ICICI direct Research

December 29, 2020

# IT on the cusp of multi-year transformation phase…

Rising adoption of smartphones, high internet speed and social distancing (due to Covid-19) has changed consumer behaviour. Consumers now prefer to transact (buy a product) virtually over the smartphone via an app instead of physical transaction. This has led to virtualisation of business models. In addition, to keep business up and running in a work from home scenario, technology is gaining traction. As a result, new age technologies like cybersecurity (to protect business from work from home scenario), app development (to help customer transact virtually) and Cloud (to enable seamless & efficient online transaction) are witnessing robust growth. We expect technology to become an integral part of a company's spending and key to revenue growth. Hence, we expect increased allocation towards technology making IT companies indispensable to business. Digital technologies like cloud, cybersecurity, AI, Analytics are expected to play a critical role in driving this growth.

The pace of digital acceleration has increased after Covid-19. We believe we are in the first phase of a multi-year technology transformation phase. In the current phase, enterprises are building a cloud-based foundation that will serve as a resilient, secure, scalable digital core. In subsequent phases, enterprises will see new age technologies like artificial intelligence, augmented reality, virtual reality, data analytics and Internet of Things (IOT) to be developed around cloud leading to a multi-year technology spends. In the next four to five years every major company is expected to migrate to cloud and use of Artificial Intelligence (AI) has just started. In the last phase, there will be emergence of new business models and leverage of technology to drive growth in ancillary business. As a result, global digital technologies are expected to grow at a CAGR of 16% to US$900 billion in FY21E-25E led by 15-20% growth in cloud migration, ADM, digital transformation IOT AI, etc and 35-45% growth in 5G, robotics, blockchain & others. This, coupled with vendor consolidation opportunities, acquisition of captives and offshoring & automation (for cost take out deals) could lead to double digit revenue growth for IT companies in the longer term.

## Offshoring, cost rationalisation to help margin defensibility

One of the structural change witnessed in Covid times is growing acceptability of offshoring among IT clients due to work from home & work from anywhere situation. Considering the improved productivity and seamless execution during this Covid times, we expect the offshoring trend to witness improved traction. This, coupled with rationalisation of subcontracting cost, automation, pyramid rationalisation and higher digital value will help IT companies maintain margin defensibility despite headwinds (like wage hikes, higher travel & other discretionary spends).

## Valuation & Outlook

Considering the robust growth in new age technologies, we expect top five IT companies to register double digit growth in revenues (on average basis) in FY22E and FY23E. This, coupled with higher offshoring and cost rationalisation, will help IT companies maintain stable margins in FY22E & FY23E (albeit above FY20 levels). Hence, we maintain our positive view on the sector. We maintain **BUY** on TCS and Infosys considering their ability to provide end to end solutions. Further, considering robust opportunity in cloud, ER&D and 5G we maintain **BUY** on HCL Tech and Tech Mahindra. Among midcaps, we prefer Zensar and Mastek based on attractive valuation.

Sectoral View: Attractive

**Recommendation matrix (new)**

| Company | CMP | Rating | TP | Upside (%) |
|---|---|---|---|---|
| TCS | 2,928 | Buy | 3,410 | 16% |
| INFTEC | 1,240 | Buy | 1,450 | 17% |
| HCLTECH | 922 | Buy | 1,105 | 20% |
| TECHMAH | 948 | Buy | 1,105 | 17% |
| WIPRO | 383 | Hold | 435 | 14% |
| ZENTEC | 239 | Buy | 280 | 17% |
| MASTEK | 1,158 | Buy | 1,350 | 17% |

**Recommendation matrix (old)**

| Company | old CMP | Rating | TP | Upside (%) |
|---|---|---|---|---|
| TCS | 2,737 | BUY | 3,300 | 21% |
| INFTEC | 1,121 | BUY | 1,350 | 20% |
| HCLTECH | 827 | BUY | 960 | 16% |
| TECHMAH | 892 | BUY | 1,040 | 17% |
| WIPRO | 346 | BUY | 435 | 26% |
| ZENTEC | 178 | BUY | 210 | 18% |
| MASTEK | 863 | Buy | 1,015 | 18% |

