

## The sharp depreciation of global currencies

5-7% EPS impact; intact competitiveness; Demand trends not disconcerting, yet

- n Major global currencies like EUR, GBP, JPY and AUD have all depreciated 10-18% between 1QFY15 and implied 4Q average at prevailing rates. INR has depreciated only 4%
- n This has impacted USD revenues across top-tier IT by 4.5-6.0pp. Given that the depreciation has been gradual through the quarters, the impact is spread across FY15 and FY16. FY16 will see 260-320bp impact on USD revenue growth ex-HCLT (for which the majority of impact will come in FY15 due to June year end).
- n Cross currencies' impact on margins and earnings is ~25% of the impact from INR/USD. Consequently, impact on earnings is 5-7%.
- n We note a similar precedence in 3QFY09, when currencies such as EUR, AUD and GBP had depreciated between 12-24% QoQ, impacting the INFO's top line by 4.7pp, while the corresponding impact on margins was ~100bp.
- n On the fundamental side impact on competitiveness of India as offshore destination will likely remain intact over many years. Also, demand from Europe thus far has not witnessed softening as a consequence.
- n From the near term view point, it is crucial to keep a watch on the Rupee. INR appreciation compounded with depreciation of global currencies will impact earnings estimates.



### Depreciation v/s USD between 1QFY15-4QFY15E (%)

EUR	17.6
GBP	10.1
AUD	15.5
JPY	14.4
INR	3.9

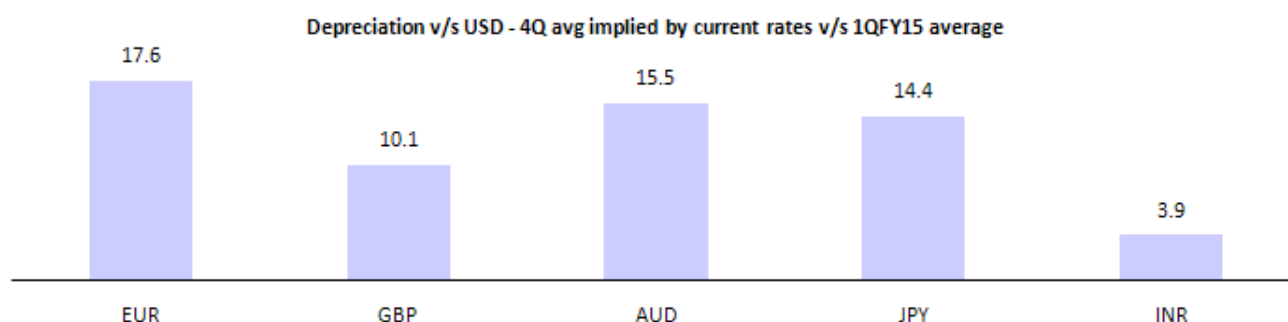
### Negative impact on USD revenue (pp)

	Total	FY15E	FY16E
TCS	4.8	1.8	3.0
INFO	4.0	1.4	2.6
WPRO	4.7	1.7	3.0
HCLT	6.0	4.2	1.8
TECHM	4.9	1.7	3.2

## The sharp decline in major global currencies

- n From 1QFY15, major global currencies have depreciated significantly compared to the US dollar. Assuming current rates prevail for the remainder of the year currencies such as GBP, EUR, AUD and JPY would all have depreciated in double digits between 1QFY15-4QFY15E. Against these, the INR clearly outperformed with mere 4% depreciation v/s the USD during this period.

Exhibit 1: Sharp depreciation of currencies v/s the US dollar from 1QFY15 to 4QFY15E



