

Result Preview



Coforge

Cyient

HCL Tech.

Infosys

LTIMindtree

L&T Technology

Mphasis

Persistent Systems

TCS

Tech Mahindra

Wipro

Zensar Tech.

Furloughs: A headwind over and above adverse macros

Higher furloughs likely to dampen revenue growth further

- The weakness in IT Services demand has been further intensified by higher-than-expected furloughs in 3QFY24. The seasonality is likely to hurt revenue growth and margin performances of both tier-1 and tier-2 IT companies. The industry has not witnessed any meaningful change in spending patterns, as discretionary spending continues to take a pause across enterprises. Although sentiment has improved, it has not yet been reflected in actions. Our IT Services Coverage Universe should report a median revenue growth of 0.7% QoQ/2.5% YoY in 3QFY24. The adverse movement of major currencies (EUR/GBP: -1.2%/-2.0%) is anticipated to further slow down the reported growth. The muted revenue growth and revised compensation (selective names) in 3Q are less likely to aid margin improvement. However, the weakening INR (~70bp against USD) should act as a support. We estimate a flat USD revenue YoY, while INR EBIT/INR PAT YoY will decline 4.0%/2.0% in 3QFY24.
- The combination of adverse macros and higher-than-expected number of furloughs has extended the timelines for deal closures and executions across companies, leading to slower revenue conversion in the third quarter. We expect the deal TCVs to moderate from the 2Q high base coupled with furloughs impact in 3Q; otherwise, the earlier theme of reprioritizing cost optimization and driving efficiency remains intact. We expect the collective deal TCV (Tier1 + Tier 2) growth to stay in line or moderate YoY.
- The slowdown across major verticals and key geographies should persist, with BFSI, Retail, Hi-Tech, and Communications likely to experience higher-than-anticipated furloughs in 3Q. Although the pace of growth deceleration for the major verticals has slowed in 2QFY24 (BFSI/Retail median declines 0.4%/0.3% QoQ), the same has not yet gained momentum to support the topline. We expect BFS and Hi-Tech to be adversely impacted in 3QFY24, while the other verticals should deliver muted performance. On the other hand, there is no sign of demand recovery in the key geographies (US and Europe), although the situation has not deteriorated materially. The majority of the clients are exercising caution and reprioritizing their spending.
- As 3Q furloughs are higher than anticipated at the beginning of FY24, we expect the selective Tier-2 companies (Coforge, Cyient) to revise their revenue guidance downward. Despite this, we expect the companies to maintain and achieve margins within the guided band by implementing rigorous cost-cutting measures.
- We expect revenue growth of Tier-I companies to be in the range of -2.7% to +4.5% QoQ in CC terms. Revenue of Tier-II players are expected to grow to the tune of -4.4% to +3.0% QoQ in CC terms.

HCLT/Persistent to lead topline growth among Tier I/Tier II companies

- Revenues of Tier-I companies are expected to be muted due to weak macros, furloughs, and cuts in discretionary spending. INFO/WPRO should witness a sharp decline of 1.7%/2.7% QoQ in revenue in CC terms. HCLT should outpace others with +2.0% QoQ CC for its Service business, while LTIM/TCS/TECHM should report +1.2%/-0.4%/-1.1% QoQ in CC. Overall, Tier-I companies are expected to exhibit weak median revenue (-0.7% QoQ in CC).
- Among Tier-II companies, we expect PSYS to outpace its peers with 3.0% QoQ CC revenue growth, aided by strong momentum in Hi-Tech and Healthcare. LTTS/COFORGE should experience muted growth of 1.3%/1.0% QoQ in CC, followed by MPHL/CYL-DET at +1.0%/0.3% QoQ in CC, while ZENT is likely to see a decline of 4.4% QoQ in CC.

Muted revenue growth and compensation revision to hurt margins

- Margin improvement is expected to be muted due to weak revenue growth across the board. While a few companies (especially tier-1 firms) have revised their compensation structures in 3Q, which should have an adverse impact on margins, a strict focus on cost-cutting measures should partly offset the drag.
- Tier-I companies should report a margin change (+/-) of -100bp to +20bp QoQ in 3QFY24. LTIM should see a further decline of 20bp QoQ despite the wage hike impact in 2Q, while TCS is expected to see a marginal improvement of 20bp QoQ due to the absence of operating leverage. For TECHM, despite having a meaningful hit over the last two consecutive quarters, margins are likely to be flat owing to weak demand in both CME and Enterprise segments. The Tier-II pack should see a margin change (+/-) of -280bp to +210bp QoQ, with ZENT's margin anticipated to decline from the peak by 280bp QoQ in 3QFY24.
- The net headcount addition would be lower across the board, owing to reduced working days coupled with subdued demand trend. Additionally, companies currently possess sufficient talent to sustain their incremental growth trajectory. The focus has now shifted to optimizing the bench.

PAT growth is likely to be flat due to weak growth

- We expect our Tier-I IT coverage universe to report flat QoQ (+0.2%) improvement in PAT, with a corresponding decline of 2.6% YoY. TECHM/WPRO are anticipated to post a decline of 20.3%/6.0% QoQ, while TCS/HCLT are likely to see an improvement of 2.3% QoQ/5.1% YoY, primarily due to their robust business mix.
- Tier-II players should register a PAT growth of 5.2% QoQ/9.3% YoY, stronger than Tier-I firms, aided by growth and margin recovery. COFORGE/CYL/LTTS should register robust PAT growth of 48.0%/10.0%/9.8% QoQ.

Prefer Tier I over Tier II companies; HCLT remains our top pick

- With improving macro sentiment and an estimated demand recovery for FY25, the IT stocks have rallied over the last two months. The 1-year forward P/E for the IT stocks (MOFSL universe) stood at 26x, wherein Tier-2 looks expensive at 35x that translates into ~50% premium to the Tier-1 pack.

- Given the subdued near-term demand and the lack of any meaningful signs of recovery in discretionary IT spending, we expect the Tier-2 companies to reconcile their FY24 growth guidance before seeking any clarity on the CY24E budget cycle. Among Tier-I players, HCLT is one of the key beneficiaries of having a defensive business mix that should support growth in a demand-constraint environment. Additionally, we expect INFO to be a key beneficiary of the acceleration in digital and business transformations in the medium term.
- Among Tier-II players, our preference lies with CYL, which is poised for a robust performance. This is supported by the resurgence in the aerospace vertical and the reduction of challenges in sectors such as railways and communications.

