

Information Technology

Starting 2021 on a high note

IT sector (coverage universe) is set to post its strongest 3Q sequential growth of the past eight years, despite the seasonality factor and the volatile macro situation. Following a 6% QoQ growth (rebound) in revenue in 2Q, 3Q is expected to print 3.7% QoQ for the sector. The stage is set for a double-digit FY22. Key drivers are (1) accelerated cloud consumption and shift to cloud (migration and modernisation of workloads) triggered by the pandemic, (2) portfolio consolidation of vendors and applications by enterprise clients driven by cost optimisation and leading to multiple large re-badging deals, and (3) improving partner ecosystem/alliances and continuity in strong execution, despite operational displacement and re-alignment. Profitability in 3Q is expected to be flat (-30bps QoQ following +240bps QoQ in 2Q) with wage hikes (TCS, WPRO, PSYS while others over 4Q and 1Q) and large deal cost, impact offset by operating leverage and favourable cross currency.

Large deal momentum remains strong and deals TCV numbers for 3Q are expected to be robust for TCS (PBS-Deutsche, Prudential, Equinor), INFY (Daimler, Rolls Royce), Wipro (Metro AG, Fortum), LTI (Injazat), and Mindtree (Nordex). M&A intensity (volume terms) accelerated in 3Q with nine acquisitions. Deal wins in the cyclical ER&D segment (LTTS-Schindler & O&G sector deal, Tata Elxsi-Aesculap AG) also point towards recovery trajectory. Other positive demand indicators from Accenture's recent update include continuity in strong deal bookings and outlook of acceleration in its 2H.

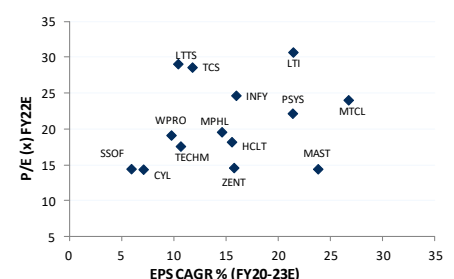
- **Revenue outperformance led by INFY, PSYS, LTTS, LTI:** In 3QFY21E, we expect TCS/INFY/HCLT/WPRO/TECHM to post QoQ CC organic growth of +2.7%, +3.5%, +2.8%, 2.6% and +1.8% respectively. Within mid-tiers, QoQ growth to be led by PSYS (growth in TSU+Alliance & Capiot acq.), LTI and LTTS (incl. Orchestra acq.) at 6.4% QoQ, 6.2% QoQ and 5.4% QoQ respectively. Within tier-1s TECHM is expected to lag growth and from mid-tiers ZENT is expected to lag. In terms of profitability, we expect tier-1 margins to decline by 29bps QoQ and mid-tier margin to decline by 50bps QoQ; LTTS & PSYS expected to outperform operationally as well.
- **Key monitorables:** (1) Commentary on client tech budget for CY21; (2) Progression/regression on large deals, overall deal bookings and deal pipeline; (3) Performance breadth by verticals and outlook on core verticals – BFSI, Retail & CPG; (4) Trends in large deals (closure timelines, profitability) and pricing trends in digital; (5) ER&D services outlook by industries; (6) DSO as temporary discounts reverse & capital allocation stance (increased volume of M&A activity in 3Q).
- **Maintain constructive stance:** We revise EPS est. higher by 1.0/2.5/4.5% for FY21/22/23E and raise TPs by ~10% on better growth/visibility (EPS CAGR for tier-1 at 15% and mid-tier at 19% over FY21-23E). Remain constructive on the sector despite valuations at >2SD with +20/50% performance of IT index in 3M/6M and 19/35% outperformance over NIFTY over 6M/12M. Our positive stance is premised on the longevity of high-growth (and strong BS) supported by multi-year industry tailwind from shift to cloud, increasing competitive advantage leading to continued market-share gains. Key risks are macro recovery upending and unfavourable USD-INR swing. We roll-forward valuations to Dec-22E, and our preferred picks include **Infosys, HCL Tech, Mphasis and Persistent**.

Company	CMP* (Rs)	RECO	TP (Rs)
TCS	3,043	ADD	3,200
Infosys	1,288	BUY	1,400
HCL Tech	978	BUY	1,100
Wipro	397	ADD	400
TechM	1,003	BUY	1,080
LTI	3,889	ADD	3,605
Mphasis	1,533	BUY	1,765
Mindtree	1,690	ADD	1,590
LTTS	2,453	REDUCE	1,900
Persistent	1,518	BUY	1,675
Cyient	526	ADD	565
Zensar	240	ADD	250
Sonata	396	BUY	430
Mastek	1,232	BUY	1,420

EXCHANGES & STAFFING

Company	CMP* (Rs)	RECO	TP (Rs)
MCX	1,780	ADD	1,880
CDSL	526	BUY	600
Teamlease	2,701	BUY	2,810
BSE	648	BUY	705

*CMP as on 4th Jan 2021



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Exchanges and Staffing

- Within exchanges, MCX is expected to post a 15.6% QoQ decline in revenue due to 17.5% QoQ decline in ADTV, led by moderation in bullion volume and seasonality. Margins will contract 598bps QoQ to 48.3% due to non-linearity. Increase in volatility in global commodities, recovery in volume (metal & crude) and launch of index derivative contracts are positives.
- BSE witnessed weakness in its core business performance (cash volume down 6.4% QoQ) and cash market share slipped further down to 5.6% (down 30bps QoQ). BSE is gaining market share in the derivative segment where NSE is a dominant player, market share increased to 6.6% vs. 3.8% QoQ. The net cash (excluding SGF and clearing cash) is ~63% of market cap and value of CDSL stake after 25% discount is Rs 184/share. We maintain BUY with a target price of Rs 705, based on 10x core Dec-22 PAT + net cash + CDSL stake.
- CDSL will continue its strong performance in 3Q with +3.7/71% QoQ/YoY growth. Transaction revenue which doubled in 1HFY21 will witness some moderation in 3Q offset by pledge revenue. The recent SEBI directive (effective Oct-20) related to margin requirement has led to higher pledge creation. Online e-KYC approval and market traction is boosting online data charges. E-Voting and e-AGM revenue will continue in 3Q due to extended time line. The EBITDA margin will expand by 16bps QoQ to 61.1% and PAT will be increase 5.5 % QoQ to Rs 0.51bn.
- Within staffing, Teamlease will post a strong quarter with 12.2% QoQ growth in revenue, led by a recovery in core staffing (+13.4% QoQ). The strong recovery is led by festive season and gradual opening up of the economy. The EBITDA margin will improve by 21bps QoQ to 2.2%, based on continuous cost-cutting, improving business mix (high-margin specialised staffing) and higher core-associate ratio.

IT Services: 3QFY21E Quarterly Financial Summary

Company	Net Sales (USD mn)			Net Sales (Rs bn)			EBIT (Rs bn)			EBIT Margin (%)			APAT (Rs bn)			Adj. EPS (Rs)		
	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	QoQ (bps)	YoY (bps)	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	2Q FY21	3Q FY20
TCS	5,614	3.5	0.5	413.75	3.1	3.8	104.66	(0.5)	4.9	25.3	-90	27	83.81	(0.2)	3.2	22.7	22.7	21.9
Infosys	3,461	4.5	6.7	255.07	3.8	10.5	64.53	3.6	27.4	25.3	-5	337	50.60	4.4	18.4	11.9	11.4	10.1
HCLT	2,602	3.8	2.3	191.77	3.1	5.7	41.85	4.2	14.0	21.8	23	159	32.31	2.8	6.4	11.9	11.6	11.2
Wipro	2,062	3.5	(1.5)	156.43	3.5	1.1	28.90	3.3	9.0	18.5	-3	134	25.93	5.1	5.6	4.5	4.3	4.3
Tech M	1,293	2.2	(4.4)	95.06	1.4	(1.5)	13.66	2.6	15.9	14.4	17	217	11.74	10.3	2.4	13.3	12.1	13.0
Tier-1 IT	15,033	3.7	1.4	1,112.08	3.2	4.7	253.61	1.9	12.5	22.8	-29	158	204.39	2.6	7.4			
L&T Infotech	426	5.4	8.1	31.41	4.8	11.7	6.24	4.8	36.7	19.9	0	363	4.91	7.5	30.4	28.2	26.2	21.6
Mphasis	344	5.2	8.3	25.39	4.2	11.5	3.98	1.4	7.7	15.7	-44	-56	3.19	6.8	8.8	17.1	16.1	15.8
Mindtree	269	2.9	(2.4)	19.80	2.8	0.7	3.33	(0.1)	40.9	16.8	-49	479	2.56	0.8	29.8	15.5	15.4	12.0
L&T Tech	189	6.2	(5.2)	13.93	6.0	(2.1)	2.13	18.4	(10.8)	15.3	160	-150	1.73	27.3	(10.2)	16.6	13.0	18.5
Persistent	145	6.4	11.9	10.72	6.3	16.1	1.31	7.3	62.1	12.2	10	345	1.17	14.5	27.2	15.3	13.3	12.0
Cyient	138	2.0	(11.3)	10.12	0.9	(8.5)	0.94	(15.0)	(11.6)	9.3	-173	-32	0.71	(15.5)	(34.4)	6.5	7.6	9.8
Zensar	130	(1.5)	(9.6)	9.55	(2.5)	(6.4)	1.30	(7.5)	359.2	13.7	-74	1,087	0.92	2.8	131.2	4.0	3.9	1.7
Sonata	41	4.0	(13.3)	11.20	39.3	(9.5)	0.85	9.5	(15.9)	7.6	-206	-58	0.63	10.1	(17.0)	6.1	5.5	7.3
Mastek	57	3.4	66.5	4.19	2.2	71.8	0.70	(6.6)	151.7	16.7	-157	530	0.53	3.8	73.3	20.5	19.8	12.0
Mid Tier IT	1,738	4.2	2.5	136.29	5.8	4.8	20.78	2.5	26.3	15.2	-50	260	16.35	6.9	16.3			
Aggregate	16,771	3.7	1.5	1,248.38	3.5	4.7	274.38	1.9	13.5	22.0	-33	169	220.74	2.9	8.0			