Source: Bloomberg, MOSL

Ashish Chopra (Ashish.Chopra@MotilalOswal.com); +91 22 3982 5424

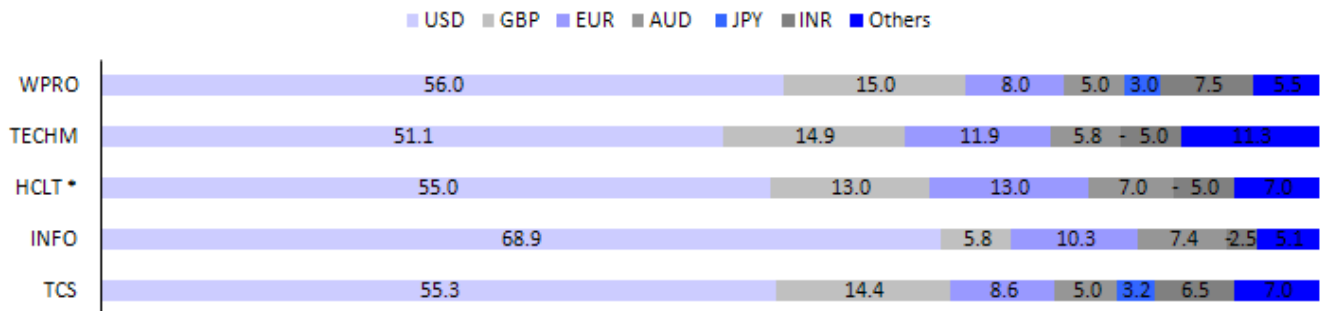
Siddharth Vora (Siddharth.Vora@MotilalOswal.com); +91 22 3982 5585

Investors are advised to refer through disclosures made at the end of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

## Exposure to currencies

Exhibit 2: Revenue mix by currencies (actuals and estimates)



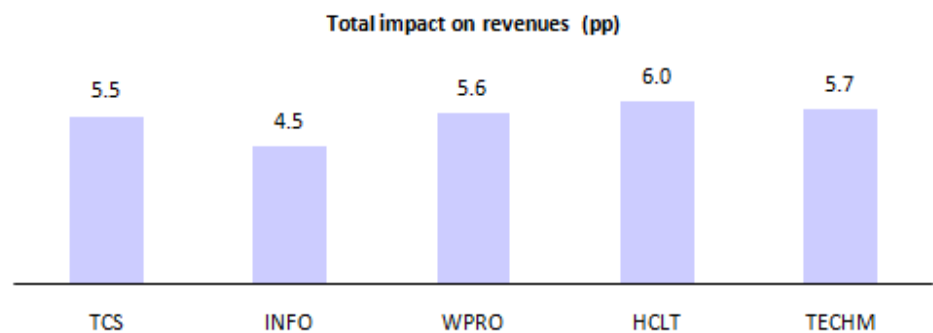
\*: Estimated

Source: Company, MOSL

### Gradual depreciation across quarters implies full impact in FY16

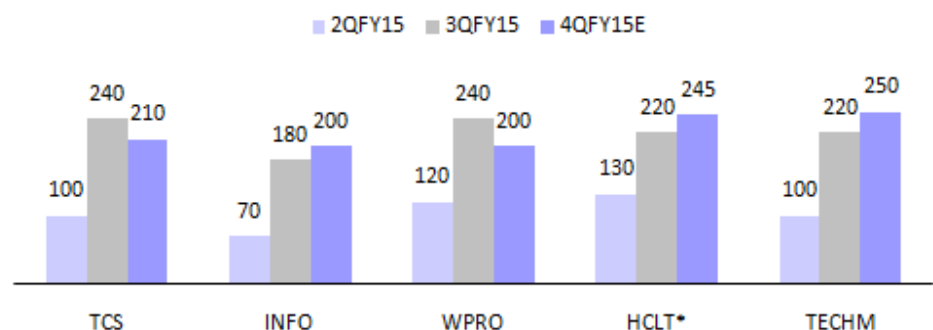
- As the depreciation has been gradual, 4Q should be the third consecutive quarter when the movements in currencies will impact growth in top-line. The top-tier sequential revenue growth was impacted by 70-130bp in 2QFY15, and 180-240bp in 3QFY15. It is expected to further impact 4Q between 200-250bp.