**Research Analysts**

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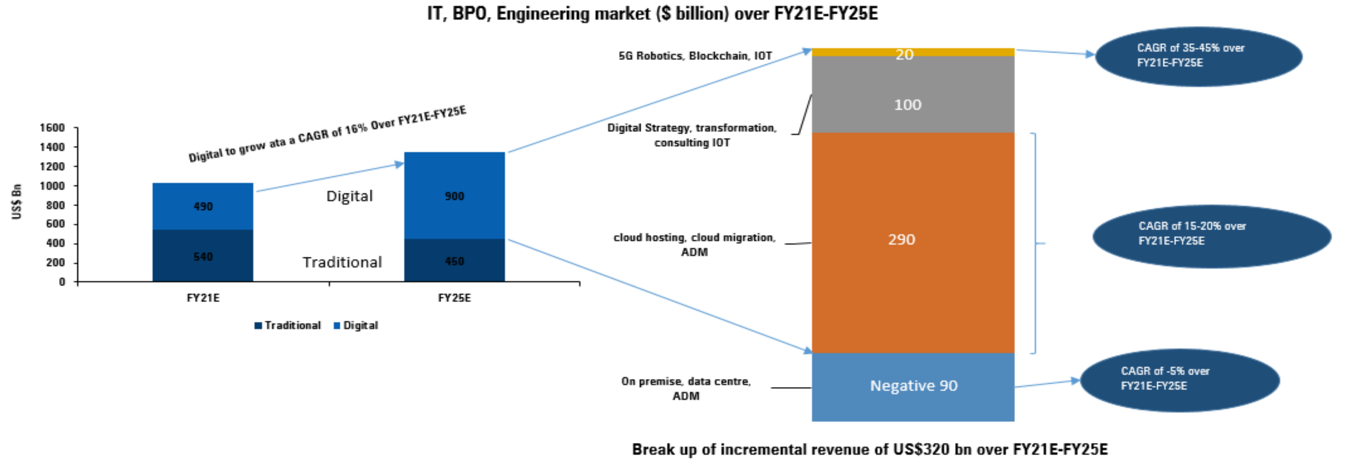
Sector Update

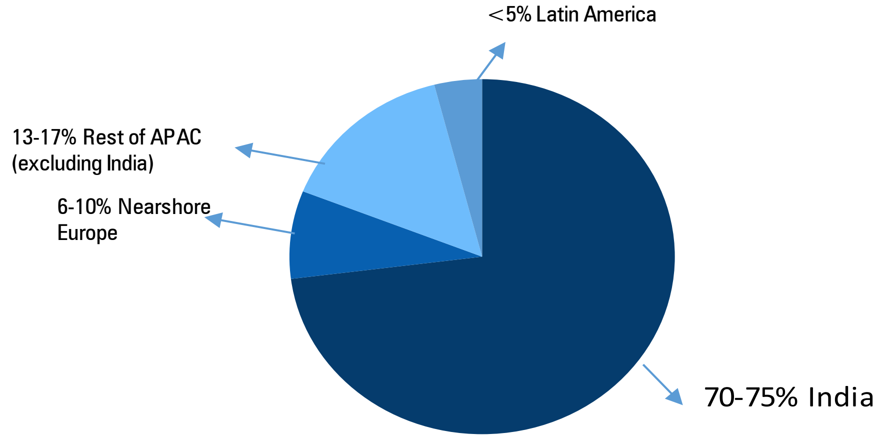
ICICI Securities – Retail Equity Research

