Technology

Q4FY24 preview: A forgettable quarter; expect slow recovery in FY25

We expect IT companies under our coverage to report soft QoQ CC revenue growth in Q4FY24 due to slower recovery in key verticals of BFSI, retail and communication. There were negligible cross-currency tailwinds in Q4. We expect margins to see slight QoQ respite due to absence of furloughs and wage hikes vs Q3. Signs of improvement in IT spending in the near term remain elusive, with continued scrutiny over discretionary spends and focus on cost optimisation (also indicated by ACN guidance cut for FY24). Though US FED's recent indication of three rate cuts in CY24 may be a positive, an improvement in IT spending in FY25 is already built into our estimates. We now model a slower pace of recovery than envisaged earlier, and thus cut FY25/26E revenue growth estimates by 2-5% for our coverage companies on a weak FY24 exit.

Changes in ratings

We upgrade TECHM to **HOLD** (from *Reduce* previously) on account of anticipated turnaround led by 3-pronged strategy under new CEO – despite a muted Q4E and LTIM to **ADD** (from *Reduce* previously)- which corrected 7% in last 1 month and is now trading at 26.8x-lower than its historical average one-year forward P/E of 27.5x.

TCS, PSYS to lead the growth

For our coverage universe, we see a muted average QoQ CC growth of 0.7% Q4FY24E. We expect TCS to lead the pack with 1.7% QoQ CC growth among tier-I (led by traction from BSNL deal), and PSYS to lead the growth in tier-II with 3% print (continuing the track record from last 5 quarters of 3%+ growth). TechM is likely to perform the worst with 1.4% QoQ contraction due to no positive traction in communication vertical. MPHL may post a positive surprise growth of 1.9% QoQ, from mortgage business bottoming out in Q3. INFY could report a dip of 1.2% QoQ given higher component of discretionary spending (which is under pressure). LTIM is likely to post 0.3% QoQ contraction on account of pricing pressure and Q3 furloughs extending into Q4 for its clients.

BFSI, communication to drag growth

With clients continuing to scrutinise discretionary spends and focus on cost optimisation, demand commentary from IT companies may not be materially different vs Q3. Lack of any green shoots in BFSI and retail do not give much confidence. Given the absence of mega deal announcements in Mar'24 quarter, we see orderbooks being flat QoQ, with most deals focused towards cost takeout. Exception would be Persistent, which is likely to have strong TCV (~USD 500mn) aided by higher renewal component, in our view. Street will be watchful of INFY and HCLT's FY25 revenue growth guidance. Any guidance lower than 4-7% YoY revenue growth could be perceived as negative.

QoQ margin expansion

We expect margins to expand sequentially by an average 20bps (50bps ex-HCLT) due to absence of wage hikes, better utilisation and reduced furloughs. We factor in 210bps dip for HCLT due to negative seasonality for product and platform business and segmental margin returning to normal QoQ. The sequential margin expansion may be below expectations due to extended furloughs (for some), pricing pressure, lower growth leverage and rupee appreciation.

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NIFTY IT sees long overdue correction with further room for downside risks to FY25-26E EPS

We believe NIFTY IT valuations are still on the expensive side, although have corrected during the course of Q3-Q4FY24. NIFTY IT is trading at 25.3x one-year forward P/E multiple which is at ~25% premium to NIFTY 50 (vs average historical (5-10 year period) premium of ~10-20%). However, NIFTY IT is trading at ~2% discount to NASDAQ (in line with average historical discount of 2%). This correction has come post Accenture announcing muted Q2FY24 result. We expect the trend of correction to continue over FY25-26E.

US FED's commentary on interest rate cuts reduces macro uncertainty and may fuel spending in future. But, as per our interaction with IT companies, we believe clients are still in a wait-and-watch mode with continued scrutiny on discretionary spends, elongated deal closure cycles with sharp focus on reducing costs.