Exhibit 3: Total cut in revenues due to cross currency impact (spread across FY15 and 16)



Source: Company, MOSL, Bloomberg

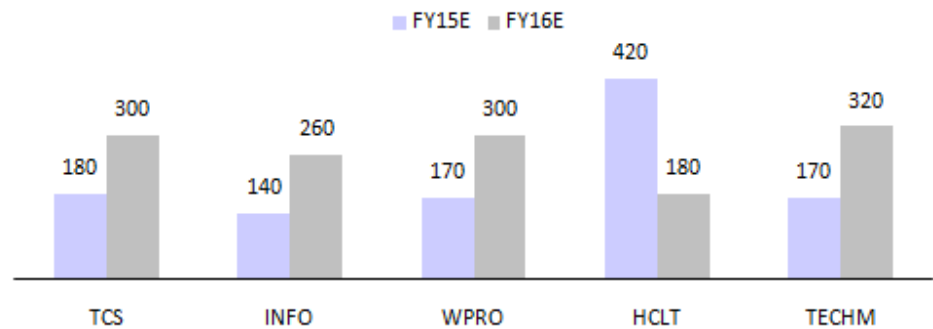
Exhibit 4: Impact from cross currencies has been gradual across quarters



Source: Company, Bloomberg, MOSL

- n However, due to the gradual impact, assuming that currencies stabilize near current levels, FY16 is when the full year impact from the movements will be felt on the USD revenue growth across the companies. Impact on the top-tier companies in FY15 is between 140-180bp excluding HCLT, which has a June year-end and hence impact in FY15 is higher at 420bp.
- n Residual impact from the movements in cross currencies is 250-300bp, which will be felt in FY16. Residual impact for HCLT is lower at ~180bp.

**Exhibit 5: Significant residual impact from cross currencies will be felt in FY16**

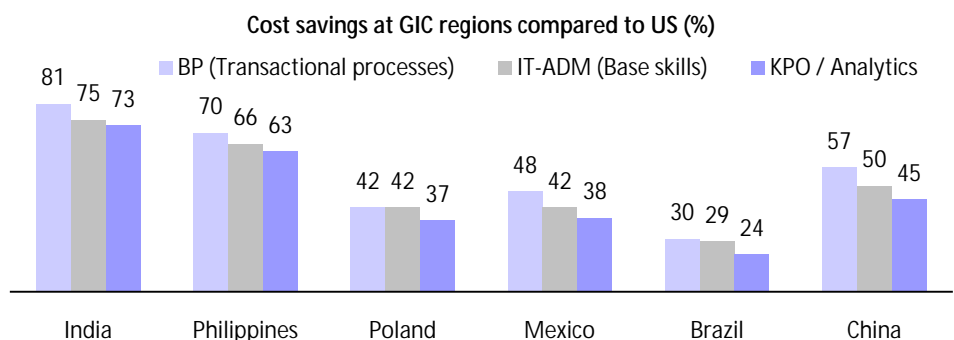


Source: Company, Bloomberg, MOSL

### Long term competitiveness vis-à-vis other destinations intact

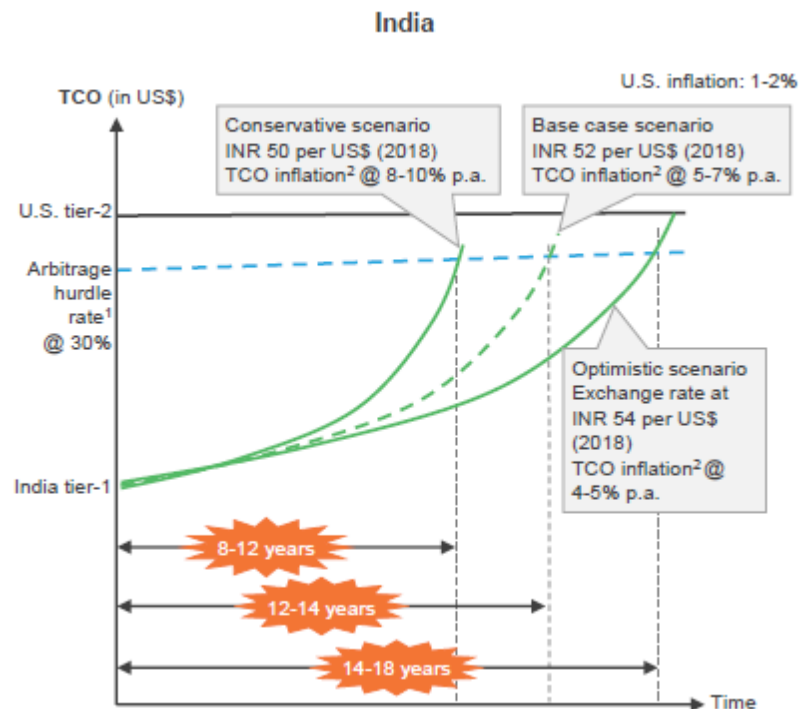
We believe more than the calculated impact of cross currencies on the earnings, what is more crucial to keep an eye on is the reducing competitiveness of Indian exports amid reduction in cost differential. That may not necessarily be under threat in the near future. As reported by Everest, India's cost competitiveness is here to stay for 8-12 years even on conservative currency assumptions.