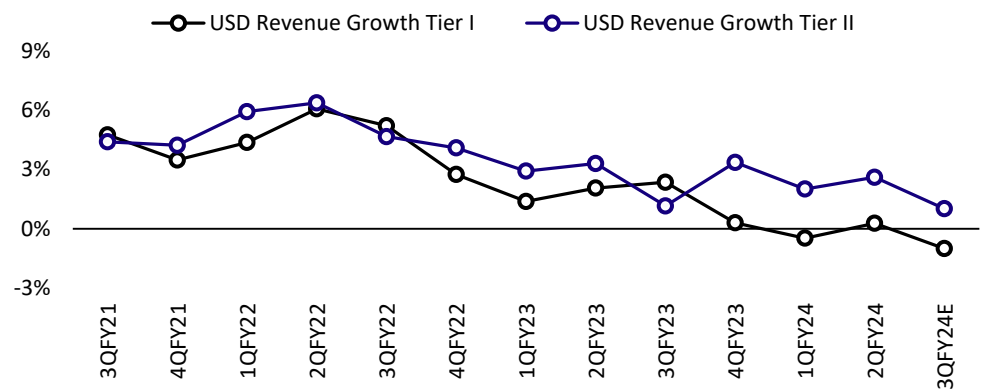
Exhibit 1: Expect Tier-I companies' revenue (USD) to be weak at -0.4% QoQ

Company	Revenue (USD m)					Revenue (INR b)				
	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)
TCS	7,163	7,210	-0.7%	7,075	1.2%	597	597	0.0%	582	2.5%
INFO	4,624	4,718	-2.0%	4,659	-0.8%	385	390	-1.2%	383	0.5%
HCLT	3,366	3,225	4.4%	3,244	3.8%	280	267	5.1%	267	5.0%
WPRO	2,633	2,713	-2.9%	2,821	-6.7%	221	225	-2.0%	232	-5.0%
TECHM	1,534	1,555	-1.4%	1,668	-8.0%	128	129	-0.7%	137	-7.0%
LTIM	1,086	1,076	1.0%	1,047	3.8%	90	89	1.6%	86	5.0%
Tier I aggregate	20,406	20,497	-0.4%	20,514	-0.5%	1,701	1,696	0.3%	1,688	0.8%
Company	EBIT margin (%)					Adjusted PAT (INR b)				
	3QFY24	2QFY24	QoQ (bps)	3QFY23	YoY (bps)	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)
TCS	24.5	24.3	20	24.5	-	116.5	113.8	2.3%	108.8	7.0%
INFO	20.2	21.2	-100	21.5	-130	61.8	62.2	-0.6%	65.9	-6.2%
HCLT	17.9	18.5	-60	19.6	-170	40.3	38.3	5.1%	41.0	-1.6%
WPRO	13.8	14.8	-100	16.2	-240	25.1	26.7	-6.0%	30.7	-18.2%
TECHM	7.3	7.3	-	12.0	-470	8.0	10.0	-20.3%	12.9	-38.5%
LTIM	15.8	16.0	-20	14.8	100	11.5	11.6	-0.8%	10.8	6.7%
Tier I aggregate	19.3	19.7	-40.0	20.4	-110	263	263	0.2%	270	-2.6%

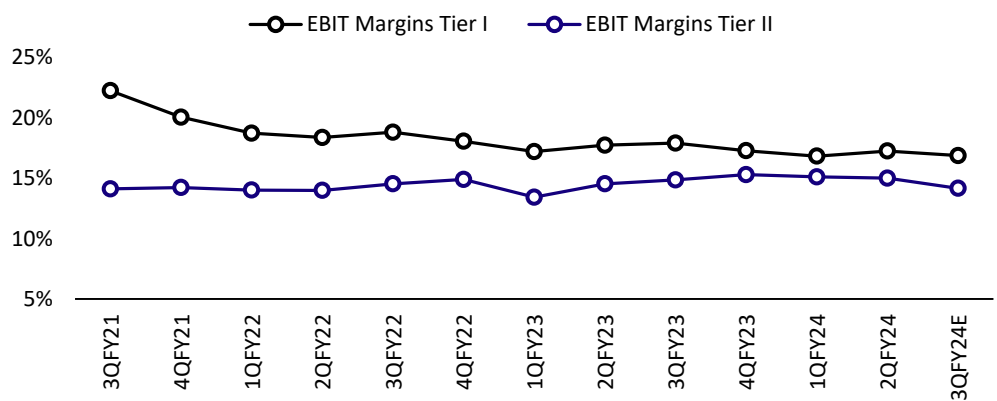
Exhibit 2: Expect Tier-II firms' revenue (USD) to be muted at 1.0% QoQ

Company	Revenue (USD m)					Revenue (INR b)				
	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)
LTTS	292	288	1.2%	248	17.6%	24.3	23.9	1.8%	20.5	18.6%
MPHL	402	398	0.8%	429	-6.5%	33.5	33.0	1.5%	35.4	-5.4%
COFORGE	280	278	0.7%	252	11.2%	23.3	22.8	2.5%	20.6	13.4%
PSYS	300	292	2.8%	264	13.5%	25.0	24.1	3.6%	21.7	15.2%
ZENT	143	150	-4.6%	146	-1.8%	11.9	12.4	-3.8%	12.0	-0.3%
CYL	221	214	3.0%	197	12.1%	18.4	17.8	3.4%	16.2	13.7%
Tier II aggregate	1,637	1,621	1.0%	1,536	6.6%	136.4	133.9	1.9%	126.3	8.0%
Company	EBIT margin (%)					Adjusted PAT (INR b)				
	3QFY24	2QFY24	QoQ (bps)	3QFY23	YoY (bps)	3QFY24	2QFY24	QoQ (%)	3QFY23	YoY (%)
LTTS	17.7	17.1	60	18.7	-100	3.5	3.2	9.8%	3.0	14.0%
MPHL	14.3	15.4	-110	15.1	-80	3.8	3.9	-3.2%	4.1	-8.0%
COFORGE	14.0	11.9	210	14.5	-50	2.7	1.8	48.0%	2.3	17.3%
PSYS	13.9	13.7	20	15.4	-150	2.7	2.6	1.8%	2.7	0.1%
ZENT	12.9	15.7	-280	7.1	580	1.2	1.7	-28.8%	0.8	61.7%
CYL	14.6	14.6	-	12.9	170	2.0	1.8	10.0%	1.6	23.8%
Tier II aggregate	14.7	14.7	-	14.6	10	15.9	15.1	5.2%	14.5	9.3%