## Exhibit 1: Digital technology to drive multi-year growth




*Source: Wipro Analyst Meet, ICICI Direct Research;*

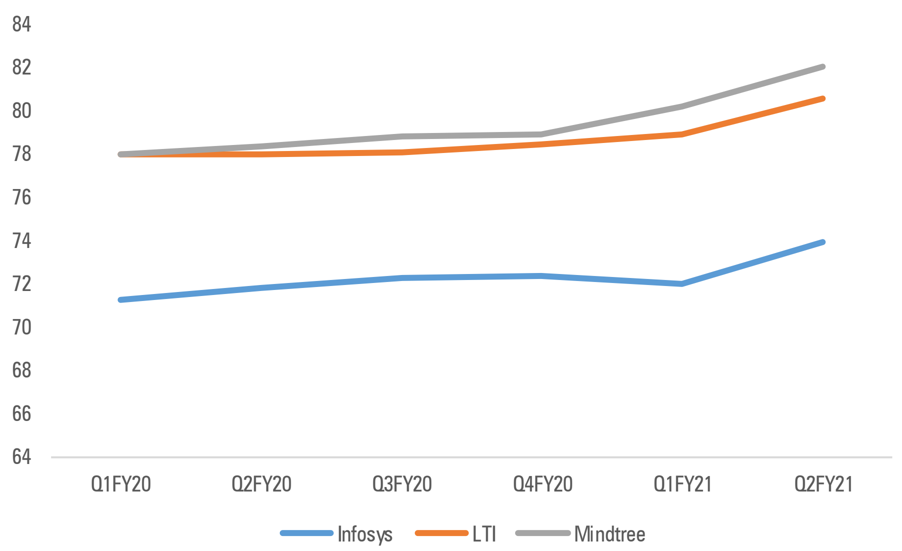
## Exhibit 2: India has high supply of digitally skilled employee (digital FTE as of FY18)




*Source: Nasscom, ICICI Direct Research*

India has higher share of digitally skilled employee and lower cost of employee, which, we believe, can be a key driver of offshoring

## Exhibit 3: IT companies witness higher offshoring post Covid-19




*Source: Company, ICICI Direct Research, Infosys, Larsen & Toubro Infotech (LTI), Mindtree*

Growing acceptability of offshoring due to work from home, Covid situation, higher talent availability and lower cost has led to increase in offshore effort of IT companies like Infosys, Larsen & Toubro Infotech (LTI) and Mindtree

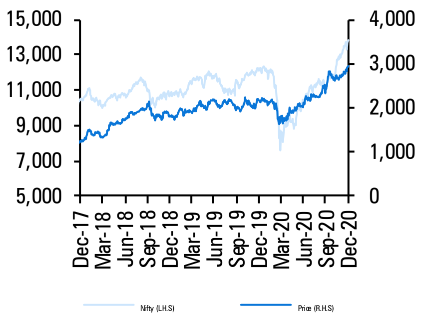
Higher offshoring is expected to help margin defensibility in the long run

## I-Direct IT coverage universe

### Tata Consultancy Services (TCS)

Tata Consultancy Services (TCS) has, over the years, invested in R&D, platforms and digital reskilling that has helped the company to register a consistent strong financial performance. The company has also shown its ability to mine clients effectively as it has doubled its US$100 million client over FY14-20 despite its size. In addition, TCS has witnessed strong deal wins and has balance sheet strength to carve out complex large deals. The recent Transamerica and Postbank deals are a few examples. Further, considering TCS' digital prowess and ability to offer end to end solution makes it a key beneficiary of robust growth in digital technologies leading to double-digit revenue growth over a sustainable period. This, coupled with industry leading growth & solutions, better capital allocation, stable management and higher revenue growth trajectory than witnessed in the past prompt us to maintain our **BUY** rating on stock with a revised target price of ₹ 3410/ share (28.8x FY23E EPS).

**TCS price performance**




**Key Risk:**

**Decline in pace of digital acceleration:** We assume that acceleration in digital technologies will drive revenue growth of IT companies. However, a slower than expected pace of growth in digital technologies will impact TCS' revenue growth.

**Margin sustainability:** We believe that in a post Covid world higher revenue growth, offshoring and other cost savings like travel facility cost will not return to normal levels. However, if TCS is unable to realise the cost savings or realise the benefits of the cost savings it will adversely impact its margins.