Source: HSIE Research, Wipro USD Rev is IT services, Sonata USD rev is IITS

Exchanges & Staffing: 3QFY21E Quarterly Financial Summary

Company	Net Sales (USD mn)			Net Sales (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS (Rs)		
	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	QoQ (bps)	YoY (bps)	3Q FY21E	QoQ (%)	YoY (%)	3Q FY21E	2Q FY21	3Q FY20
MCX	NA	NA	NA	1.01	(15.6)	13.1	0.49	(24.8)	25.8	48.8	-598	493	0.49	(16.0)	(4.8)	9.6	11.5	10.1
CDSL	NA	NA	NA	0.93	3.7	71.0	0.57	4.0	112.3	61.1	16	1,187	0.51	5.5	147.0	4.9	4.7	2.0
TeamLease	NA	NA	NA	12.67	12.2	(6.2)	0.28	23.7	3.5	2.2	21	21	0.21	(4.2)	(20.0)	12.1	12.6	14.9
BSE	NA	NA	NA	1.31	4.8	19.6	0.25	10.9	NA	18.9	104	NA	0.45	(14.2)	55.8	10.0	11.6	6.4
Aggregate				15.92	8.8	(0.8)	1.59	(3.8)	72.6	10.0	-130	425	1.66	(8.3)	30.7			

Source: HSIE Research

IT Services: valuation metrics

Company	MCAp (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)				\$ Rev CAGR% FY20-23	EPS CAGR% FY20-23
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
TCS	11,255	3,043	3,200	ADD	87.4	87.2	106.3	122.0	34.8	34.9	28.6	24.9	37.3	39.3	47.5	50.7	7.5	11.8
Infosys	5,473	1,288	1,400	BUY	38.6	45.2	52.2	60.2	33.3	28.5	24.7	21.4	25.2	28.2	29.8	31.1	10.6	15.9
HCL Tech	2,655	978	1,100	BUY	40.8	46.9	53.7	62.9	24.0	20.9	18.2	15.6	23.8	23.1	23.2	23.8	8.4	15.5
Wipro	2,170	397	400	ADD	17.0	18.2	20.7	22.5	23.3	21.7	19.1	17.6	17.3	18.3	20.9	21.8	3.5	9.7
TechM	968	1,003	1,080	BUY	48.3	50.2	57.0	65.5	20.8	20.0	17.6	15.3	20.2	19.4	20.3	21.4	4.8	10.6
Tier-1 IT Median									24.0	21.7	19.1	17.6	23.8	23.1	23.2	23.8	7.5	11.8
LTI	677	3,889	3,605	ADD	87.3	105.1	126.5	156.2	44.5	37.0	30.7	24.9	29.5	30.4	29.9	30.1	14.4	21.4
Mphasis	286	1,533	1,765	BUY	61.3	65.2	78.2	92.2	25.0	23.5	19.6	16.6	20.6	19.9	21.5	22.5	10.0	14.6
Mindtree	278	1,690	1,590	ADD	40.5	58.4	70.2	82.3	41.8	28.9	24.1	20.5	19.5	27.7	27.6	26.8	6.4	26.7
L&T Tech	256	2,453	1,900	REDUCE	72.0	58.6	84.3	96.8	34.1	41.9	29.1	25.3	28.6	19.9	24.0	23.4	6.7	10.4
Persistent	116	1,518	1,675	BUY	47.0	55.8	68.4	83.9	32.3	27.2	22.2	18.1	14.4	16.8	18.1	19.3	12.8	21.3
Cyient	58	526	565	ADD	33.9	29.7	36.6	41.6	15.5	17.7	14.4	12.6	14.5	12.4	14.5	15.5	1.6	7.1
Zensar	55	240	250	ADD	11.7	14.8	16.4	18.2	20.5	16.2	14.6	13.2	12.9	15.2	15.6	15.8	0.6	15.7
Sonata	41	396	430	BUY	26.7	24.2	27.4	31.7	14.9	16.4	14.5	12.5	38.5	35.1	35.2	35.9	2.9	5.9
Mastek	35	1,232	1,420	BUY	51.5	73.2	85.3	97.7	23.9	16.8	14.4	12.6	17.4	24.0	23.4	22.5	23.8	23.8
Mid Tier IT AVG									25.0	22.4	18.4	15.7	20.8	21.4	22.2	22.6	9.4	17.4
Mid Tier IT Median									23.9	20.2	18.0	15.6	19.5	19.9	22.8	22.5	10.0	15.7

Source: HSIE Research, CMP as on 4th Jan 2021

Global IT Peers: valuation metrics

Company	MCAp (USD bn)	CMP (USD)	TP (USD)	RECO	EPS (USD)				P/E (x)				RoE (%)				\$ Rev CAGR% FY20-23	EPS CAGR% FY20-23
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
Accenture	173	261	NA	NR	7.5	8.2	9.1	9.8	35.0	31.8	28.8	26.6	32.5	29.0	28.4	27.1	5.7	9.6
Cognizant	44	82	NA	NR	4.0	3.7	4.0	4.4	20.5	22.5	20.7	18.7	16.4	15.3	17.3	16.2	4.9	3.2
Capgemini^	21	127	NA	NR	6.8	6.5	7.5	8.5	18.8	19.4	16.9	14.9	10.8	8.9	10.8	11.6	8.0	7.9
EPAM	20	358	NA	NR	5.4	6.3	7.5	9.2	66.1	57.3	47.9	39.0	18.3	20.0	20.1	20.2	19.2	19.3
Globant	9	218	NA	NR	2.3	2.4	3.1	3.9	95.0	89.6	69.5	56.4	13.9	14.6	15.7	17.6	22.1	19.0
TietoEVERY^	3	27	NA	NR	1.7	1.9	2.2	2.5	15.6	13.8	12.0	10.9	7.3	8.1	13.3	14.8	19.5	12.7
Global IT AVG									41.8	39.1	32.7	27.7	16.5	16.0	17.6	17.9	13.2	11.9
Global IT Median									27.8	27.1	24.8	22.6	15.2	14.9	16.5	16.9	13.6	11.1

Source: HSIE Research, CMP as on 4th Jan 2021, ^ in EUR

Exchanges and Staffing: valuation metrics

Company	MCAp (Rs bn)	CMP (Rs)	TP (Rs)	RECO	EPS (Rs)				P/E (x)				RoE (%)				Rs Rev CAGR% FY20-23	EPS CAGR% FY20-23
					FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E		
MCX	91	1,780	1,880	ADD	45.7	47.4	56.5	71.9	38.9	37.5	31.5	24.7	17.8	17.5	20.3	24.9	18.5	16.3
CDSL Ltd	55	526	600	BUY	12.0	18.3	20.5	22.8	43.8	28.7	25.6	23.1	17.3	23.1	22.6	22.1	23.4	23.8
TeamLease	46	2,701	2,810	BUY	49.5	46.7	72.7	100.5	54.6	57.8	37.1	26.9	15.2	13.1	17.4	19.9	12.2	26.7
BSE	29	648	705	BUY	31.3	43.1	49.5	52.7	20.7	15.0	13.1	12.3	5.8	8.0	9.2	9.7	11.8	18.9
Median									41.4	33.1	28.6	23.9	16.3	15.3	18.8	21.0	15.3	21.4