Accenture's (Y/E Aug) lacklustre commentary, combined with its first-ever unexpected guidance cut from 2-5% to 1-3% in local currency for FY24 sounds caution for global discretionary spending environment. This puts the next 3-6 quarter of discretionary spending outlook in uncertainty. Accenture's muted result on major segments (relevant for Indian IT) such as: 1) North America (46.7% of revenue) down 1% YoY, 2) CMT reporting contraction of 7% YoY (4th straight quarter of contraction), 3) financial services contracting -6% indicate a muted Q4FY24 for Indian IT as well. Healthcare and manufacturing may see continued momentum for Indian IT. We see particular risks to TECHM and WPRO.

We expect investors to focus on: 1) Management commentary on whether client discretionary spending is seeing any signs of turnaround, now that uncertainty over interest rates has reduced. 2) Signs of normalisation of elongated deal cycles. 3) Any benefit from absence of furloughs and resumption in campus hiring, 4) whether IT hiring uptick of 15.9% MoM (as per Naukri Jobspeak Index) in Feb'24 is from IT services or majorly from GCCs. 4) Commentary on deal pipeline and nature of deals in the pipeline, especially on smaller deals that are more vulnerable (as per Accenture management), 5) commentary on productivity improvements due to gen AI and share of AI-led deals, 6) conversion of deals into revenue growth, which has been an issue with Indian IT players that have reported robust TCV but subpar growth over the last three quarters.

Exhibit 1: Q4FY24 preview

	TCS	INFY	HCLT	WIPRO	TechM	LTIM	Mphasis	Persistent	Happiestminds
Reporting date	12th April	18th April	26th April	19th April	25th April	-	25th April	22nd April	-
QoQ CC	1.7%	-1.2%	0.4%	-0.3%	-1.4%	-0.3%	1.9%	3.0%	2.9%
Revenue USD mn	7,409	4,605	3,430	2,651	1,551	1,081	410	309	51
QoQ USD	1.8%	-1.2%	-0.2%	-0.2%	-1.4%	-0.3%	1.9%	3.0%	2.9%
YoY USD	3.0%	1.1%	1.1%	-6.6%	-7.0%	2.2%	-0.5%	12.7%	10.7%
EBIT margin	25.3%	20.3%	17.6%	14.8%	7.4%	16.0%	14.8%	15.0%	16.9%
QoQ bps	33	-20	-210	25	204	62	-42	51	76
YoY bps	86	-74	-54	-96	-375	-36	-123	-32	-407
EPS (INR/share)	33.2	14.4	14.5	5.1	8.0	39.5	19.5	19.8	4.3

Source: Company data, I-Sec research

Exhibit 2: Changes in rating and target price

	Previous Target Price (INR)	Revised Target Price (INR)	Change in Target Price	CMP (INR)	Upside	New Rating	Previous Rating
TCS	3,872	3,872	0.0%	3879	0%	HOLD	HOLD
INFY	1,688	1,641	-2.8%	1483	11%	ADD	ADD
HCLT	1,334	1,319	-1.2%	1527	-14%	REDUCE	REDUCE
WIPRO	392	397	-17.4%	481	-17%	SELL	SELL
TECHM	1,311	1,299	-0.9%	1244	4%	HOLD	REDUCE
LTIM	5,354	5,398	-1.0%	4905	10.1%	ADD	REDUCE
Mphasis	1,845	1,845	0.0%	2467	-25%	SELL	SELL
Persistent*	3,970	3,861	-2.8%	3968	-3%	HOLD	HOLD
Happiestminds	838	838	0.0%	807	3.9%	HOLD	HOLD

Source: I-Sec research, Company data, CMP as of 2-April-24 closing prices |* Persistent new TP post share split