Exhibit 4: Financial summary (TCS)

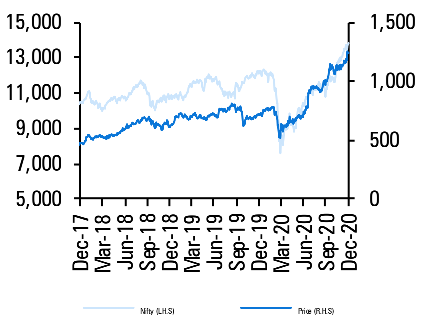
| Financials | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) |
|---|---|---|---|---|---|---|
| Net Sales | 1,46,463 | 1,56,949 | 1,62,403 | 1,78,581 | 2,01,986 | 8.8% |
| EBITDA | 39,506 | 42,110 | 45,148 | 51,074 | 58,374 | 11.5% |
| EBITDA Margins (%) | 27.0 | 26.8 | 27.8 | 28.6 | 28.9 | |
| Net Profit | 31,472 | 32,340 | 32,341 | 38,444 | 43,751 | 10.6% |
| EPS (₹) | 83.8 | 86.2 | 87.5 | 104.0 | 118.4 | |
| P/E | 34.8 | 33.9 | 33.4 | 28.1 | 24.7 | |
| RoNW (%) | 34.4 | 37.5 | 37.2 | 42.4 | 45.7 | |
| RoCE (%) | 43.8 | 43.5 | 44.6 | 49.0 | 53.0 | |

*Source: Company, ICICI Direct Research*

### Infosys (INFTEC)

Post the management change, the company has invested in accelerating its digital stack and in improving sales & marketing efforts. This has resulted in revenue outperformance, narrowing of margin gap with the leader and positive momentum in deal wins. The recent multi-million dollar wins of Daimler and Vanguard are a case in point. We expect the company to continue to register healthy growth in revenues considering improving large deal win trajectory, digital acceleration and the company's ability to provide end to end solution. Further, we expect Infosys to register healthy margins in coming years led by rationalisation of onsite pyramid, automation, lower subcontracting cost and improvement in revenues. Hence, we maintain our **BUY** rating on the stock with a revised target price of ₹ 1450/share (25x FY23E EPS).

**Infosys price performance**



**Key Risk:**

**Change in Management:** Any change in strategic direction of the company due to management change could adversely impact growth trajectory.

**Decline in pace of digital acceleration:** We assume that acceleration in digital technologies will drive revenue growth of IT companies. However, a slower than expected pace of growth in digital technologies will impact Infosys' revenue growth.

Exhibit 5: Financial summary (Infosys)

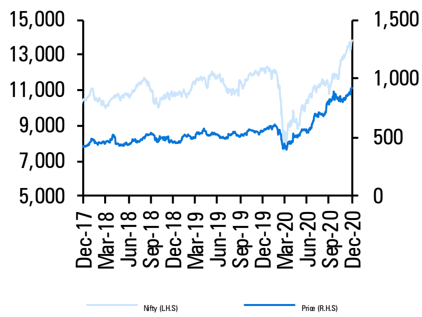
| ₹ Crore | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) |
|---|---|---|---|---|---|---|
| Net Sales | 82,676 | 90,791 | 99,238 | 1,11,192 | 1,25,954 | 11.5% |
| EBITDA | 20,890 | 22,279 | 27,092 | 29,688 | 34,008 | 15.1% |
| EBITDA Margins (%) | 25.3 | 24.5 | 27.3 | 26.7 | 27.0 | |
| Net Profit | 15,411 | 16,595 | 19,707 | 21,174 | 24,316 | |
| EPS (₹) | 35.4 | 38.9 | 46.4 | 49.8 | 57.2 | 13.7% |
| P/E | 35.0 | 31.9 | 26.8 | 24.9 | 21.7 | |
| RoNW (%) | 23.7 | 25.2 | 27.4 | 27.2 | 28.7 | |
| RoCE (%) | 32.9 | 30.8 | 33.7 | 33.6 | 35.6 | |

*Source: Company, ICICI Direct Research*

## HCL Technologies (HCLTEC)

We believe growing opportunities in cloud, automation and cyber security are a sweet spot for HCL Tech. The company's expertise in IMS and app modernisation (~70% of revenues) can witness phenomenal growth led by integrated deals in cloud. HCL Tech also witnessed healthy traction in deal TCV (up 35% QoQ in Q2FY21) and deal pipeline. Further, the company expects ER&D revenues to improve QoQ with product revenues (being mission critical & growing traction) expected to be positive YoY. In addition, we expect the company to register double digit revenue growth in FY22E and FY23E led by recovery across verticals, acquisition, improving deal wins. Further, HCL Tech has various margin levers in terms of higher utilisation, lower subcontracting cost, lower travel and lower discretionary spend, which is expected to improve its margins. This, coupled with improved capital allocation policy (the company is planning to increase its dividend to ₹ 4/share per quarter from ₹ 2/share per quarter) bodes well. Hence, we maintain **BUY** rating on the stock with a revised target price of ₹ 1105/share (18x FY23E EPS).