Source: Company, MOFSL

Exhibit 3: Revenue growth % (QoQ) decelerated further due to furloughs

Source: MOFSL, Company

Exhibit 4: Tier I should perform better on the margin front

Source: MOSL, Company

Exhibit 5: Cross-currency will have no meaningful impact on 3Q USD revenue growth

	CC USD growth QoQ (%)	USD growth QoQ (%)	Cross-currency impact (bp)
TCS	-0.4%	-0.7%	-30
INFO	-1.7%	-2.0%	-20
HCLT	4.5%	4.4%	-10
WPRO	-2.7%	-2.9%	-30
TECHM	-1.1%	-1.4%	-20
LTIM	1.2%	1.0%	-20
LTTS	1.3%	1.2%	-10
MPHL	1.0%	0.8%	-20
COFORGE	1.0%	0.7%	-30
PSYS	3.0%	2.8%	-20
ZENT	-4.4%	-4.6%	-20
CYL (DET)	0.3%	0.2%	-10

Source: Company, MOFSL

Exhibit 6: Currency highlights (INR) in 3QFY24

	Rates (INR)				Change (QoQ)			
	USD	EUR	GBP	AUD	USD	EUR	GBP	AUD
Average	83.3	89.6	103.3	54.2	0.71%	-0.48%	-1.32%	0.22%
Closing	83.2	91.9	105.8	56.7	0.21%	4.30%	3.95%	6.54%

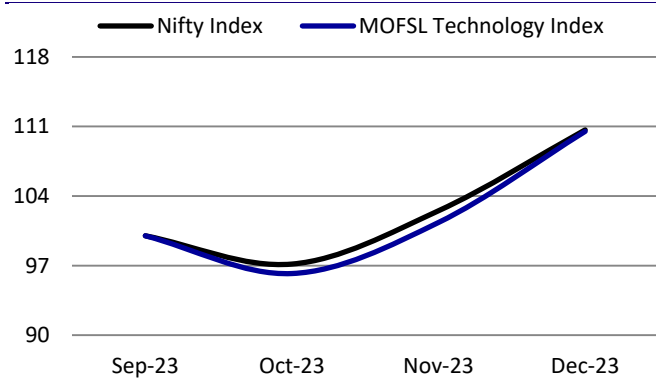
Source: Bloomberg, MOFSL

Exhibit 7: Currency highlights (USD) in 3QFY24

	Rates (USD)			Change (QoQ)		
	EUR	GBP	AUD	EUR	GBP	AUD
Average	1.08	1.24	0.65	-1.18%	-2.01%	-0.49%
Closing	1.10	1.27	0.68	4.08%	3.73%	5.85%

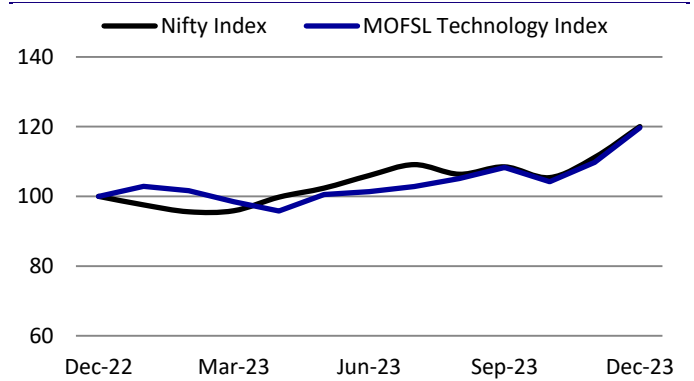
Source: Bloomberg, MOFSL

Exhibit 8: Relative performance – three-months (%)



Source: Bloomberg, MOFSL

Exhibit 9: Relative performance – one-year (%)



Source: Bloomberg, MOFSL

Exhibit 10: Changes to our estimates

	Revised EPS (INR)			Earlier EPS (INR)			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
TCS	126	144	168	127	145	NA	-0.8	-0.9	NA
INFO	59	68	80	61	69	NA	-2.5	-1.7	NA
HCLT	57	65	76	58	66	NA	-1.5	-1.4	NA
WPRO	20	23	27	20	23	NA	0.2	-1.6	NA
TECHM	42	51	68	44	55	NA	-5.2	-6.6	NA
LTIM	160	195	242	165	206	NA	-3.1	-5.0	NA
LTTS	124	151	206	123	149	NA	0.6	1.6	NA
MPHL	83	98	117	88	109	NA	-6.3	-10.6	NA
COFORGE	147	186	217	146	186	NA	0.5	-0.4	NA
PSYS	144	178	216	149	187	NA	-3.4	-4.7	NA
ZENT	26	24	28	26	26	NA	-1.2	-6.8	NA
CYL (DET)	66	80	92	66	81	NA	-0.5	-1.0	NA

Source: Company, MOFSL

Exhibit 11: Expected quarterly performance summary

Companies	CMP		Sales (INR b)			EBIT (INR b)			Adjusted net profit (INR b)		
	(INR)	Rating	Dec'23E	Variance YoY (%)	Variance QoQ (%)	Dec'23E	Variance YoY (%)	Variance QoQ (%)	Dec'23E	Variance YoY (%)	Variance QoQ (%)
TCS	3,811	Buy	596.7	2.5	0.0	146.2	2.3	0.9	116.5	7.0	2.3
INFO	1,551	Buy	385.2	0.5	-1.2	77.9	-5.5	-5.9	61.8	-6.2	-0.6
HCLT	1,483	Buy	280.4	5.0	5.1	50.2	-3.9	1.8	40.3	-1.6	5.1
WPRO	477	Neutral	220.7	-5.0	-2.0	30.5	-19.0	-8.5	25.1	-18.2	-6.0
TECHM	1,298	Neutral	127.8	-7.0	-0.7	9.3	-43.3	-0.9	8.0	-38.5	-20.3
LTIM	6,264	Neutral	90.5	5.0	1.6	14.3	12.0	0.4	11.5	6.7	-0.8
LTTS	5,207	Buy	24.3	18.6	1.8	4.3	12.3	5.5	3.5	14.0	9.8
MPHL	2,732	Neutral	33.5	-5.4	1.5	4.8	-10.6	-5.6	3.8	-8.0	-3.2
COFORGE	6,190	Neutral	23.3	13.4	2.5	3.3	9.2	20.9	2.7	17.3	48.0
PSYS	7,322	Neutral	25.0	15.2	3.6	3.5	4.2	5.0	2.7	0.1	1.8
ZENT	608	Neutral	11.9	-0.3	-3.8	1.5	80.8	-20.7	1.2	61.7	-28.8
CYL	2,305	Buy	18.4	13.7	3.4	2.7	28.7	3.3	2.0	23.8	10.0
Sector aggregate (INR b)			1,838	1.3	0.4	348	-4.0	-1.5	279	-2.0	0.5