Source: HSIE Research, CMP as on 4th Jan 2021

IT Services stock performance (%)

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)	10Yr (%)
TCS	11.4	20.4	38.2	38.1	124.2	144.3	409.0
Infosys	13.5	26.6	68.9	72.7	147.5	121.4	174.5
HCL Tech	14.2	20.6	69.3	67.6	114.0	123.6	743.4
Wipro	9.9	26.6	76.4	57.9	60.7	64.4	90.5
TechM	8.6	21.9	76.9	29.6	89.4	94.1	935.0
LTI	17.8	52.2	94.9	112.9	245.8	NA	NA
Mphasis	13.9	12.1	71.5	72.2	105.1	171.4	97.2
Mindtree	17.5	26.4	78.9	107.3	175.9	128.7	1150.9
LTTS	36.2	55.2	90.1	63.3	121.2	NA	NA
Persistent	24.7	16.6	137.0	118.8	104.9	124.3	550.0
Zensar	9.7	24.8	88.2	25.8	39.4	14.0	641.9
Cyient	9.7	38.5	96.7	20.2	-11.0	3.9	198.9
Sonata	14.8	26.9	65.6	26.1	47.1	136.2	651.7
Mastek	26.9	46.9	221.1	203.4	242.1	600.6	532.4
NSE IT	9.0	19.7	50.5	54.1	112.2	121.6	266.0
Nifty 50	4.1	18.8	31.6	19.3	42.0	101.8	181.1

Source: Bloomberg, HSIE Research, CMP as on 4th Jan 2021

Exchanges and Staffing stock performance (%)

Companies	1M (%)	3M (%)	6M (%)	12M (%)	3Yr (%)	5Yr (%)	10Yr (%)
MCX	13.9	2.4	38.7	44.1	92.8	95.0	37.6
CDSL	-3.8	8.5	85.5	112.0	50.7	NA	NA
Teamlease	-1.3	19.8	58.9	9.3	18.8	165.8	165.8
BSE	13.7	19.4	37.7	25.9	-41.7	NA	NA
Nifty 50	4.1	18.8	31.6	19.3	42.0	101.8	181.1

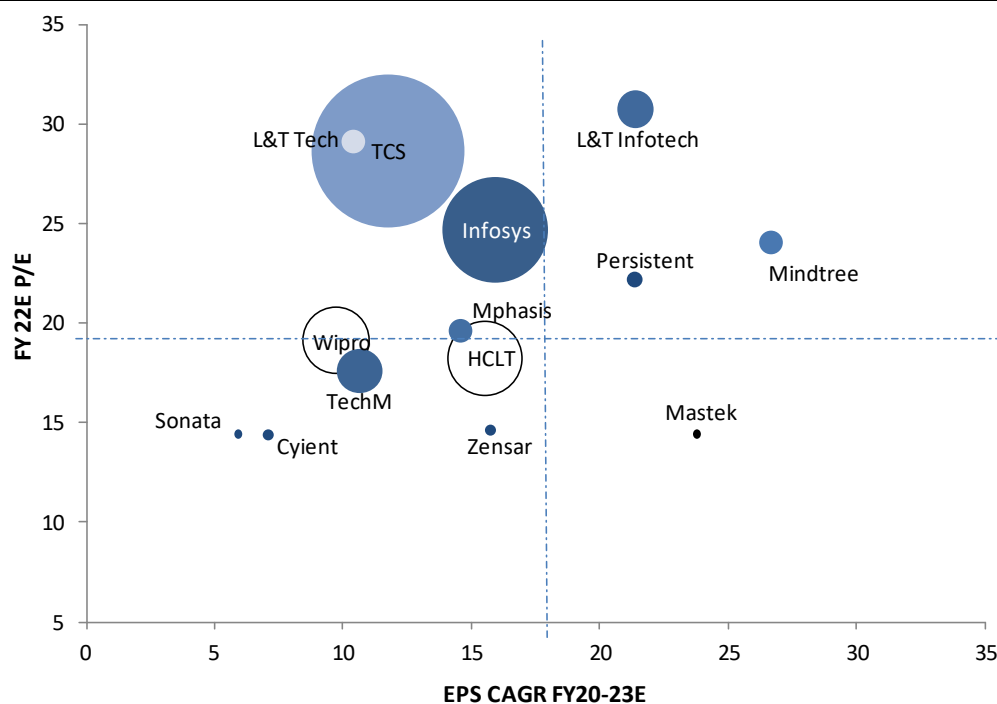
Source: Bloomberg, HSIE Research, CMP as on 4th Jan 2021

Note:

Green indicates out-performance to Nifty 50 during the respective period

Red indicates under-performance to Nifty 50 during the respective period

IT Sector P/E and EPS Growth



Source : Company, HSIE Research, Size of the bubble denotes market cap

Revenue-Mix by Verticals

Verticals	TCS	Infosys	HCLT	Wipro	TechM	LTI
BFSI	31.9%	32.0%	22.1%	31.2%	16.4%	45.9%
Retail & CPG	14.6%	14.9%	10.4%	16.2%	7.5%	11.0%
Hi-Tech	8.9%	9.1%	17.3%	12.5%	9.8%	10.6%
Communication & Media	6.5%	12.6%	7.7%	5.3%	39.3%	NA
Manufacturing	9.4%	9.1%	17.7%	8.2%	16.1%	16.4%
Healthcare	9.8%	6.8%	14.1%	13.7%	NA	NA
E&U	NA	12.3%	10.7%	12.9%	NA	12.1%
Travel & Transportation	NA	NA	NA	NA	NA	NA

Verticals	Mphasis	Mindtree	LTTS	Cyient	Zensar
BFSI	62.9%	20.4%	NA	NA	28.4%
Retail & CPG	NA	21.5%	NA	NA	13.5%
Hi-Tech	11.8%	49.8%	NA	5.3%	43.9%
Communication & Media	NA	NA	21.4%	28.4%	NA
Manufacturing	NA	NA	33.9%	37.5%	12.0%
Healthcare	NA	NA	13.2%	3.1%	NA
E&U	NA	NA	NA	11.5%	NA
Travel & Transportation	NA	8.3%	31.5%	14.3%	NA

Source: Company, HSIE Research; NA also implies data not disclosed separately, Note: Data as per 2QFY21

Change in estimates

IT Services

Company	Revenue USD bn (NEW)			Change (%)			EBITDA % (NEW)			Change (bps)			EPS (Rs) NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
TCS	21,831	24,687	27,358	0.3%	0.7%	1.0%	25.1	26.2	26.9	-16	-30	22	87.2	106.3	122.0	-0.7%	-1.1%	1.7%
Infosys	13,520	15,385	17,299	0.7%	2.6%	4.6%	24.1	23.4	23.6	29	58	33	45.2	52.2	60.2	1.3%	3.9%	5.3%
HCL Tech	10,147	11,454	12,652	1.0%	1.9%	2.3%	21.6	21.7	21.9	99	104	127	46.9	53.7	62.9	6.2%	6.5%	8.8%
Wipro	8,087	8,692	9,148	0.4%	1.2%	1.2%	17.9	18.3	18.4	-11	27	15	18.2	20.7	22.5	-1.9%	0.4%	0.9%
Tech Mahindra	5,090	5,474	5,960	0.4%	1.0%	2.1%	13.1	13.6	14.3	18	16	47	50.2	57.0	65.5	0.7%	2.2%	6.1%
LTI	1,669	1,977	2,280	1.1%	2.3%	1.7%	18.8	17.8	18.7	-12	-37	1	105.1	126.5	156.2	-2.0%	0.1%	1.5%
Mphasis	1,328	1,511	1,651	0.2%	0.4%	0.4%	15.7	16.0	16.7	-35	-20	28	65.2	78.2	92.2	-2.1%	-1.2%	1.9%
Mindtree	1,060	1,186	1,311	0.1%	0.2%	0.2%	15.8	16.2	16.8	-15	22	103	58.4	70.2	82.3	-1.2%	0.8%	6.3%
LTTS	735	853	956	0.9%	2.7%	2.5%	14.3	16.4	16.7	-36	-9	30	58.6	84.3	96.8	0.0%	3.7%	4.1%
Persistent	560	639	720	1.4%	2.3%	2.3%	11.6	12.0	13.0	44	44	39	55.8	68.4	83.9	3.1%	4.8%	4.2%
Cyient	546	596	656	1.2%	5.0%	5.3%	9.2	10.6	11.6	8	63	97	29.7	36.6	41.6	1.3%	12.0%	11.6%
Zensar	525	561	601	1.6%	3.4%	3.2%	12.3	12.3	12.5	47	94	110	14.8	16.4	18.2	5.6%	9.0%	11.8%
Sonata	158	177	197	0.5%	1.0%	3.5%	8.0	7.9	8.1	20	-1	7	24.2	27.4	31.7	2.8%	2.6%	4.8%
Mastek	222	254	287	2.1%	9.3%	15.1%	17.0	17.1	17.5	102	151	136	73.2	85.3	97.7	9.9%	20.9%	22.5%