**HCL Tech price performance**




**Key Risk:**

**Products business:** The recently acquired products from IBM require higher investment. If the company is unable to scale these business adequately it will adversely impact its revenues.

**Decline in pace of digital acceleration:** We assume that acceleration in digital technologies will drive revenue growth of IT companies. However, a slower than expected pace of growth in digital technologies will impact HCL Tech's revenue growth.

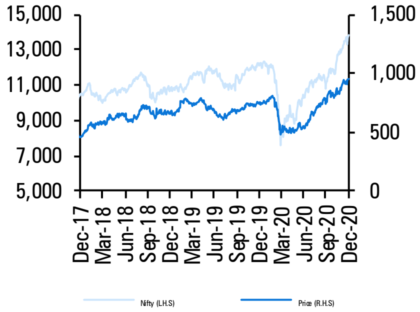
Exhibit 6: Financial summary (HCL Tech)

| Key Financials | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR FY(20-23E) |
|---|---|---|---|---|---|---|
| Net Sales | 60,427 | 70,678 | 75,346 | 85,517 | 96,207 | 10.8% |
| EBITDA | 13,968 | 16,694 | 19,515 | 22,235 | 25,110 | 14.6% |
| Margins (%) | 23.1 | 23.6 | 25.9 | 26.0 | 26.1 | |
| Net Profit | 10,122 | 11,062 | 12,376 | 14,420 | 16,621 | 14.5% |
| EPS (₹) | 37.3 | 40.8 | 45.6 | 53.2 | 61.3 | |
| P/E | 24.7 | 22.6 | 20.2 | 17.3 | 15.1 | |
| RoNW (%) | 24.5 | 21.6 | 20.7 | 21.0 | 20.9 | |
| RoCE (%) | 26.9 | 23.0 | 23.8 | 24.9 | 25.3 | |

*Source: Company, ICICI Direct Research*

## Tech Mahindra (TECMAH)

Tech Mahindra price performance




The company expects digital technologies like customer experience, cloud, data & analytics to grow at a healthy pace in coming years. Tech Mahindra (TechM) expects customer experience to increase at a CAGR of 11.2% in FY20-24E and expects acquisitions like Born, Mad Pow, Bio to help capture this demand. The company generates US$900 million (~17% of topline) from cloud and is growing at 22%. TechM's booked TCV in cloud is 2x over the previous year representing tremendous growth in coming years. In terms of data & analytics, the company generates US$800 million (15% of revenues) and employs 10,000 associates with 35 Fortune 500 clients and 300+ customer base. Apart from capturing acceleration in digital technologies, the company's focus on winning large deals & 5G will further boost revenues in coming years. This, coupled with an improving margin trajectory led by cost rationalisation and reasonable valuation prompt us to maintain **BUY** rating on the stock with a revised target price of ₹ 1105/share (16x FY23E EPS).

**Key Risk:**

**Margin sustainability:** The company has various cost levers to improve margins. However, if TechM is unable to realise the cost savings or realise the benefits of the cost savings it will adversely impact its margins.

**Inability to capture 5G spend:** The company generates ~40% of its revenues from telecom and is expected to be a key beneficiary of 5G spend. Any inability of TechM to capture the 5G spend will adversely impact the company's revenue growth trajectory.