Source: Company, MOFSL

Exhibit 12: Comparative valuations

Company	CMP (INR)	M-cap (INR b)	Target Price	Upside/Downside	EPS (INR)			EPS CAGR (%)	Dividend yield (%)	P/E (x)		
					FY24E	FY25E	FY26E	FY24E-26E		FY24E	FY25E	FY26E
TCS	3,811	13,943	4,310	13%	126.0	143.7	167.6	15.4	3.0	30.3	26.5	22.7
INFO	1,551	6,438	1,700	10%	59.4	68.0	79.6	15.8	2.2	26.1	22.8	19.5
HCLT	1,483	4,025	1,700	15%	57.2	65.0	76.2	15.4	3.2	25.9	22.8	19.5
WPRO	477	2,494	500	5%	19.6	22.8	27.3	18.1	0.2	24.3	20.9	17.5
TECHM	1,298	1,267	1,180	-9%	41.8	51.1	67.8	27.4	3.9	31.1	25.4	19.1
LTIM	6,264	1,854	6,450	3%	160.1	195.5	242.0	22.9	1.0	39.1	32.0	25.9
MPHL	2,732	516	2,930	7%	82.6	97.6	117.2	19.1	1.9	33.1	28.0	23.3
LTTS	5,207	550	6,050	16%	123.9	151.2	206.4	29.1	0.9	42.0	34.4	25.2
PSYS	7,322	563	6,780	-7%	143.6	178.3	215.8	22.6	0.7	51.0	41.1	33.9
COFORGE	6,190	382	5,760	-7%	147.2	185.7	217.4	21.5	1.0	42.1	33.3	28.5
CYL	2,305	255	2,640	15%	69.3	87.4	102.9	21.9	1.1	33.3	26.4	22.4
ZENT	608	137	550	-10%	25.5	23.9	27.8	4.3	0.8	23.8	25.5	21.9

Source: Company, MOFSL

The tables below provide a snapshot of actual and estimated numbers for IT companies under the MOFSL coverage universe. Highlighted columns indicate the quarter/financial year under review.

Coforge

Neutral
CMP INR6190 | TP: INR5760 (-7%)
EPS CHANGE (%): FY24|25: +0.5|-0.4

- Revenue growth is projected to be muted at 0.7% QoQ due to higher-than-expected number of furloughs. BFS is expected to have some furloughs impact, while Insurance would continue its growth momentum.
- Deal wins to be attractive backed by healthy deal pipeline on both BFS and Insurance verticals
- EBITDA margin (Pre-RSU) is expected to improve 110bp QoQ, led by operating efficiency and offshoring.
- We expect the company to revise its revenue guidance to a lower band of +13-16% YoY in CC

Quarterly performance (Ind-AS)

Y/E March	FY23				FY24E				FY23	FY24E
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Rev. (USD m)	239	247	252	264	272	278	280	290	1,002	1,120
QoQ (%)	2.7	3.4	1.9	5.0	2.8	2.3	0.7	3.7	15.6	11.8
Revenue (INR m)	18,294	19,594	20,558	21,700	22,210	22,762	23,321	24,108	80,146	92,400
YoY (%)	25.2	24.9	24.0	24.5	21.4	16.2	13.4	11.1	24.6	15.3
GPM (%)	30.4	32.0	33.4	34.1	30.7	32.5	33.0	33.7	32.5	32.5
SGA (%)	13.9	13.7	14.9	14.5	14.7	14.9	14.5	14.6	14.3	14.7
EBITDA (INR m)	2,922	3,449	3,615	4,076	3,316	3,473	4,035	4,315	14,062	15,139
EBITDA margin (%)	16.0	17.6	17.6	18.8	14.9	15.3	17.3	17.9	17.5	16.4
EBIT (INR m)	2,292	2,835	2,991	3,359	2,559	2,701	3,265	3,520	11,477	12,045
EBIT margin (%)	12.5	14.5	14.5	15.5	11.5	11.9	14.0	14.6	14.3	13.0
Other income	-76	-150	83	-487	-152	-295	233	241	-630	27
ETR (%)	22.2	17.7	23.3	18.3	20.1	21.9	21.5	21.5	20.4	21.3
Minority Interest	-222.0	-195.0	-77.0	-19.0	-104.0	-69.0	-69.5	-69.3	-513.0	-311.8
Adj. PAT	1,501	2,016	2,282	2,327	1,818	1,809	2,677	2,883	8,126	9,187
QoQ (%)	-29.3	34.3	13.2	2.0	-21.9	-0.5	48.0	7.7		
YoY (%)	10.3	32.7	21.1	9.6	21.2	-10.3	17.3	23.9	18.0	13.1
Adj. EPS (INR)	24.2	32.5	36.7	37.4	29.2	29.0	42.9	46.2	130.6	147.2

Cyient

Buy
CMP INR2305 | TP: INR2640 (+15%)
EPS CHANGE (%): FY24|25: -0.5|-1.0

- Expect 0.3% QoQ CC growth for DET in 3QFY24. The softness will be on account of muted Auto segment; otherwise Aerospace is performing well, while Comm has achieved a steady state.
- DET's margin is likely to maintain a steady state, given the muted growth in 3Q. Current margin run-rate is already within the guided band of +150-250bp YoY.
- Sustainability is performing well and should maintain the earlier momentum in 3Q
- Given the softness in 3QFY24, we expect the DET revenue growth guidance to be revised downward.