Source: Company, HSIE Research

Companies	M-cap (Rs bn)	CMP (Rs)	TP Old	New TP	Old Rating	New Rating	Old multiple (x)	New multiple (x)	5Y Avg (x)	10Y Avg (x)
TCS	11,255	3,043	3,070	3,200	ADD	ADD	27	27	21	20
INFY*	5,473	1,288	1,230	1,400	BUY	BUY	23	24	17	17
HCLT	2,655	978	970	1,100	BUY	BUY	18	18	14	14
WPRO	2,170	397	390	400	ADD	ADD	18	18	15	15
TECHM*	968	1,003	940	1,080	BUY	BUY	16	17	14	13
LTI*	677	3,889	3,065	3,605	ADD	ADD	22	24	17	NA
MPHL	286	1,533	1,655	1,765	BUY	BUY	20	20	15	13
MTCL	278	1,690	1,450	1,590	ADD	ADD	20	20	18	15
LTTS	256	2,453	1,585	1,900	REDUCE	REDUCE	18	18	20	NA
PSYS	116	1,518	1,520	1,675	BUY	BUY	21	21	15	13
CYL	58	526	490	565	ADD	ADD	14	14	13	12
ZENT	55	240	220	250	ADD	ADD	14	14	13	10
SSOF	41	396	390	430	BUY	BUY	14	14	12	9
MAST*	35	1,232	1,015	1,420	BUY	BUY	14	15	11	8

Source: HSIE Research; * P/E multiple increased, TP based on Dec-22E EPS

Exchanges and Staffing

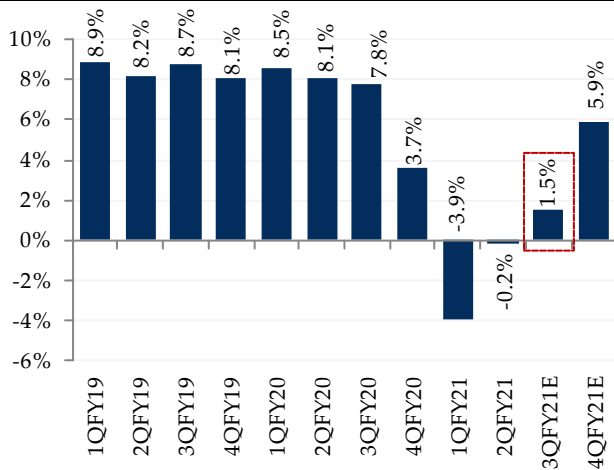
Company	Revenue Rs bn (NEW)			Change (%)			EBITDA % (NEW)			Change (bps)			EPS (Rs) NEW			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
MCX	4.2	5.0	6.2	-5.7%	-6.0%	-1.7%	47.2	51.8	56.6	-223	-209	-49	47.4	56.5	71.9	-6.8%	-8.1%	-2.7%
CDSL	3.4	3.8	4.2	-0.1%	1.4%	2.7%	59.4	60.6	61.7	-6	56	102	18.3	20.5	22.8	-0.2%	1.9%	3.7%
Teamlease	48.6	60.0	73.4	2.4%	3.5%	3.0%	2.2	2.5	2.7	2	0	-1	46.7	72.7	100.5	-4.7%	5.8%	4.0%
BSE	5.0	5.8	6.3	-0.8%	-0.8%	-0.9%	12.9	18.9	21.0	-67	-65	-71	43.1	49.5	52.7	3.1%	2.5%	2.2%

Source: Company, HSIE Research

Companies	M-cap (Rs bn)	CMP (Rs)	TP Old	New TP	Old Rating	New Rating	Old multiple (x)	New multiple (x)	5Y Avg (x)	10Y Avg (x)
MCX	91	1,780	1,860	1,880	ADD	ADD	30	30^	27	25
CDSL	55	526	565	600	BUY	BUY	30	30^	25	NA
Teamlease	46	2,701	2,480	2,810	BUY	BUY	30	30	34	34
BSE	29	648	680	705	BUY	BUY	10	10^	17	NA

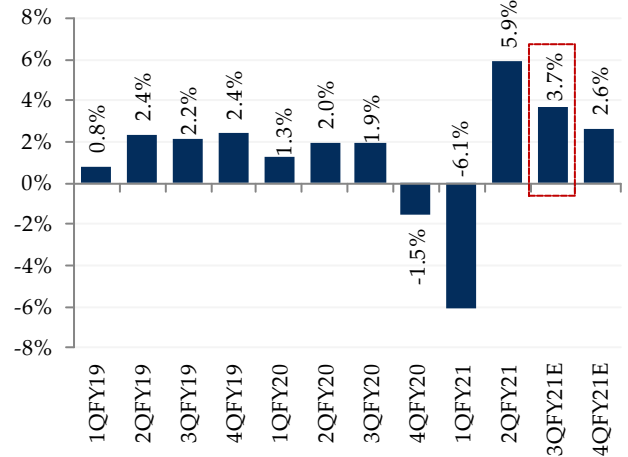
Source: Company, HSIE Research, ^ represents core PAT multiples

IT Sector USD Revenue Growth (% YoY)



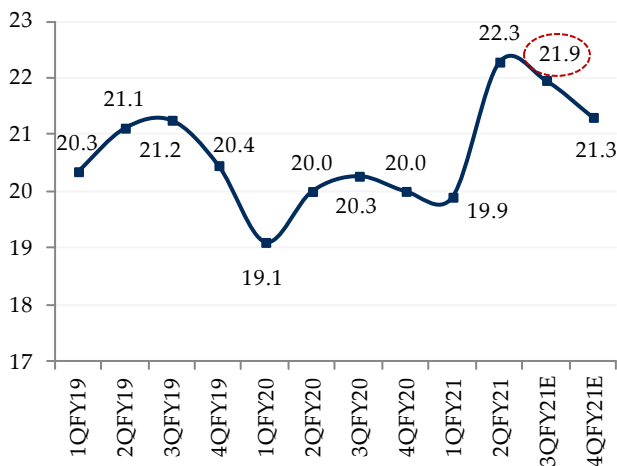
Source: Company, HSIE Research

IT Sector USD Revenue Growth (% QoQ)



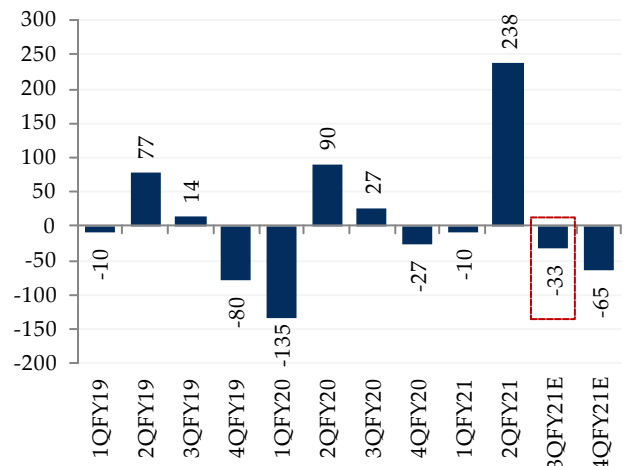
Source: Company, HSIE Research

IT Sector EBIT Margin Trend (%)