**Exhibit 6: India's cost competitiveness intact...**



Source: Everest Group, MOSL

... over the foreseeable future



Source: Everest Group

### Demand from the respective regions not showing alarming trends, yet

While the supply advantages of Indian IT remain, the other potential fundamental angle of demand too, thus far has been apparently unaffected. For major IT companies such as TCS, Europe continues to be the region seeing growth above company average in constant currency terms. With outsourcing relatively under penetrated outside of UK, the relative weakness of the macro in Continental Europe continues to be a catalyst rather than a headwind to IT outsourcing in the region.

### Relative earnings impact marginal, but need to watch out for INR

- n INR in comparison having depreciated only by a fraction of other currencies v/s the dollar during this period, but it weighs more heavily on the earnings v/s other currencies.
- n As per our analysis, the impact on earnings of 1pp change in cross currencies is 25% of that from 1pp change in INR/USD. 3% depreciation of INR will imply 6-7% upgrade in earnings. This is similar in quantum to the downside impact from 13-14% depreciation in other currencies (on an average), thereby offsetting the same.
- n Our current estimates largely factor the movements. From the near term view point, it is crucial to keep a watch on the INR. If INR appreciates in conjunction with the above trend, that will be a double whammy.

### Valuation and view

- n The way budget spending for CY15 shapes up will be key in determining the direction of valuations for top-tier IT. Early commentary has suggested pockets of stress in the overall strong spending environment in the US. Our preferred stocks in the top-tier IT are INFO and TECHM, followed by HCLT.



- n INFO still continues to trade at over 10% discount to TCS, and we expect the valuations to converge gradually with the uptick in the former's revenue growth and improvement in capital allocation, following revival in margins.
- n While TCS will likely continue to lead growth, current visibility for FY16 is relatively lesser, and performance in the last two quarters has been anything but the broad-based nature of outperformance.
- n At CMP, WPRO trades at 17.6x FY16E and 15.6x FY17E EPS. WPRO's growth guidance for 1Q will set the tone for FY16 full year growth compared to peers. We see its exposure to Energy segment as a risk; and we currently remain Neutral.
- n HCLT could benefit from its presence in the Engineering Services segment, and that, in combination with likely recovery in IMS growth, keeps growth prospects sanguine. We view recent correction in the stock as an entry opportunity.
- n We expect TECHM to continue posting industry leading growth, with stable margins. It remains our preferred pick in the sector.

