys	Cushman & Wakefield*	Teleperformance	JLL	TTEC	EXL	Startek
Capgemini	NTT DATA	HCL	Wipro	LTI	Unisys		
Cognizant	TCS	OptumInsight		Mindtree	Virtusa		
				Mphasis			
As-a-Service Market							
Amazon	Salesforce	Adobe Systems	Paychex	Allscripts*	Digital Realty	Ceridian HCM	Paycom
Google	SAP	Equinix	ServiceNow	Autodesk	Ultimate Software*	CyrusOne	Proofpoint
Microsoft		Intuit Inc.*	Workday			Flexential	RingCentral
						HubSpot*	Slack*
						JDA Software*	

* New to leaderboard in 1Q20

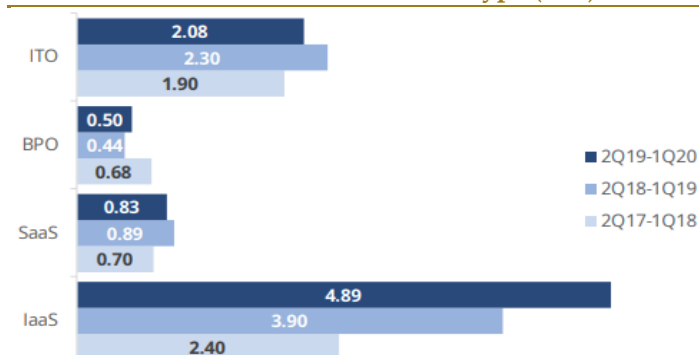
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Source: 1Q20 – ISG – Outsourcing – Index, Placements based on the annual value of commercial contract awards in the past 12 months sourced from ISG Contracts Knowledgebase

Asia Pacific Commercial Sector Contracting Trends - 1Q20 Combined Market up 8%; As-a-Service accounted for over 75% of activity for second consecutive quarter. Managed Services sector remained tepid; down 27% against a difficult compare; Most geographies fell YoY. As-a-service accelerated despite some demand constraints in China during the early part of the quarter.

Exhibit 11: APAC Comm. Sector ACV

Source: 1Q20 – ISG – Outsourcing – Index

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

Source: 1Q20 – ISG – Outsourcing – Index

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

Source: 1Q20 – ISG – Outsourcing – Index, *Contracts with ACV ≥ \$5M from the ISG Contracts Knowledgebase

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

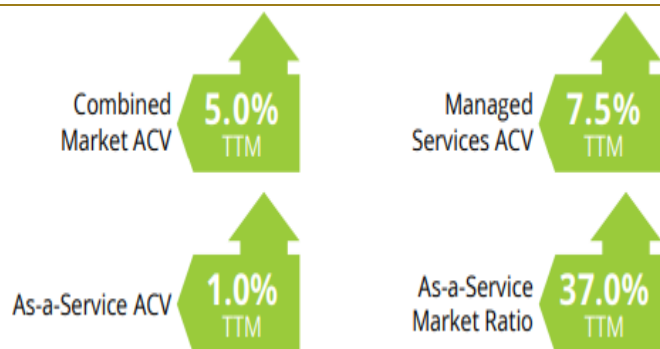
The Big 15	The Building 15	The Breakthrough 15	The Booming 15
Revenues > \$10B	Revenues \$3B-\$10B	Revenues \$1B-\$3B	Revenues <\$1B
Managed Services Market			
Accenture Cognizant DXC Technology Fujitsu Hitachi	IBM Global Services NEC* NTT Data TCS	Amadeus Amdocs Genpact HCL IT Holdings (TIS)* ITOCHU Techno-Solutions	Nomura Research Institute Samsung SDS Sodexo Tech Mahindra Telstra T-Systems* Wipro Limited
Digital China JLL Neusoft Nihon Unisys NS Solutions	SCSK Sutherland transcosmos TTEC* Unisys	Beyondsoft ChinaSoft Fuji Soft Hyundai Information Technology*	PLDT Relia Shinsegae I&C Taiji Computer WNS
As-a-Service Market			
Alibaba Amazon China Telecom	Google Microsoft Tencent	Adobe Systems Equinix	Autodesk CDK Global* Digital Realty
		PTC Sage	Atlassian Kingdee Knowlarity Communications*
			Veeva Systems Xero Zoho Corp.*