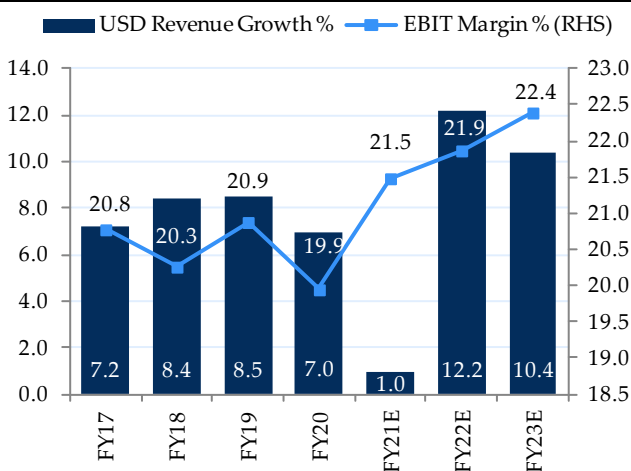
Source: Company, HSIE Research

IT Sector EBIT Margin Change (QoQ bps)



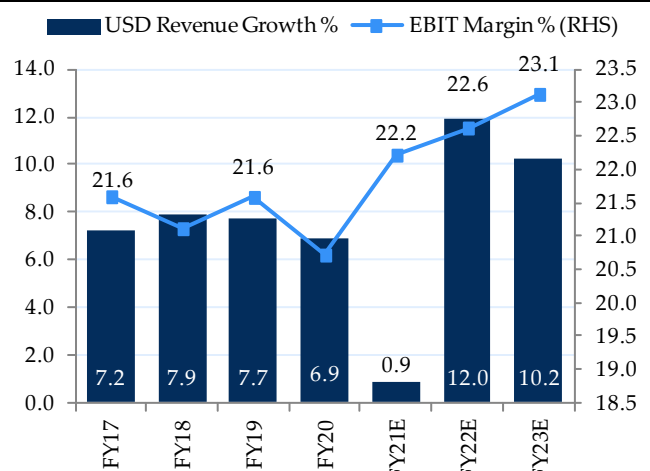
Source: Company, HSIE Research

IT Sector Aggregate Revenue growth and Margin trend



Source: Company, HSIE Research

Tier 1 Revenue growth and Margin trend



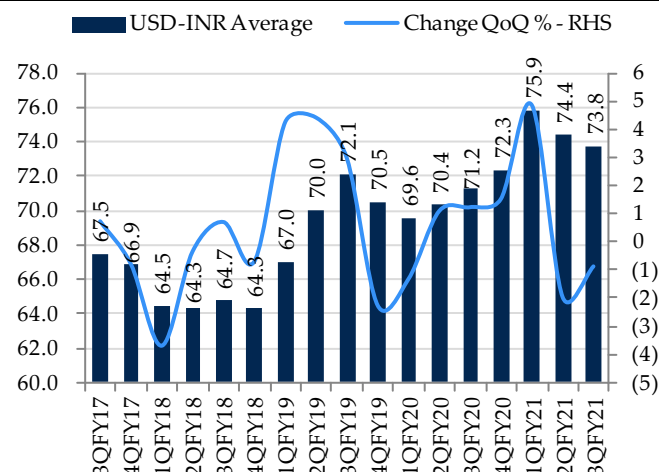
Source: Company, HSIE Research

Currency movements

Unfavourable movement of USD-INR (-0.9% QoQ) negated by positive cross currency movement

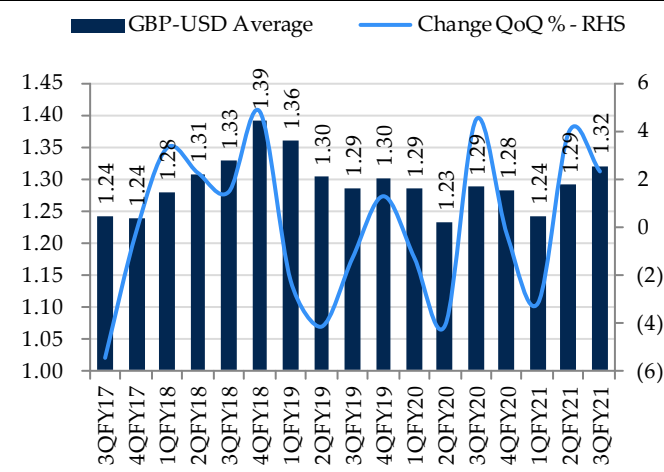
Positive cross-currency impact in the range of 20 to 75bps in 3QFY21 due to appreciation of GBP, EUR and AUD

USD-INR Trend



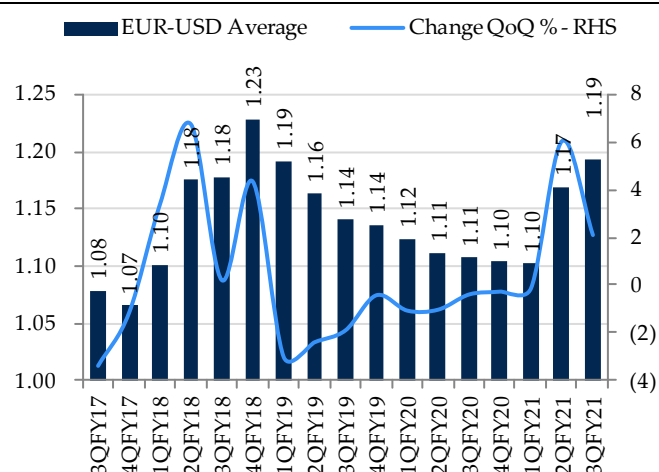
Source: NSE, Bloomberg, HSIE Research

GBP-USD Trend



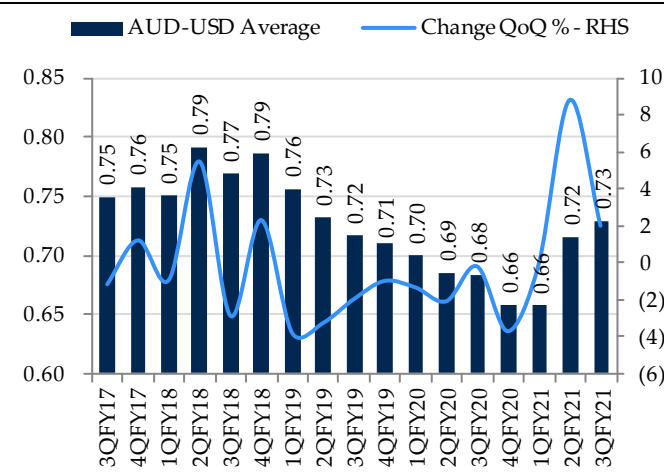
Source: NSE, Bloomberg, HSIE Research

EUR-USD Trend



Source: NSE, Bloomberg, HSIE Research

AUD-USD Trend



Source: NSE, Bloomberg, HSIE Research

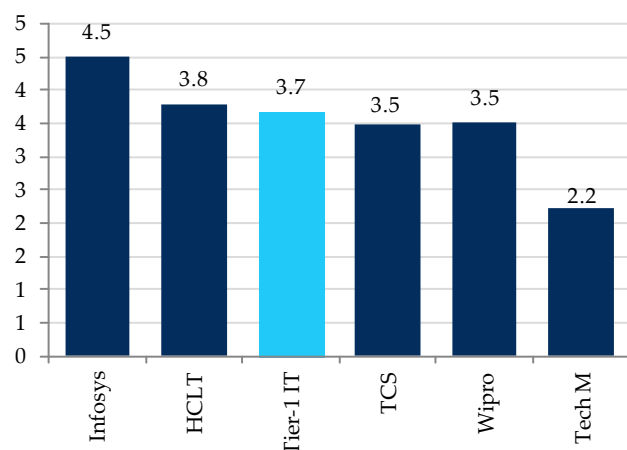
Cross Currency impact on USD Revenue

Tier 1 Companies	QoQ % (CC terms)	Cross currency impact (bps)	QoQ % (USD terms)
TCS	2.8	+75	3.5
INFY	4.0 (0.5 inorganic)	+50	4.5
HCLT	3.1 (0.2 inorganic)	+70	3.8
WPRO	3.0 (0.4 inorganic)	+50	3.5
TECHM	1.9 (0.1 inorganic)	+30	2.2
Mid Tier Companies	QoQ % (CC terms)	Cross currency impact (bps)	QoQ % (USD terms)
LTI	5.1	+30	5.4
MPHL	5.0	+25	5.2
MTCL	2.6	+30	2.9
LTTS	5.8 (1.9 inorganic)	+35	6.2
PSYS	6.2 (0.7 inorganic)	+20	6.4
CYL	1.5	+50	2.0
ZENT	-1.8	+30	-1.5