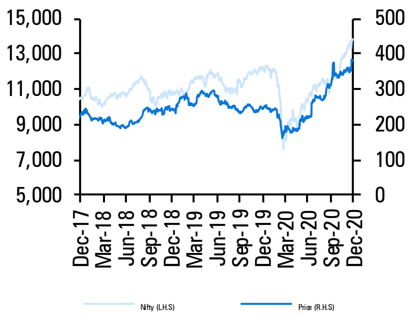
Exhibit 7: Financial summary (Tech Mahindra)

| Key Financials | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) |
|---|---|---|---|---|---|---|
| Net sales | 34,742 | 36,868 | 37,536 | 40,490 | 44,787 | 6.7% |
| EBITDA | 6,337 | 5,726 | 6,419 | 7,450 | 8,599 | 14.5% |
| EBITDA Margin (%) | 18.2 | 15.5 | 17.1 | 18.4 | 19.2 | |
| Net Profit | 4,298 | 4,033 | 4,402 | 5,169 | 6,097 | 14.8% |
| EPS (₹) | 47.7 | 45.9 | 50.0 | 58.8 | 69.3 | |
| P/E | 19.9 | 20.7 | 18.9 | 16.1 | 13.7 | |
| RoNW (%) | 21.2 | 18.5 | 18.3 | 18.9 | 19.5 | |
| RoCE (%) | 23.6 | 19.1 | 18.7 | 19.8 | 20.9 | |

*Source: Company, ICICI Direct Research*

## Wipro (WIPRO)

Wipro price performance




We believe Wipro has all the key ingredients of robust growth in the long run. The company has strong full services capabilities across applications, infra, BPS and engineering, which should help it as integrated deals gain prominence. Further, the induction of a new CEO with focus on profitable growth make us positive on Wipro's future growth. This, coupled with the new CEO's focus on simplification of organisation, improving client mining, focus on fewer verticals and geographies to drive growth is expected to bode well. In addition, the company has seen improving deal wins and expects traction in digital tech to further improve growth. Wipro aims to accelerate growth without compromising margins. This, coupled with healthy capital allocation policy, improving tech spends in digital, prompt us to be positive on the company in the long run. However, the recent run up in stock prompt us to downgrade the stock from BUY to **HOLD** with a target price of ₹ 435/share (20x FY23E EPS).

**Key Risk:**

**Higher than expected growth:** We expect the company to underperform the industry in the near term. However, a turnaround led by the new strategy of the CEO could lead the company to outperform the industry.

**Decline in pace of digital acceleration:** We assume that acceleration in digital technologies will drive revenue growth of IT companies. However, a slower than expected pace of growth in digital technologies will impact Wipro's revenue growth.

Exhibit 8: Financial summary (Wipro)

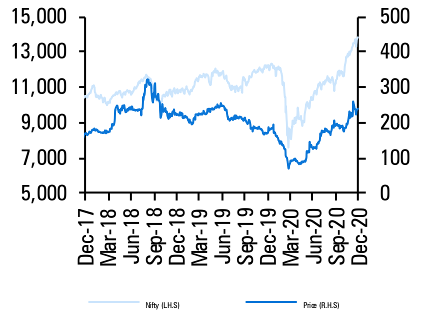
| Key Financials | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) |
|---|---|---|---|---|---|---|
| Net Sales | 58,052 | 61,340 | 61,664 | 67,004 | 74,550 | 6.7% |
| EBITDA | 11,938 | 12,659 | 13,385 | 14,759 | 16,740 | 9.8% |
| Net Profit | 9,003 | 9,722 | 9,888 | 10,789 | 12,106 | 7.6% |
| EPS (₹) | 14.9 | 16.6 | 18.1 | 19.7 | 22.1 | |
| P/E | 25.6 | 23.0 | 21.2 | 19.4 | 17.3 | |
| RoNW (%) | 15.8 | 17.4 | 18.6 | 19.9 | 21.8 | |
| RoCE (%) | 17.8 | 19.3 | 21.0 | 22.3 | 24.4 | |

*Source: Company, ICICI Direct Research*

## Zensar Technologies (ZENTE)

We expect Zensar to register healthy growth in core revenues (i.e. excluding third party maintenance revenues) mainly led by improving order book (increased 16.7% QoQ in Q2FY21), deal pipeline (US$1.5 billion), net new wins and conversion ratio. This, coupled with bottoming out of retail vertical, improvement in cloud revenues and ramp up of projects will lead to healthy improvement in revenues. In addition, the company has also hired Nachiketa Mitra (from Cognizant) to boost its financial service (~26.6% of revenues) segment in the long term. Coupled with healthy cash on the balance sheet, we expect the company to pursue inorganic acquisition (in cloud or software engineering side). Hence, we expect the company to register improving revenue growth in the long term. Further, improving margins are expected to boost the bottomline. This coupled with attractive valuation prompt us to maintain **BUY** rating on the stock with a revised target price of ₹ 280/share (12x FY23E EPS).