Exhibit 3: Key Financial metrics

Companies	Rating	CMP (INR)	MCap (USD bn.)	Target Price (INR)	Upside	USD Revenue CAGR	EPS CAGR	P/E		PEG		EV/EBITDA		EV/Sales		ROE (%)	
						FY23-FY26E	FY23-FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
TCS	HOLD	3,879	181	3,872	0%	7.5%	11.0%	27.3	24.6	2.5	2.2	16.4	14.7	4.5	4.0	52.1	52.5
Infosys	ADD	1,483	86	1,641	10.7%	7.2%	10.5%	23.0	19.1	2.2	1.8	14.3	12.0	3.4	3.0	29.1	32.0
HCL Tech	REDUCE	1,527	54	1,319	-13.6%	7.1%	8.6%	24.6	21.7	2.9	2.5	12.6	11.1	2.7	2.5	24.1	26.1
Wipro	SELL	481	32	397	-17%	1.7%	6.8%	21.9	19.1	3.2	2.8	10.5	9.3	2.0	1.9	15.9	14.6
Tech M	HOLD	1,244	16	1,299	4%	2.3%	8.0%	27.4	17.5	3.4	2.2	14.9	10.3	2.0	1.8	18.8	18.7
LTIMindtree	ADD	4,905	20	5,398	10%	9.3%	13.7%	27.7	22.4	2.0	1.6	19.6	16.2	3.8	3.2	25.7	26.4
Mphasis	SELL	2,467	6	1,845	-25%	4.8%	7.1%	26.8	23.2	3.8	3.3	14.5	13.0	2.7	2.4	19.8	22.6
Persistent	HOLD	3,968	8	3,861	-3%	15.2%	-2.0%	41.8	34.0	-21.4	-17.4	21.7	17.8	4.2	3.6	28.4	31.4
Happiestminds	HOLD	807	2	838	3.8%	15.6%	16.0%	41.8	32.5	2.6	2.0	30.0	22.7	6.6	5.3	18.6	21.5
Sector Average					**-4%**	**8%**	**9%**	**29.4**	**23.7**	**-0.2**	**-0.1**	**17.2**	**14.1**	**3.4**	**3.0**	**22.6**	**24.1**