Source: HSIE Research

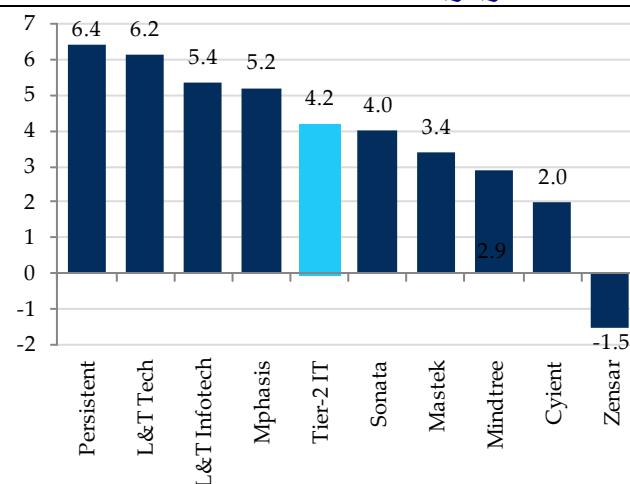
Revenue and margin performance (3QFY21E)

Tier-1 IT Revenue Performance (QoQ %)



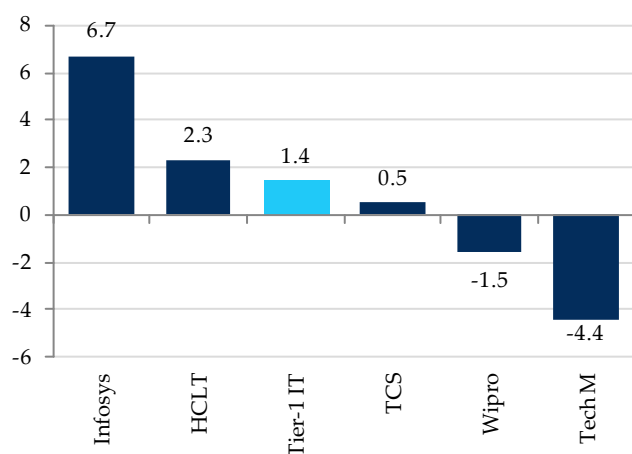
Source: HSIE Research

Mid-Tier IT Revenue Performance (QoQ %)



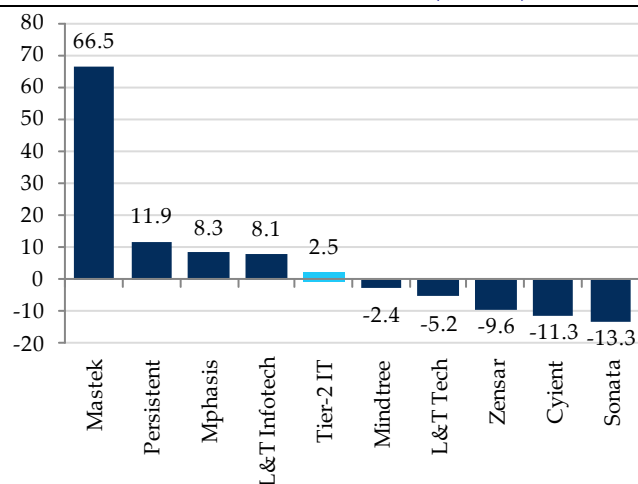
Source: HSIE Research

Tier-1 IT Revenue Performance (YoY %)



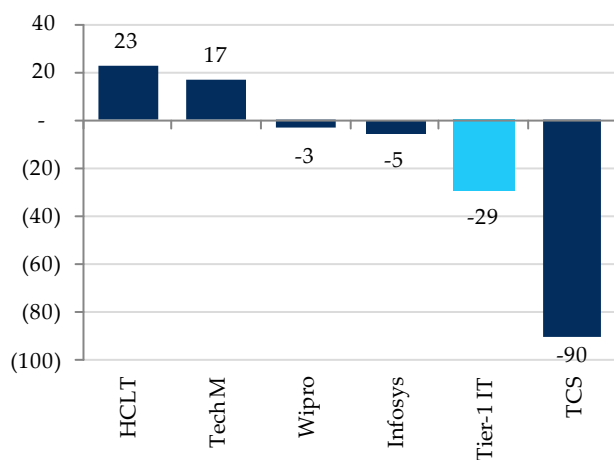
Source: HSIE Research

Mid-Tier IT Revenue Performance (YoY %)



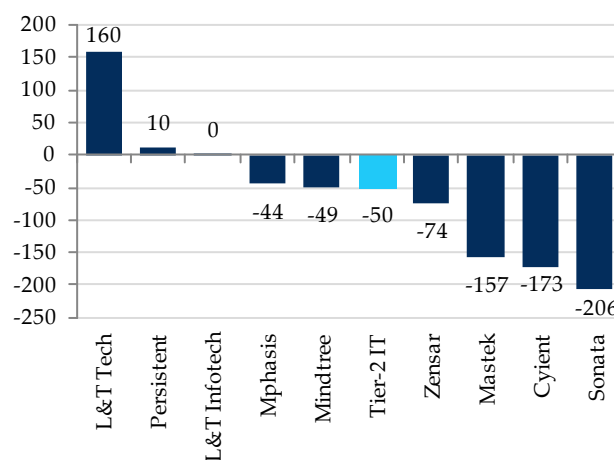
Source: HSIE Research

Tier-1 IT Margin Performance (QoQ bps)

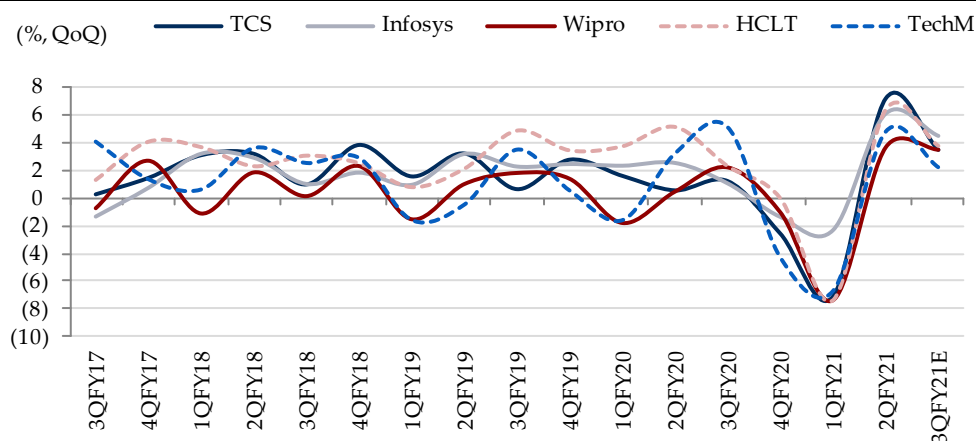


Source: HSIE Research

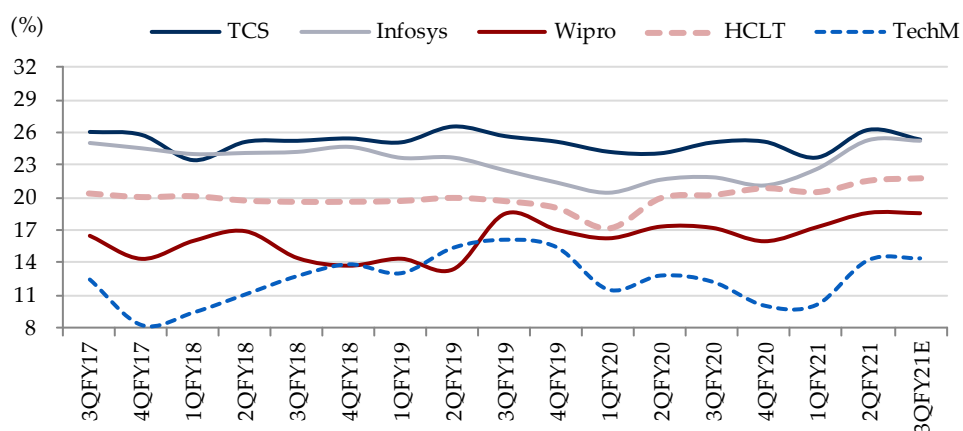
Mid-Tier IT Margin Performance (QoQ bps)