### Comparative Valuation

Company	Mkt cap (USD b)	Rating	TP (INR)	Upside (%)	EPS (INR)			P/E (x)			RoE (%)			FY15-17E CAGR (%)	
					FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	USD rev.	EPS
TCS	83.2	Neutral	2650	0.3	108.6	123.7	145.6	24.3	21.4	18.2	35.2	33.3	32.4	13.4	15.8
Infosys	40.2	Buy	2500	14.1	108.7	120.0	137.7	20.2	18.3	15.9	26.2	24.8	24.6	12.5	12.6
Wipro	26.1	Neutral	640	-3.0	35.0	37.8	42.6	18.9	17.5	15.5	24.8	24.3	23.1	11.4	10.3
HCL Tech	23.5	Buy	2150	4.0	105.5	117.0	132.5	19.6	17.7	15.6	33.3	30.7	29.2	14.4	12.0
TechM	10.6	Buy	3200	14.0	130.4	160.4	197.7	21.5	17.5	14.2	27.0	26.2	26.4	21.1	23.1
Cognizant	37.6	Not Rated			2.3	2.7	3.2	26.2	22.8	19.2	20.7	19.3	19.0	17.7	17.0
<b>Tier-I Agg</b>	<b>221.2</b>							<b>21.8</b>	<b>19.2</b>	<b>16.4</b>	<b>27.9</b>	<b>26.4</b>	<b>25.8</b>		
Mphasis	1.2	Neutral	390	-2.3	30.0	33.2	35.8	13.3	12.0	11.2	12.1	12.7	13.1	4.6	9.2
Mindtree	1.6	Neutral	1300	-7.6	66.5	80.4	95.2	21.2	17.5	14.8	30.4	29.7	28.7	18.1	19.6
KPIT Tech	0.6	Neutral	220	2.8	13.0	16.2	19.8	16.5	13.2	10.8	20.1	21.9	21.5	12.1	23.4
Hexaware	1.0	Sell	210	-19.9	10.6	14.3	15.9	24.6	18.3	16.5	25.7	33.5	36.9	18.2	22.2
NIIT Tech	0.3	Neutral	400	-4.1	30.9	37.3	43.6	13.5	11.2	9.6	13.6	14.9	18.4	11.2	18.7
Persistent Sys.	1.0	Neutral	1700	-9.0	73.5	91.6	112.7	25.4	20.4	16.6	22.3	23.7	24.5	19.2	23.8
<b>Tier-II Agg</b>	<b>5.7</b>							<b>19.1</b>	<b>15.4</b>	<b>13.2</b>	<b>20.7</b>	<b>22.7</b>	<b>23.9</b>		

Source: Bloomberg, Company, MOSL

## Disclosures

This document has been prepared by Motilal Oswal Securities Limited (hereinafter referred to as Most) to provide information about the company(ies) and/or sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies). This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOSI) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

MOST and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We and our affiliates have investment banking and other business relationships with a some companies covered by our Research Department. Our research professionals may provide input into our investment banking and other business selection processes. Investors should assume that MOST and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may educate investors on investments in such business. The research professionals responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting information. Our research professionals are paid on the profitability of MOST which may include earnings from investment banking and other business.

MOST generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, MOST generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. MOST and its affiliated company(ies), their directors and employees and their relatives may: (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of MOST even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition MOST has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent MOST's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

Most and its associates may have managed or co-managed public offering of securities, may have received compensation for investment banking or merchant banking or brokerage services, may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Most and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of Most or its associates during twelve months preceding the date of distribution of the research report

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Motilal Oswal Securities Limited is under the process of seeking registration under SEBI (Research Analyst) Regulations, 2014.

There are no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities

### Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Companies where there is interest
\$ Analyst ownership of the stock	No
\$ Served as an officer, director or employee	No

## Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

### For U.S.

Motilal Oswal Securities Limited (MOSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the "1934 act") and under applicable state laws in the United States. In addition MOSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act") and together with the 1934 Act, the "Acts", and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOSL, including the products and services described herein are not available to or intended for U.S. persons.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

### For Singapore

Motilal Oswal Capital Markets Singapore Pte Limited is acting as an exempt financial advisor under section 23(1)(f) of the Financial Advisers Act (FAA) read with regulation 17(1)(d) of the Financial Advisers Regulations and is a subsidiary of Motilal Oswal Securities Limited in India. This research is distributed in Singapore by Motilal Oswal Capital Markets Singapore Pte Limited and it is only directed in Singapore to accredited investors, as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time.

In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

#### Anosh Koppikar

Email : anosh.koppikar@motilaloswal.com

Contact : (+65)68189232

Office Address : 21 (Suite 31), 16 Collyer Quay, Singapore 04931

#### Kadambari Balachandran

Email : kadambari.balachandran@motilaloswal.com

Contact : (+65) 68189233 / 65249115



## Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com