Quarterly performance (Consol)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	162	175	197	213	205	214	221	235	746	875
QoQ (%)	3.1	8.2	12.7	8.1	-3.6	4.4	3.0	6.4	22.7	17.3
Revenue (INR m)	12,501	13,962	16,182	17,514	16,865	17,785	18,393	19,505	60,159	72,547
YoY (%)	18.1	25.6	36.7	48.3	34.9	27.4	13.7	11.4	32.7	20.6
GPM (%)	36.8	38.4	37.8	38.0	36.6	35.7	36.8	37.3	37.8	36.6
SGA (%)	21.2	22.0	20.6	19.6	17.9	17.4	18.2	18.4	20.8	18.0
EBITDA	1,946	2,290	2,785	3,222	3,156	3,258	3,421	3,686	10,243	13,521
EBITDA margin (%)	15.6	16.4	17.2	18.4	18.7	18.3	18.6	18.9	17.0	18.6
EBIT	1,435	1,660	2,086	2,496	2,480	2,600	2,685	2,906	7,677	10,671
EBIT margin (%)	11.5	11.9	12.9	14.3	14.7	14.6	14.6	14.9	12.8	14.7
Other income	160	-148	60	-257	-176	-134	37	39	-185	-234
ETR (%)	27.2	19.4	24.1	21.3	22.9	23.6	24.0	24.0	23.0	23.7
Adj. PAT	1,161	1,218	1,628	1,762	1,767	1,831	2,015	2,185	5,769	7,797
QoQ (%)	-24.7	4.9	33.7	8.2	0.3	3.6	10.0	8.4		
YoY (%)	0.9	0.5	23.7	14.3	52.2	50.3	23.8	24.0	10.5	35.2
EPS (INR)	10.6	11.1	14.8	16.0	16.0	16.6	18.2	19.8	52.4	70.5

HCL Technologies

Buy

CMP INR1483 | TP: INR1700 (+16%)

EPS CHANGE (%): FY24|25: -1.5| -1.4

- Service (IT +ER&D) revenue growth (organic) is expected to be muted on account of higher furloughs than last year. The ramp up of the Verizon deal and ASAP integration should aid its topline growth. We expect Service business to report 2.0% QoQ growth in CC.
- P&P is anticipated to rebound (+29.0% QoQ) due to 3Q seasonality and should contribute meaningfully to the sequential consolidated growth
- The wage compensation will have a 60bp QoQ impact on its Service business margin. The growth from the high-margin P&P business, however, should partly offset the wage hike impact
- We expect the company to maintain its revenue guidance and margins. Commentary on the ramp up of mega wins and the demand trends around ERD space would be the key monitorables

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	3,025	3,082	3,244	3,235	3,200	3,225	3,366	3,378	12,586	13,169
QoQ (%)	1.1	1.9	5.3	-0.3	-1.1	0.8	4.4	0.4	9.6	4.6
Revenue (INR b)	235	247	267	266	263	267	280	280	1,015	1,090
YoY (%)	16.9	19.5	19.6	17.7	12.1	8.0	5.0	5.4	18.5	7.5
GPM (%)	35.8	35.8	37.4	36.5	35.6	36.2	35.6	36.2	36.4	35.9
SGA (%)	12.9	12.2	12.0	12.8	13.6	12.4	12.6	12.8	12.5	12.8
EBITDA	50	54	63	59	54	59	60	62	226	235
EBITDA margin (%)	21.1	22.0	23.7	22.3	20.6	22.1	21.5	21.9	22.3	21.6
EBIT	40	44	52	48	45	49	50	51	185	195
EBIT margin (%)	17.0	17.9	19.6	18.2	17.0	18.5	17.9	18.3	18.2	17.9
Other income	3	2	1	4	2	2	3	3	10	10
ETR (%)	24.3	23.9	23.8	23.4	24.8	25.3	24.0	24.0	23.8	24.5
Adjusted PAT	33	35	41	40	35	38	40	41	148	155
QoQ (%)	-8.7	6.3	17.4	-2.8	-11.2	8.4	5.2	2.1		
YoY (%)	2.1	6.9	19.0	10.8	7.6	9.8	-1.6	3.3	9.9	4.5
EPS	12.1	12.9	15.1	14.7	13.0	14.1	14.9	15.2	54.8	57.2

Infosys

Buy

CMP INR1551 | TP: INR1700 (+10%)

EPS CHANGE (%): FY24|25: -2.5|-1.7

- Revenue growth is expected to be weak at -1.7% QoQ CC, on account of continued macro challenges and additional 3Q seasonality.
- Operating margin is also likely to see an adverse impact, led by wage revision and weak growth. We expect the operating margin at 20.2%, down -100bp QoQ
- Deal pipeline remains healthy while closure remains a bit challenging due to slower decision making and furloughs. However, the conversion remains on track.
- We expect the company to maintain its guidance on the back of healthy deal wins and strong pipeline, which are expected to support 4QFY24 growth.

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	4,444	4,555	4,659	4,554	4,617	4,718	4,624	4,723	18,212	18,681
QoQ (%)	3.8	2.5	2.3	-2.3	1.4	2.2	-2.0	2.1	66.5	2.6
Revenue (INR m)	345	365	383	374	379	390	385	392	1,468	1,546
YoY (%)	23.6	23.4	20.2	16.0	10.0	6.7	0.5	4.7	108.1	5.4
GPM (%)	29.3	30.5	30.7	30.5	30.5	30.7	29.6	30.1	30.3	30.2
SGA (%)	9.2	8.9	9.2	9.5	9.6	9.5	9.4	9.4	9.2	9.5
EBITDA	87	97	102	98	96	101	96	99	384	392
EBITDA margin (%)	25.2	26.7	26.6	26.1	25.4	25.8	24.8	25.3	26.2	25.3
EBIT	69	79	82	79	79	83	78	81	309	321
EBIT margin (%)	20.1	21.5	21.5	21.0	20.8	21.2	20.2	20.7	21.1	20.7
Other income	6	5	7	6	5	5	6	6	24	22
ETR (%)	28.8	28.2	26.3	27.5	28.9	29.1	26.5	26.5	27.7	27.8
PAT	54	60	66	61	59	62	62	64	241	247
QoQ (%)	-5.7	12.3	9.4	-7.0	-3.0	4.5	-0.8	4.1		
YoY (%)	3.2	11.1	13.4	7.8	10.9	3.2	-6.4	4.7	63.8	2.7
EPS (INR)	12.8	14.3	15.7	14.8	14.4	15.0	14.9	15.5	57.3	59.4

LTIMindtree**Neutral****CMP INR6264 | TP: INR 6450 (+3%)****EPS CHANGE (%): FY24|25: -3.1|-5.0**