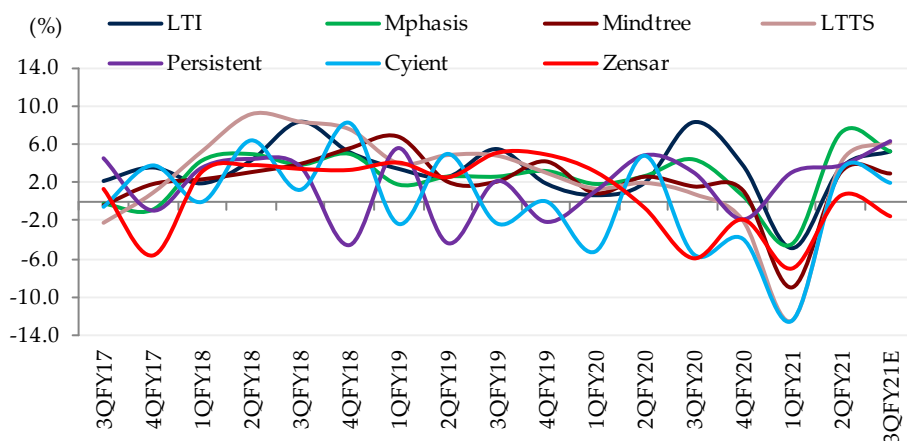
Source: HSIE Research

Tier-1 IT quarterly USD revenue growth trend (QoQ %)


Source: Company, HSIE Research

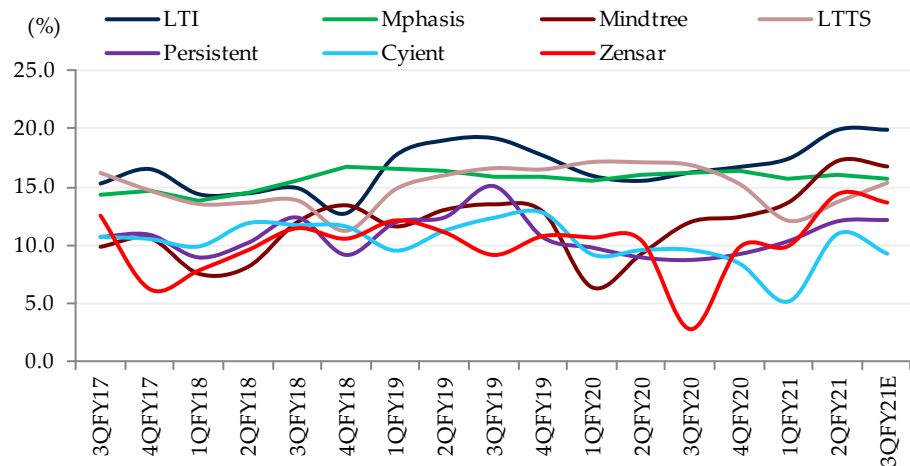
Tier-1 IT quarterly EBIT Margin trend (%)


Source: Company, HSIE Research

Mid-Tier IT quarterly USD revenue growth trend (QoQ %)


Source: Company, HSIE Research

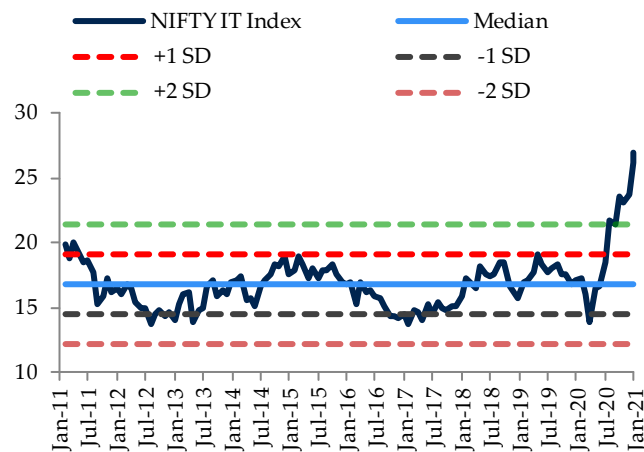
Mid-Tier quarterly EBIT Margin trend (%)



Source: Company, HSIE Research

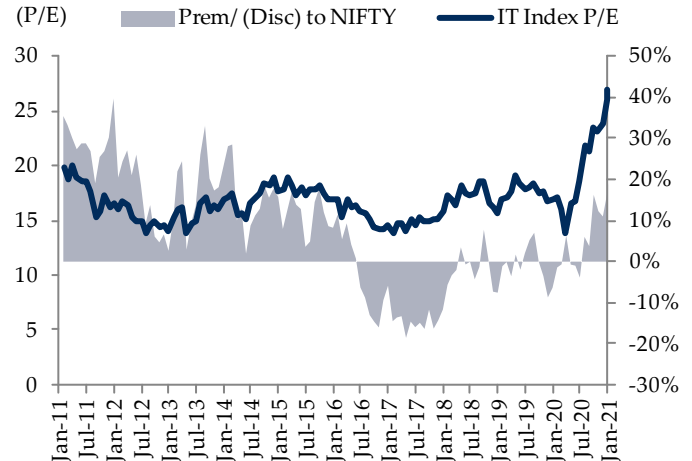
Valuation charts

NIFTY IT Index Valuation Trend (P/E 1-yr fwd)