Source: Company data, I-Sec research, CMP as of 2-April-24 closing prices

Exhibit 4: Q4FY24 quarterly estimates

Company	4QFY24E	3QFY24	QoQ gr.	4QFY23	YoY gr.	Comments
TCS						
QoQ CC	1.7%	1.0%		0.6%		We build in 1.8% USD/1.7% CC QoQ revenue growth driven by traction in BFSI, retail (consumer business group) and hi-tech from the deals announced in Q4 (See exhibit 5) and contribution from BSNL passthroughs.
USD/INR	83.1	83.2	-0.1%	82.2	1.1%	
Revenues (USDmn)	7,409	7,281	1.8%	7,195	3.0%	
Revenues (INR mn)	6,15,686	6,05,830	1.6%	5,91,620	4.1%	
EBIT (INR mn)	1,56,056	1,51,550	3.0%	1,44,880	7.7%	We expect EBIT margin to expand by a minimal 30bps due to absence of furloughs and pyramid optimisation.
EBIT margin (%)	25.3%	25.0%	33 bps	24.5%	86 bps	We await management commentary on: 1) Enterprise discretionary spending, 2) BFSI traction post many deal signings in Q4FY24, 3) campus hiring and 4) large deals.
Adjusted net profit (INR mn)	1,21,131	1,10,580	9.5%	1,13,920	6.3%	
EPS (INR/share)	33.2	30.3	9.5%	31.1	6.6%	
Infosys						
Revenue growth QoQ CC	-1.2%	-1.0%		-3.2%		We build in 1.2% USD/CC QoQ revenue contraction. We expect some traction in communication (ramp up from liberty deal), BFSI (from deals announced in Q4). We expect 2% YoY USD growth, landing in the upper end of the guided range of 1.5-2% for FY25E. We build in USD 4.6mn revenue from inSemi acquisition for Q4E.
USD/INR	83.1	83.3	-0.2%	82.2	1.1%	
Revenues (USD mn)	4,605	4,663	-1.2%	4,554	1.1%	
Revenues (INR mn)	3,82,712	3,88,210	-1.4%	3,74,410	2.2%	
EBIT (INR mn)	77,701	79,610	-2.4%	78,770	-1.4%	
EBIT margin (%)	20.3%	20.5%	-20 bps	21.0%	-74 bps	We expect EBIT margin to contract marginally by 20bps QoQ due to continued wage hike and slow growth.
Adjusted net profit (INR mn)	59,645	61,070	-2.3%	61,280	-2.7%	We await management commentary on: 1) panning out of Liberty deal, 2) FY25 revenue growth guidance, 3) inSemi acquisition, 4) enterprise discretionary spending.
EPS (INR/share)	14.4	14.7	-2.3%	14.8	-2.5%	
HCLT						
Revenue growth QoQ CC	0.4%	6.0%		-1.2%		
Revenues (USDmn)	3,430.4	3,415.0	0.5%	3,235.0	6.0%	We build in 0.5% USD/0.4% CC QoQ revenue growth. We expect 2% QoQ USD growth in IT and business services segment (USD 33mn incremental from Verizon deal), 3% growth in ER&D services and 12% contraction in products and platforms (similar to Q4FY23) due to lack of positive seasonality from Q3FY24. We estimate FY24E USD revenue growth at 5.4%.
USD/INR	83.1	83.3	-0.2%	82	1.1%	
Revenues (INR mn)	2,85,064	2,84,460	0.2%	2,66,060	7.1%	
EBIT (INR mn)	50,285	56,150	-10.4%	48,360	4.0%	
EBIT margin (%)	17.6%	19.7%	-210 bps	18.2%	-54 bps	We expect EBIT margin to be down 210bps QoQ due to 20bps impact from wage hikes, slow growth and products and platforms' segmental margin reverting back to normal (19-20% range) after positive seasonality in Q3. FY24E EBIT margin may be at 18.3% (within the guided range of 18-19%).
Adjusted net profit (INR Mn)	39,468	43,500	-9.3%	39,810	-0.9%	We await management commentary on: 1) Verizon deal, 2) FY25 revenue growth and margin guidance, 3) fillip to products and platform business from AI being embedded into them, 4) enterprise discretionary spending.
EPS (INR/share)	14.5	16.0	-9.3%	14.7	-1.0%	
Wipro						
IT Services revenue QoQ CC	-0.3%	-1.7%		-0.7%		
USD/INR	83.3	83.5	-0.3%	81.6	2.0%	We build in 0.3% USD/ CC QoQ revenue contraction on account of slowdown in demand and softness in BFSI demand (Wipro has the highest exposure to BFSI among tier-I at 32.7%). Wipro may also be affected in particular given its high exposure to consulting business (~12-14% of revenue).
IT Services revenue (USD mn)	2,651	2,656	-0.2%	2,840	-6.6%	
Consolidated Revenue (USD mn)	2,661	2,666	-0.2%	2,853	-6.7%	
Revenues (INR mn)	2,21,683	2,22,051	-0.2%	2,31,903	-4.4%	
EBIT (INR mn)	32,850	32,341	1.6%	36,587	-10.2%	We expect EBIT margin to move up 20bps QoQ as wage hike is over in Q3FY24.
EBIT margin (%)	14.8%	14.6%	25 bps	15.8%	-96 bps	We await management commentary on: 1) Measures being taken to mitigate risk to consulting portfolio. 2) AI platform launched in Q4 and collaboration with IIsc on AI; any possible fillip to hi-tech vertical from this. 3) partnership with GE Healthcare.
Adjusted net profit (INR mn)	26,722	26,680	0.2%	31,125	-14.1%	
EPS (INR/share)	5.1	5.2	-0.8%	5.6	-8.8%	