- LTIM should report 1.2% CC growth in 3Q due to higher furloughs in Hi-Tech and BFSI. The adverse impact was broad-based and has been witnessed across its client base.
- Margins are likely to see a sequential decline of 20bp QoQ due to lower operating leverage.
- Manufacturing and Resources are performing well and expected to contribute majorly to the topline growth.
- We expect the margin guidance to be maintained. Demand commentary on 4Q to be closely monitored.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	980	1,022	1,047	1,058	1,059	1,076	1,086	1,131	4,106	4,351
QoQ (%)	3.7	4.3	2.4	1.0	0.1	1.6	1.0	4.2	17.2	6.0
Revenue (INR m)	76,442	82,278	86,200	86,910	87,021	89,054	90,467	93,892	3,31,830	3,60,434
YoY (%)	32.9	29.6	25.3	21.9	13.8	8.2	5.0	8.0	27.1	8.6
GPM (%)	31.1	30.8	28.6	29.9	31.6	31.4	31.2	31.9	30.1	31.5
SGA (%)	11.6	11.0	11.7	11.4	12.8	13.1	13.3	13.1	11.4	13.1
EBITDA	14,937	16,356	14,548	16,037	16,355	16,313	16,194	17,609	61,878	66,470
EBITDA margin (%)	19.5	19.9	16.9	18.5	18.8	18.3	17.9	18.8	18.6	18.4
EBIT	13,273	14,397	12,767	14,214	14,508	14,231	14,294	15,731	54,651	58,764
EBIT margin (%)	17.4	17.5	14.8	16.4	16.7	16.0	15.8	16.8	16.5	16.3
Other income	1,465	1,233	1,139	228	856	962	1,086	1,221	4,065	4,124
ETR (%)	24.9	23.9	22.3	22.9	25.0	23.5	25.0	25.0	23.5	24.6
Adj. PAT	11,066	11,890	10,807	11,141	11,523	11,623	11,535	12,714	44,904	47,394
QoQ (%)	-0.2	7.4	-9.1	3.1	3.4	0.9	-0.8	10.2		
YoY (%)	31.7	25.1	2.9	0.5	4.1	-2.2	6.7	14.1	13.7	5.5
EPS (INR)	36.1	40.1	35.4	37.6	38.9	39.2	39.0	43.0	151.8	160.1

LTTS**Buy****CMP INR5207 | TP: INR6050 (+16%)****EPS CHANGE (%): FY24|25: +0.6|+1.6**

- We expect revenue growth of 1.3% QoQ CC in 3Q. The growth is expected to be muted on account of seasonality, and UAW strike, which led the delay in project ramp ups
- With wage hike behind, we expect 60bp sequential improvement in margin
- We anticipate the deal momentum to continue in 3Q on selected verticals
- We expect the company to maintain its FY24 revenue guidance, while closely monitoring any development around UAW strike and demand for ERD in general.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	240	247	248	255	280	288	292	302	990	1,162
QoQ (%)	3.2	3.2	0.4	2.9	9.8	2.9	1.2	3.6	12.4	17.4
Revenue (INR m)	18,737	19,951	20,486	20,962	23,014	23,865	24,295	25,067	80,136	96,241
YoY (%)	23.4	24.1	21.4	19.4	22.8	19.6	18.6	19.6	22.0	20.1
GPM (%)	33.0	32.1	33.0	32.5	30.0	28.0	29.0	28.5	32.6	28.9
SGA (%)	11.6	11.0	11.5	11.0	10.4	8.1	8.8	9.3	11.3	9.1
EBITDA	4,010	4,218	4,412	4,492	4,528	4,756	4,908	4,824	17,132	19,016
EBITDA margin (%)	21.4	21.1	21.5	21.4	19.7	19.9	20.2	19.2	21.4	19.8
EBIT	3,434	3,628	3,829	3,927	3,954	4,075	4,300	4,197	14,818	16,527
EBIT margin (%)	18.3	18.2	18.7	18.7	17.2	17.1	17.7	16.7	18.5	17.2
Other income	340	261	627	392	357	286	413	426	1,620	1,482
ETR (%)	27.1	27.2	31.6	28.0	27.6	27.6	26.5	26.5	28.6	27.0
PAT	2,742	2,824	3,036	3,096	3,111	3,154	3,462	3,396	11,698	13,123
QoQ (%)	4.7	3.0	7.5	2.0	0.5	1.4	9.8	-1.9		
YoY (%)	26.8	22.8	22.0	18.2	13.5	11.7	14.0	9.7	22.2	12.2
EPS (INR)	26.0	26.7	28.7	29.2	29.4	29.8	32.7	32.0	110.5	123.9

Mphasis**Neutral****CMP INR2732 | TP: INR2930 (+7%)****EPS CHANGE (%): FY24|25: -6.3|-10.6**

- We expect a decline of 2.8% CC in revenue (organic) QoQ on account of higher-than-expected furloughs in BFS. Including inorganic (integration of Silverline), the growth is estimated at 1.0% QoQ in CC terms.
- The weakness in the mortgage business (DR) continued in 3Q, which is likely to lead the decline in volume for BFS.
- We expect margin to see a decline of 110bp QoQ due to an increase in amortization (~100bp), otherwise the organic margin is expected to improve sequentially.
- The volume recovery for its DR business, and outlook for the mortgage business and deal TCVs need to be monitored.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	436	440	429	412	398	398	402	414	1,718	1,612
QoQ (%)	1.2	1.0	-2.5	-4.1	-3.4	0.1	0.8	3.2	7.8	-6.1
Revenue (INR m)	34,113	35,198	35,062	33,612	32,520	32,765	33,254	34,193	1,37,985	1,32,732
YoY (%)	26.8	22.7	12.2	2.5	-4.7	-6.9	-5.2	1.7	15.4	-3.8
GPM (%)	29.8	28.1	28.5	29.2	29.1	28.9	28.2	28.1	28.9	28.6
SGA (%)	12.2	10.5	10.8	11.4	11.1	10.7	11.1	10.5	11.2	10.8
EBITDA	6,001	6,177	6,175	5,987	5,869	5,956	5,686	6,018	24,340	23,529
EBITDA margin (%)	17.6	17.5	17.6	17.8	18.0	18.2	17.1	17.6	17.6	17.7
EBIT	5,205	5,376	5,354	5,152	4,995	5,067	4,784	5,090	21,087	19,936
EBIT margin (%)	15.3	15.3	15.3	15.3	15.4	15.5	14.4	14.9	15.3	15.0
Other income	125	174	156	189	263	150	266	274	644	953
ETR (%)	24.6	24.6	25.2	24.1	24.7	24.9	24.9	24.9	24.6	24.8
PAT	4,020	4,184	4,123	4,053	3,961	3,920	3,795	4,030	16,380	15,706
QoQ (%)	2.5	4.1	-1.5	-1.7	-2.3	-1.0	-3.2	6.2		
YoY (%)	18.3	17.1	15.3	3.4	-1.5	-6.3	-8.0	-0.6	13.2	-4.1
EPS (INR)	21.2	22.1	21.8	21.5	20.9	20.6	20.0	21.2	86.9	82.6