* New to leaderboard in 1Q20

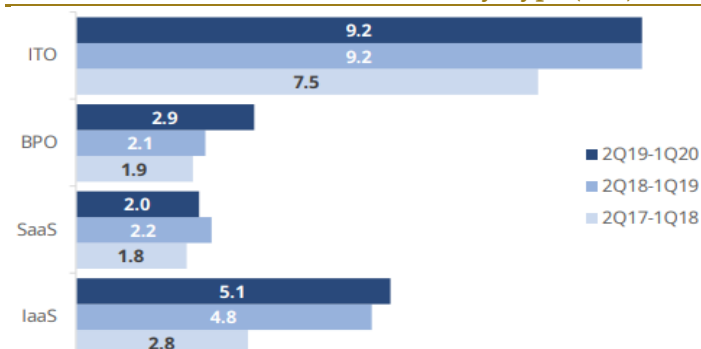
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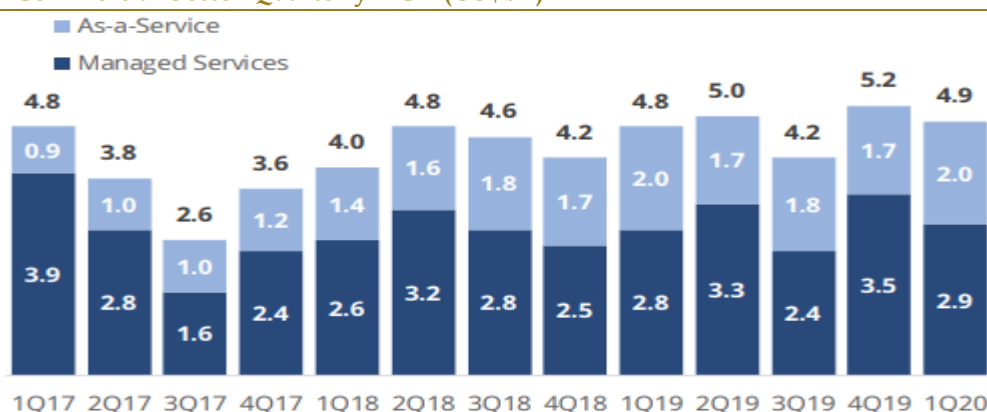
EMEA Commercial Sector Contracting Trends - Managed Services was up 6% YoY against an easy compare; DACH and Benelux contributed to the rise. As-a-Service ACV up just 1% YoY as enterprise battle in public cloud infrastructure intensified. Initial lockdown measures implemented in Italy followed by DACH, Spain, the U.K. and rest of Europe.

Exhibit 15: EMEA Comm. Sector ACV

Source: 1Q20 – ISG – Outsourcing – Index

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

Source: 1Q20 – ISG – Outsourcing – Index

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

Source: 1Q20 – 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	Alten Group	LTI	Allgeier SE	HH Global*
Atos	IBM Global Services	Bechtle	Sopra Steria	Asseco	Mindtree*	Digita*	NNIT A/S
BT Group	Infosys	CGI	Tech Mahindra	Axians	MITIE	EXL	QIWI
Capgemini	ISS Global	Computacenter	Teleperformance	Cancom	Tieto	Fastweb	Reply SpA
Cognizant	TCS	HCL	T-Systems	Fiducia & GAD IT AG	Unisys	Gijima*	SoftwareONE*
		Orange Business Services	Wipro	Finanz Informatik	Virtusa*	HGS	SVA System Vertrieb Alexander GmbH
				JLL	Webhelp		
As-a-Service Market							
Amazon	Salesforce*	Adobe Systems		Autodesk		DocuSign*	
Google	SAP	Equinix				OVH	
Microsoft		United Internet				Visma*	

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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 braces for 17% decline. SaaS providers may feel hit as firms reduce costs & user licenses amid furloughs. IaaS providers may get boost as firms move more workloads to public cloud.

Second Half - Managed Services rebound expected in 2H. Overall ACV for the year may drop 7% YoY. Digital transformation likely to accelerate post-COVID. SaaS spending likely to shift to cybersecurity, cloud migration, collaborative tools.

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