Company	4QFY24E	3QFY24	QoQ gr.	4QFY23	YoY gr.	Comments
Tech M						
Revenue QoQ CC	-1.4%	1.1%		0.3%		We build in contraction of 1.4 USD/CC QoQ as no large deals were announced in Q4. We factor in 3% contraction for communication segment given lack of traction in 5G adoption and 0.5% contraction in enterprise segment.
USD/INR	83.1	83.3	-0.2%	82.3	1.0%	
Revenues (USDmn)	1,551	1,573	-1.4%	1,668	-7.0%	
Revenues (INR mn)	1,28,907	1,31,013	-1.6%	1,37,182	-6.0%	
EBIT (INR mn)	9,541	7,030	35.7%	15,303	-37.7%	We expect EBIT margin to move up by 200bps QoQ given margin turnaround measures taken by the management such as 1) reining in sub-contracting cost, 2) improving utilisation, 3) increasing T&M contracts, 4) lowering attrition and 5) reversal of one-off costs from Q3FY24.
EBIT margin (%)	7.4%	5.4%	204 bps	11.2%	-375 bps	We await management commentary on: 1) Measures being taken to optimise margin, 2) implementation of 3-pronged strategy, 3) update on any remaining tail-account pruning, 4) introduction of new service lines, 5) merger of BORN group with TECHM Americas; any update on further restructuring of subsidiaries, 6) update on gAI initiatives, 7) strategy behind the recent expansion into Philippines.
Adjusted net profit (INR mn)	7,119	5,104	39.5%	11,176	-36.3%	
EPS (INR/share)	8.0	5.8	39.5%	12.6	-36.4%	
LTIMindtree						
Revenue QoQ CC	-0.3%	0.7%		0.7%		We build in QoQ revenue contraction of 0.3% CC/ USD, impacted by longer-than-expected furloughs in BFSI and hi-tech verticals. We expect strong TCV for Q4FY24E.
USD/INR	83.1	83.2	-0.1%	82.2	1.1%	
Revenues (USDmn)	1,081	1,084	-0.3%	1,058	2.2%	
Revenues (INR mn)	89,829	90,166	-0.4%	86,910	3.4%	
EBIT (INR mn)	14,366	13,859	3.7%	14,214	1.1%	We expect EBIT margin expansion of 60bps QoQ due to absence of wage hike.
EBIT margin (%)	16.0%	15.4%	62 bps	16.4%	-36 bps	We await management commentary on: 1) Top client growth, 2) realised synergy from the merger, 3) deal conversion, 4) path and timeline to reach target margin range of 17-18%, 5) recent top management churn, 6) numerous AI initiatives undertaken during Q4.
Adjusted net profit (INR mn)	11,713	11,693	0.2%	11,137	5.2%	
EPS (INR/share)	39.5	39.4	0.2%	37.6	5.0%	
Mphasis						
Revenue QoQ CC	1.9%	1.0%		-4.5%		We build in robust QoQ revenue growth of 1.9% CC/ USD based on healthy deal wins seen in the last 3 quarters (USD 1.2bn FYTD), as the management focuses on deal conversion. The growth is also aided by mortgage business bottoming out in Q2, Q3 and 15 days-worth of revenue from Silverline acquisition.
USD/INR	83.1	83.3	-0.2%	82	1.0%	
Revenues (USDmn)	410	402	1.9%	412	-0.5%	
Revenues (INR mn)	34,070	33,507	1.7%	33,893	0.5%	
EBIT (INR mn)	5,042	5,099	-1.1%	5,433	-7.2%	We expect EBIT margin contraction of 40bps QoQ, partially impacted by Silverline acquisition. For FY24, we are estimating 15.5% EBIT margin (within the guided range of 15.25-16.25%).
EBIT margin (%)	14.8%	15.2%	-42 bps	16.0%	-123 bps	We await management commentary on: 1) Top client growth, 2) any green shoots in BFSI- mortgage business, 3) Silverline acquisition- driving synergy.
Adjusted net profit (INR mn)	3,684	3,736	-1.4%	4,053	-9.1%	
EPS (INR/share)	19.5	19.8	-1.3%	21.5	-9.2%	
Persistent						
Revenue QoQ CC	3.0%	3.1%		3.5%		We build in QoQ revenue growth of 3% CC/USD, led by healthcare, followed by hi-tech and then by BFSI. We expect TCV to be similar to Q2FY24 print.
USD/INR	83.1	83.1	0.0%	82.1	1.2%	
Revenues (USDmn)	309	301	3.0%	275	12.7%	
Revenues (INR mn)	25,723	24,982	3.0%	22,545	14.1%	
EBIT (INR mn)	3,871	3,631	6.6%	3,466	11.7%	We factor in 50bps EBIT margin expansion led by increased utilisation and absence of furloughs. We expect the company to register net positive QoQ hiring in Q4FY24E. We also factor in USD 25mn penalty levied on subsidiary-SCI Fusion as exceptional cost.
EBIT margin (%)	15.0%	14.5%	51 bps	15.4%	-32 bps	We await management commentary on: 1) Top client growth, 2) any AI-led acquisition plans, 3) recent changes in leadership, 4) whether the 3%+ sequential growth trend will continue in FY25, 5) sales strategy- PSYS' sales investments have worked well.
Adjusted net profit (INR mn)	3,022	2,861	5.6%	2,515	20.1%	
EPS (INR/share)	19.8	18.7	5.6%	16.5	20.1%	