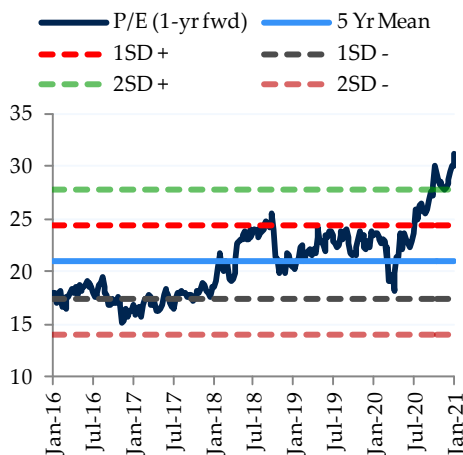
Source: Bloomberg, HSIE Research

IT Index Valuation Trend vs NIFTY

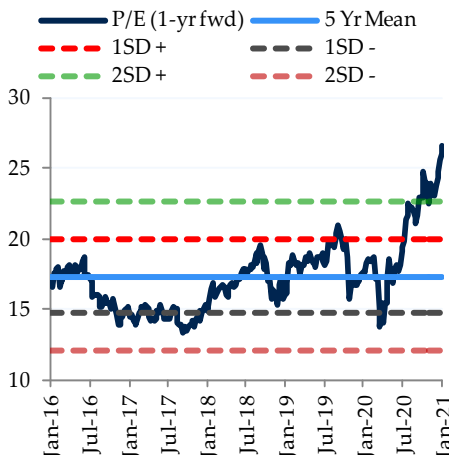


Source: Bloomberg, HSIE Research

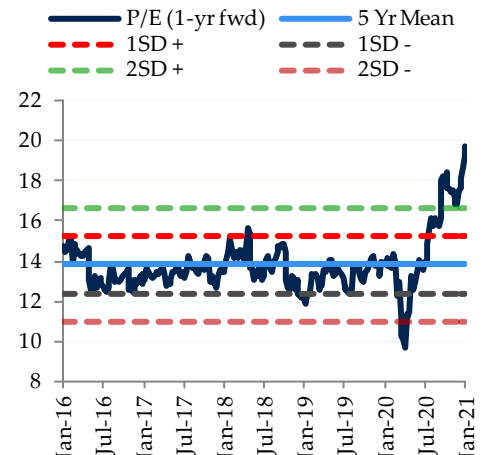
TCS P/E (1-yr fwd) Trend



Infosys P/E (1-yr fwd) Trend

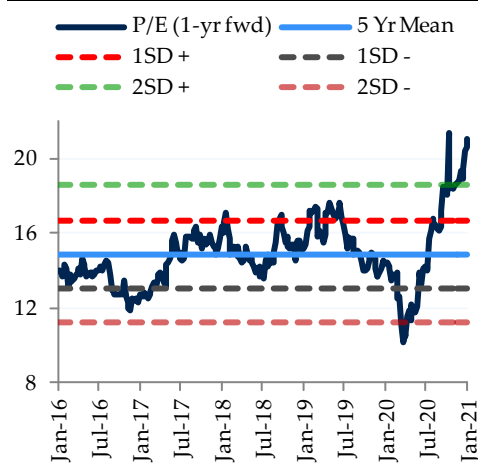


HCL Tech P/E (1-yr fwd) Trend

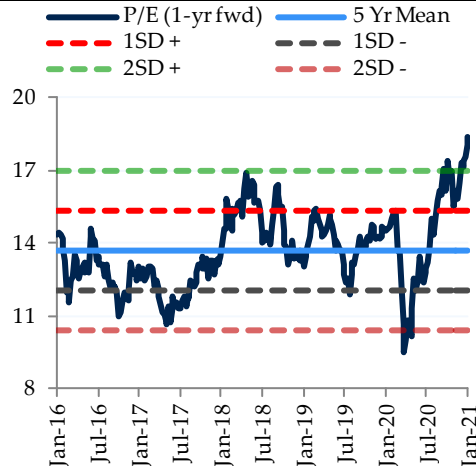


Source: Bloomberg, HSIE Research

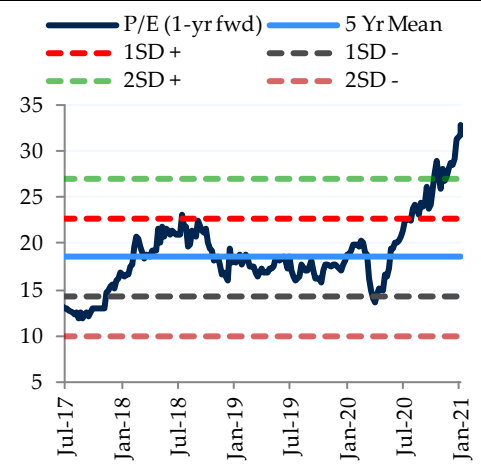
Wipro P/E (1-yr fwd) Trend



TECHM P/E (1-yr fwd) Trend

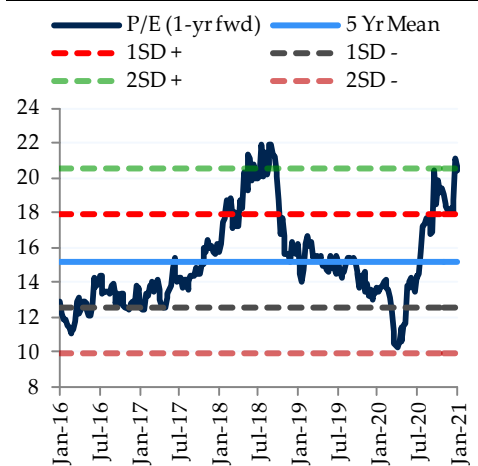


L&T Infotech P/E (1-yr fwd) Trend

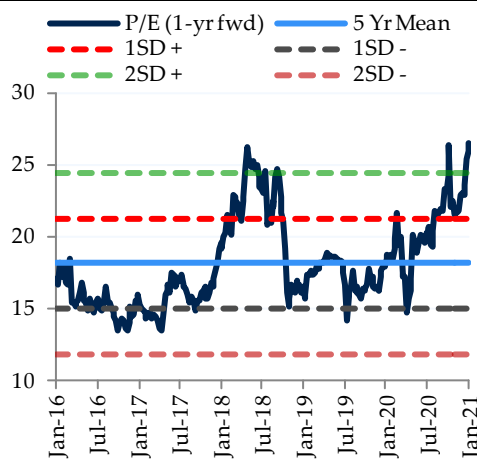


Source: Bloomberg, HSIE Research

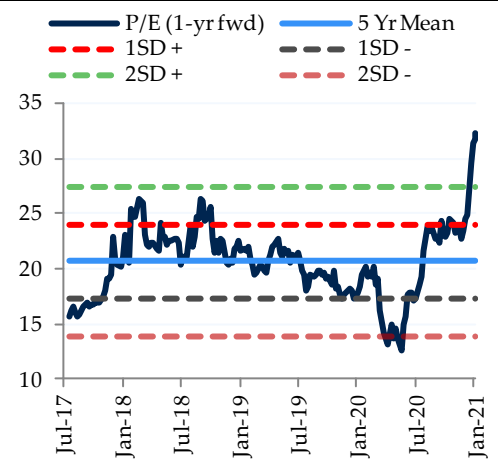
Mphasis P/E (1-yr fwd) Trend



Mindtree P/E (1-yr fwd) Trend

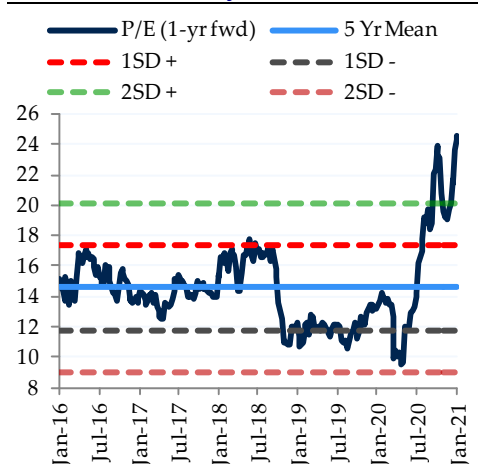


L&T Tech P/E (1-yr fwd) Trend

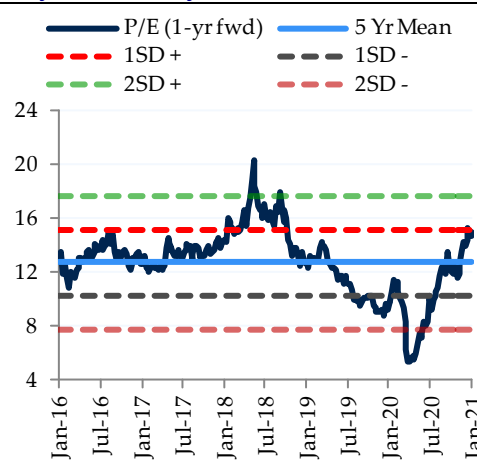


Source: Bloomberg, HSIE Research

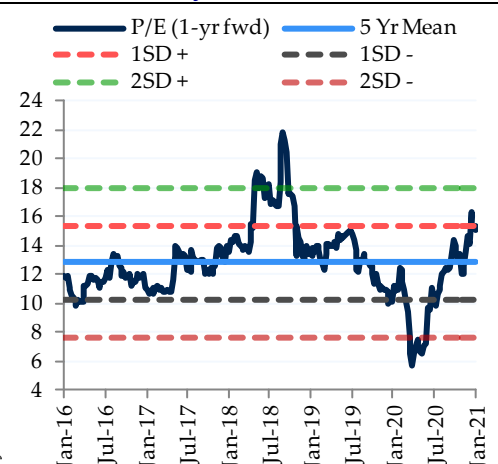
Persistent P/E (1-yr fwd) Trend



Cyient P/E (1-yr fwd) Trend

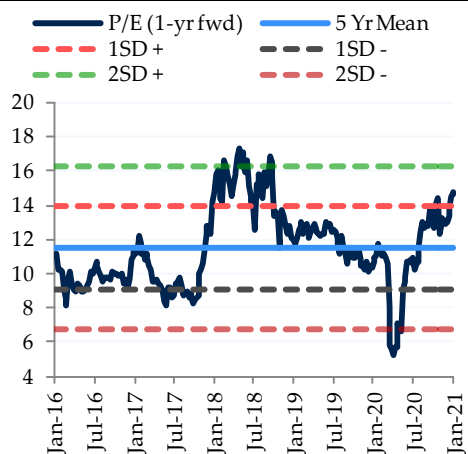


Zensar P/E (1-yr fwd) Trend

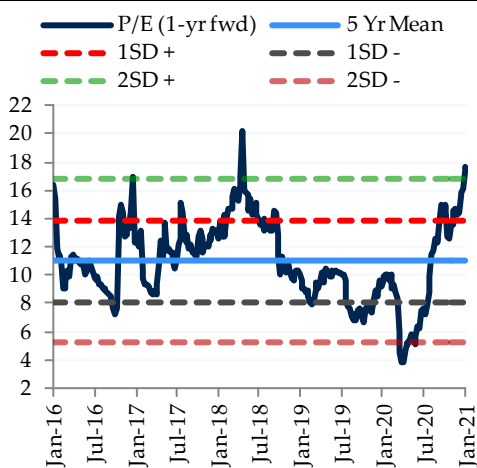


Source: Bloomberg, HSIE Research

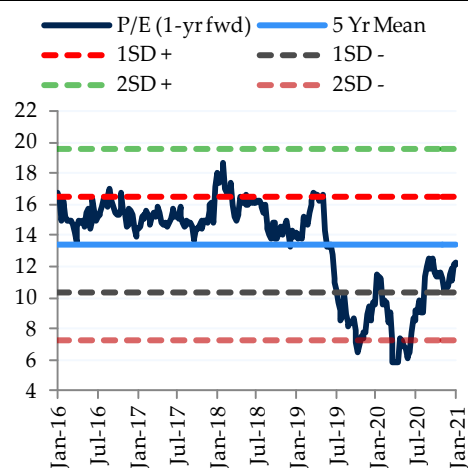
Sonata P/E (1-yr fwd) Trend



Mastek P/E (1-yr fwd) Trend



eClerx P/E (1-yr fwd) Trend



Source: Bloomberg, HSIE Research

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

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