**Zensar Technologies price performance**




**Key Risk:**

**Weakness in top client:** The company expects weakness in the top client to continue in the next two quarters. However, higher than anticipated weakness in top client could negatively impact company's growth trajectory.

**Conversion of pipeline:** The company has seen healthy order book and deal pipeline. However, delay in decision making or delay in conversion of pipeline could adversely impact company's topline.

Exhibit 9: Financial summary (Zensar)

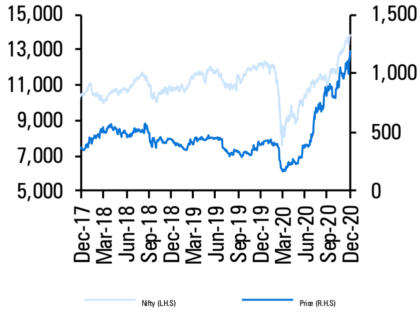
| (₹ Crore) | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR (FY20-23E) |
|---|---|---|---|---|---|---|
| Net Sales | 3,983 | 4,177 | 3,839 | 4,012 | 4,391 | 1.7% |
| EBITDA | 493 | 513 | 680 | 742 | 826 | 17.2% |
| EBITDA Margin (%) | 12.4 | 12.3 | 17.7 | 18.5 | 18.8 | |
| Adjusted PAT | 314 | 268 | 386 | 455 | 525 | 25.2% |
| Adjusted EPS (₹) | 13.9 | 11.5 | 16.8 | 19.9 | 22.9 | |
| P/E | 17.2 | 20.7 | 14.2 | 12.0 | 10.4 | |
| ROE (%) | 16.1 | 12.8 | 16.2 | 16.8 | 17.1 | |
| ROCE (%) | 17.6 | 12.7 | 17.7 | 17.6 | 17.7 | |

*Source: Company, ICICI Direct Research*

## Mastek (MASTEK)

Mastek believes the UK private sector has bottomed out. Hence, with traction in UK government revenues, US retail and UK private sector, we expect Mastek to register improving revenues in coming quarters. In addition, Evosys expertise in Oracle cloud migration coupled with Mastek's capability to cross-sell data analytics, application support and digital commerce will help the company win integrated and larger deals. This will result in multi-million dollar deals and annuity type of deals in long run. This, coupled with a large deal from the UK government (above US$25 million annually via participation through consortium), large customer wins across geographies, inorganic growth (led by healthy cash balance), improving deal pipeline in cloud and market share gains are some long term drivers for Mastek's revenues. Further, stable margins and healthy balance sheet prompt us to remain positive on the stock. This, coupled with attractive valuations prompt us to maintain **BUY** recommendation on the stock with a revised target price of ₹ 1350/share (15x FY23E EPS).

**Mastek price performance**




**Key Risk:**

**Acquisition of Evosys:** The company's acquisition of Evosys has enabled the company to improve its deal wins and margins. However, inability of the company to cross sell will adversely impact its revenue and margin trajectory.

**Margin sustainability:** The company has various cost levers to sustain robust margins. However, if Mastek is unable to realise the cost savings or realise the benefits of the cost savings it will adversely impact its margins.