Persistent Systems**Neutral****CMP INR7322 | TP: INR6780 (-7%)****EPS CHANGE (%): FY24|25: -3.4|-4.7**

- Expect revenue growth of 3.0% QoQ in CC, aided by continued momentum in Hi-Tech and Healthcare, while BFSI is expected to be soft due to furloughs.
- Margins are expected to improve by 20bp QoQ; however, it would be lower than the corresponding last year. The cost misalignment with revenue for an onsite project might lead to a lower margin recovery in 3Q.
- Deal wins should be healthy in 3Q with larger renewal component to the overall TCV. The deal TCV is expected to improve in 3QFY24.
- Commentaries on the demand environment and deal pipeline should be closely monitored.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	241.5	255.6	264.4	274.6	282.9	291.7	300.0	311.0	1,036	1,186
QoQ (%)	11.1	5.8	3.4	3.9	3.0	3.1	2.8	3.7	35.3	14.4
Revenue (INR m)	18,781	20,486	21,694	22,545	23,212	24,117	24,987	25,814	83,506	98,130
QoQ (%)	14.7	9.1	5.9	3.9	3.0	3.9	3.6	3.3		
YoY (%)	52.7	51.6	45.4	37.6	23.6	17.7	15.2	14.5	46.2	17.5
GPM (%)	33.8	33.5	33.8	33.9	34.2	33.1	33.0	33.5	33.8	33.4
SGA (%)	16.1	15.5	15.3	15.5	16.0	16.3	16.0	15.5	15.6	15.9
EBITDA	3,333	3,680	4,016	4,163	4,229	4,052	4,248	4,647	15,191	17,175
EBITDA margin (%)	17.7	18.0	18.5	18.5	18.2	16.8	17.0	18.0	18.2	17.5
EBIT	2,688	2,987	3,332	3,466	3,466	3,308	3,473	3,846	12,472	14,093
EBIT margin (%)	14.3	14.6	15.4	15.4	14.9	13.7	13.9	14.9	14.9	14.4
Other income	131	-31	192	-60	90	250	100	103	233	544
ETR (%)	24.9	25.6	24.1	26.2	22.0	26.0	25.0	25.0	25.2	24.5
PAT	2,116	2,200	2,676	2,515	2,774	2,633	2,680	2,962	9,507	11,049
QoQ (%)	5.3	4.0	21.6	-6.0	10.3	-5.1	1.8	10.5		
YoY (%)	33.3	36.0	51.7	25.1	31.1	19.7	0.1	17.8	36.2	16.2
EPS (INR)	27.7	28.8	31.1	32.9	29.8	34.2	34.8	38.5	120.5	137.3

TCS**Buy****CMP INR3811 | TP: INR4310 (+13%)****EPS CHANGE (%): FY24|25: -0.8|-0.9**

- The growth is expected to stay muted due to furloughs and weak macros. Expect 0.4% QoQ CC growth for 3Q.
- The deal pipeline should remain resilient, especially in the UK regions, while the US and Europe continue to stay on a weaker trajectory.
- EBIT % is expected to see a marginal improvement of 20bp QoQ due to absence of operating leverage.
- Outlook on near-term demand environment, BFSI, and deal wins are the key monitorables.

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
IT Services Revenue (USD m)	6,780	6,877	7,075	7,195	7,226	7,210	7,163	7,397	27,927	28,995
QoQ (%)	1.3	1.4	2.9	1.7	0.4	-0.2	-0.7	3.3	8.6	3.8
Overall Revenue (INR b)	528	553	582	592	594	597	597	614	2,255	2,401
QoQ (%)	4.3	4.8	5.3	1.6	0.4	0.5	0.0	2.9		
YoY (%)	16.2	18.0	19.1	16.9	12.6	7.9	2.5	3.8	17.6	6.5
GPM (%)	38.4	39.5	40.1	40.1	39.5	40.1	40.2	40.7	39.6	40.1
SGA (%)	15.3	15.5	15.5	15.7	16.4	15.8	15.7	15.9	15.5	15.9
EBITDA	134	145	156	157	150	157	158	165	592	630
EBITDA margin (%)	25.3	26.2	26.8	26.5	25.2	26.3	26.6	26.8	26.2	26.2
EBIT	122	133	143	145	138	145	146	152	542	581
EBIT margin (%)	23.1	24.0	24.5	24.5	23.2	24.3	24.5	24.8	24.1	24.2
Other income	6	8	4	9	12	8	10	10	27	41
PBT	128	141	146	154	150	153	156	162	569	622
ETR (%)	25.5	25.8	25.7	25.7	25.8	25.8	25.5	25.5	25.7	25.6
Adj. PAT	95	105	109	114	111	114	116	121	423	462
Exceptional items	0	0	0	0	0	0	0	0	0	0
Reported PAT	95	105	109	114	111	114	116	121	423	462
QoQ (%)	-4.4	9.9	4.0	5.1	-2.8	2.3	2.3	3.9		
YoY (%)	5.4	8.4	11.0	14.8	16.8	8.7	7.0	5.9	10.0	9.3
EPS (INR)	26.0	28.5	29.6	31.1	30.3	31.0	31.7	33.0	115.3	126.0

Tech Mahindra**Neutral****CMP INR1298 | TP: INR1180 (-9%)****EPS CHANGE (%): FY24|25: -5.2|-6.6**