Exhibit 10: Financial summary (Mastek)

| ₹ Crore | FY19 | FY20 | FY21E | FY22E | FY23E | CAGR FY20-23E |
|---|---|---|---|---|---|---|
| Net Sales | 1,033 | 1,072 | 1,654 | 1,779 | 1,930 | 21.7% |
| EBITDA | 132 | 155 | 313 | 334 | 363 | 32.7% |
| EBITDA Margins (%) | 12.7 | 14.5 | 18.9 | 18.8 | 18.8 | |
| Adjusted Net Profit | 101 | 133 | 201 | 230 | 263 | 25.6% |
| Adjusted EPS (₹)* | 40 | 52 | 68 | 78 | 89 | |
| P/E | 28.9 | 22.1 | 17.0 | 14.9 | 13.0 | |
| RoNW (%) | 14.1 | 16.8 | 15.4 | 15.7 | 15.9 | |
| RoCE (%) | 17.0 | 11.3 | 15.1 | 15.4 | 15.7 | |

*Source: Company, ICICI Direct Research*

## Exhibit 11: ICICI Direct Research universe (IT)

| Company | Cmp (₹) | TP (₹) | Rating | Mcap (₹ Cr) | EPS (₹) | | | | P/E (x) | | | | RoCE (%) | | | | RoE (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E |
| HCL Tech (HCLTEC) | 922 | 1,105 | Buy | 2,50,145 | 40.8 | 45.6 | 53.2 | 61 | 23 | 20 | 17 | 15 | 23.0 | 23.8 | 24.9 | 25.3 | 21.6 | 20.7 | 21.0 | 20.9 |
| Infosys (INFTEC) | 1,240 | 1,450 | Buy | 5,28,231 | 38.9 | 46.3 | 49.8 | 57 | 32 | 27 | 25 | 22 | 30.8 | 33.7 | 33.6 | 35.6 | 25.2 | 27.4 | 27.2 | 28.7 |
| TCS (TCS) | 2,928 | 3,410 | Buy | 10,98,792 | 86.2 | 87.5 | 104.0 | 118 | 34 | 33 | 28 | 25 | 43.5 | 44.6 | 49.0 | 53.0 | 37.5 | 37.2 | 42.4 | 45.7 |
| Tech M (TECMAH) | 948 | 1,105 | Buy | 91,716 | 45.9 | 50.0 | 58.8 | 69 | 21 | 19 | 16 | 14 | 19.1 | 18.7 | 19.8 | 20.9 | 18.5 | 18.3 | 18.9 | 19.5 |
| Wipro (WIPRO) | 383 | 435 | Hold | 2,18,811 | 16.6 | 18.1 | 19.7 | 22 | 23 | 21 | 19 | 17 | 19.3 | 21.0 | 22.3 | 24.4 | 17.4 | 18.6 | 19.9 | 21.8 |
| Mindtree (MINCON) | 1,610 | 1,680 | Buy | 26,519 | 38.3 | 58.8 | 68.0 | 76 | 42 | 27 | 24 | 21 | 23.0 | 29.7 | 30.0 | 29.6 | 20.0 | 25.5 | 25.4 | 24.6 |
| LTI (LTINFC) | 3,638 | 3,850 | Buy | 63,544 | 86.6 | 105.9 | 126.5 | 149 | 42 | 34 | 29 | 24 | 30.7 | 31.8 | 31.6 | 31.3 | 28.1 | 28.3 | 28.3 | 28.0 |
| Coforge (NIITEC) | 2,689 | 2,690 | Hold | 16,289 | 71.4 | 75.7 | 94.4 | 110 | 38 | 36 | 28 | 24 | 23.0 | 25.5 | 27.0 | 27.6 | 18.5 | 20.1 | 22.0 | 22.6 |
| Infoedge (INFEDG) | 4,641 | 4,090 | Buy | 59,682 | 26.8 | 23.8 | 33.1 | 39 | 173 | 195 | 140 | 118 | 18.0 | 9.1 | 11.9 | 13.3 | 13.5 | 6.8 | 9.0 | 10.0 |
| Teamlease (TEASER) | 2,586 | 2,840 | Buy | 4,421 | 20.5 | 47.2 | 64.9 | 83 | 126 | 55 | 40 | 31 | 15.0 | 13.8 | 15.9 | 17.2 | 6.5 | 12.7 | 14.7 | 15.9 |

*Source: Company, ICICI Direct Research*

# RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;
Hold: -5% to 15%;
Reduce: -5% to -15%;
Sell: <-15%

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# ANALYST CERTIFICATION

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