- Revenue is expected to decline further following the dip in 2Q as CME and Enterprise both remain under pressure due to seasonality. Expect 1.1% QoQ CC decline in revenue for 3QFY24.
- Margins are likely to be stable and we do not see any meaningful improvement from 2QFY24 level. The absence of growth and continued investments are likely to keep margin under pressure
- Deal wins are likely to be muted due to lower working days. We expect deal TCV at USD300-500m in 3QFY24.
- The outlook on margin and growth in the CME vertical will be the key monitorables.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	1,633	1,638	1,668	1,668	1,601	1,555	1,534	1,569	6,607	6,259
QoQ (%)	1.5	0.3	1.8	0.0	-4.0	-2.8	-1.4	2.3	10.1	-5.3
Revenue (INR b)	127	131	137	137	132	129	128	130	533	518
YoY (%)	24.6	20.7	19.9	13.2	3.5	-2.0	-7.0	-5.0	19.4	-2.7
GPM (%)	28.3	27.9	28.7	28.9	25.7	22.5	24.7	25.7	28.5	24.6
SGA (%)	13.5	12.8	13.1	14.2	13.5	11.5	14.0	13.0	13.4	13.0
EBITDA	19	20	21	20	16	14	14	16	80	60
EBITDA margin (%)	14.8	15.1	15.6	14.7	12.2	10.9	10.7	12.7	15.1	11.6
EBIT	14	15	16	15	12	9	9	12	61	42
EBIT margin (%)	11.0	11.4	12.0	11.2	8.8	7.3	7.3	9.2	11.4	8.1
Other income	1	2	1	2	1	2	1	1	6	5
ETR (%)	22.8	21.4	27.3	22.9	21.8	9.9	25.0	25.0	23.7	20.6
Adj. PAT	11	13	13	13	10	10	8	10	51	37
QoQ (%)	-24.9	15.8	-1.0	2.6	-28.2	2.3	-19.5	25.0		
YoY (%)	-16.4	-2.2	-5.3	-11.6	-15.5	-25.3	-39.3	-26.1	-8.9	-26.9
Extra-Ordinary Item	0.0	-0.2	0.0	-2.1	-2.6	-4.8	-5.0	0.0	-2.4	-12.5
Reported PAT	11.3	12.9	13.0	11.2	6.9	4.9	2.9	9.8	48.3	25
EPS (INR)	12.8	14.8	14.7	15.0	10.8	11.0	8.9	11.1	57.3	41.8

Wipro**Neutral****CMP INR477 | TP: INR500 (+5%)****EPS CHANGE (%): FY24|25: +0.2|-1.6**

- We expect WPRO to report a revenue decline of 2.7% QoQ in CC, due to furloughs and macro impact, leading to continued softness in verticals
- Consulting business is continued to be weak owing to a cut in discretionary spending and reprioritizing projects.
- IT Services margin should see a contraction of 100bp on account of compensation revision and weak growth.
- Commentary on revenue conversion, consulting, and deal pipeline will be the key monitorables.

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
IT Services Revenue (USD m)	2,756	2,817	2,821	2,840	2,779	2,713	2,633	2,671	11,234	10,796
QoQ (%)	1.3	2.2	0.1	0.6	-2.1	-2.3	-2.9	1.4	8.5	-3.9
Overall Revenue (INR b)	215	225	232	232	228	225	221	223	905	896
QoQ (%)	3.2	4.7	3.1	-0.2	-1.5	-1.4	-2.0	1.2		
YoY (%)	17.9	14.6	14.4	11.2	6.0	-0.1	-5.0	-3.7	14.4	-1.0
GPM (%)	27.7	27.3	29.7	29.8	29.4	29.3	27.5	28.2	28.7	28.6
SGA (%)	13.4	13.4	14.1	14.0	14.2	14.6	13.8	13.8	13.7	14.1
EBITDA	40	41	46	46	43	42	39	41	173	164
EBITDA margin (%)	18.5	18.1	19.9	19.9	18.8	18.5	17.5	18.2	19.1	18.3
IT Services EBIT (%)	14.9	15.1	16.3	16.3	16.0	16.1	15.1	15.8	15.7	15.7
EBIT margin (%)	14.8	14.4	16.2	16.2	15.1	14.8	13.8	14.5	15.4	14.6
Other income	2	2	2	3	3	2	2	2	8	10
ETR (%)	23.6	22.5	22.9	23.0	24.0	24.0	24.0	24.0	23.0	24.0
PAT	26	27	31	31	29	26	25	26	114	106
QoQ (%)	-17.0	3.7	14.8	0.7	-6.6	-7.8	-5.8	5.7		
YoY (%)	-20.7	-9.3	2.9	-0.4	12.0	-0.5	-18.4	-14.3	-7.1	-6.5
EPS (INR)	4.7	4.9	5.6	5.6	5.1	5.0	4.7	5.0	20.7	19.6

Zensar Technologies**Neutral****CMP INR608 | TP: INR550 (-10%)****EPS CHANGE (%): FY24|25: -1.2|-6.8**

- Hi-Tech is likely to be under pressure in 3Q while other segments would remain soft due to higher furloughs. We expect revenue to decline 4.4% QoQ CC in 3QFY24.
- We expect margins to moderate from its 2Q peak. EBIT margin is expected to be at 12.9%, down 280bp QoQ.
- The order book should look better YoY; however, sequentially its should see some moderation due to furloughs and slower decision making
- The demand environment within its critical sectors and progress on stimulating growth levers would be the key monitorables.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	156	155	146	148	149	150	143	147	604	590
QoQ (%)	1.8	-0.6	-5.9	1.1	1.2	0.6	-4.6	2.7	6.1	-2.4
Revenue (INR m)	12,034	12,346	11,976	12,127	12,272	12,408	11,938	12,215	48,483	48,834
YoY (%)	28.5	17.5	8.6	5.1	2.0	0.5	-0.3	0.7	14.2	0.7
GPM (%)	26.6	25.3	27.4	31.9	33.6	31.8	32.8	33.2	27.8	32.8
SGA (%)	15.3	16.8	16.1	17.4	14.9	13.2	16.7	16.8	16.4	15.4
EBITDA	1,361	1,054	1,349	1,759	2,301	2,308	1,922	1,999	5,523	8,530
EBITDA margin (%)	11.3	8.5	11.3	14.5	18.8	18.6	16.1	16.4	11.4	17.5
EBIT	871	562	852	1,408	1,878	1,942	1,540	1,608	3,693	6,969
EBIT margin (%)	7.2	4.6	7.1	11.6	15.3	15.7	12.9	13.2	7.6	14.3
Other income	149	209	183	209	224	306	131	134	750	796
ETR (%)	26.4	26.3	26.1	26.2	25.7	22.7	26.0	26.0	26.2	25.0
Adj. PAT	751	568	765	1,193	1,562	1,738	1,237	1,290	3,277	5,827
QoQ (%)	-42.1	-24.4	34.7	55.9	30.9	11.3	-28.8	4.3		
YoY (%)	-25.6	-39.8	-15.8	-8.0	108.0	206.0	61.7	8.1	-21.2	77.8
EPS (INR)	3.3	2.5	3.4	5.2	6.8	7.6	5.4	5.6	14.4	25.5

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