Company	4QFY24E	3QFY24	QoQ gr.	4QFY23	YoY gr.	Comments
Happiestminds						
Revenue QoQ CC	2.9%	0.8%		1.3%		We build in QoQ revenue growth of 2.9% USD/CC QoQ on account of USD 1.7-2mn addition from higher working days in Q4FY24 vs Q3.
USD/INR	83.1	83.0	0.2%	82.3	1.0%	
Revenues (USDmn)	51	49	2.9%	46	10.7%	
Revenues (INR mn)	4226	4099	3.1%	3780	11.8%	
EBIT (INR mn)	714	661	8.0%	792	-9.9%	
EBIT margin (%)	16.9%	16.1%	76 bps	21.0%	-407 bps	We factor in 80bps EBIT margin expansion from higher growth leverage.
Adjusted net profit (INR mn)	655	596	9.8%	577	13.5%	We await management commentary on: 1) Gen AI business unit (GBS) headed by Mr. Rajiv Shah and Mr. Sridhar Mantha, 2) sales hiring in North America, 3) development of mid and senior level talent across delivery functions, 4) any change in ~14% FY25E revenue growth guidance.
EPS (INR/share)	4.35	3.96	9.8%	3.98	9.2%	

Source: I-Sec research, Company data

Exhibit 5: Management commentary on demand and margins

Companies	Management commentary on demand and margins
TCS	**Demand:** ↑ Demand trends in Q4FY24 are similar to Q3FY24, with clients still scrutinising discretionary spends and leakage in existing business continuing. However, we expect some traction in BFSI vertical owning to several deals announced in Q4. Q4 revenue growth will have some tailwinds from absence of furloughs. Therefore, we expect moderate QoQ growth in Q4FY24. **Deal TCV:** ↔ No mega deals have been announced in Q4FY24 but several smaller deal announcements have been made in Q4FY24. We expect TCV to be around USD 10bn. Deal pipeline is strong driven by cost optimisation and vendor consolidation deals. **Margin:** ↔ We expect EBIT margin to pick up by a marginal 30bps QoQ due to absence of furloughs and aided by utilisation improvement, pyramid optimisation , sub-con reduction and other productivity benefits.
Infosys	**Demand:** ↓Clients are still cautious on IT spending. Discretionary IT spends have not picked up and focus on cost optimisation continues. Weak seasonality will also play a role in muted sequential growth. Manufacturing, energy and utility, lifesciences are doing well, whereas BFSI, luxury retail, hi-tech and telecom continue to be under pressure. **Deal TCV:** ↔ Deal pipeline is strong and deals won in previous quarter are ramping up as expected. We expect orderbook to be in line with average quarterly run-rate of USD 2.5-3.5bn. **Margin:** ↓ Infosys rolled out wage hikes effective Nov 1, '23, covering the entire employee pool. We expect some wage hike impact in Q4 as well. Expect an impact of 20bps QoQ.
HCLT	**Revenue:** ↑ Revenue tailwinds: 1) USD 33mn from Verizon deal ramp up starting Nov 1,'23, 2) offset partially by lack of positive seasonality in products and platforms business. There will be positive traction in hi-tech vertical from CAST deal in Q4. We expect revenue growth guidance of 4-7% CC for FY25. **Deal TCV:** ↔ Leakage in discretionary business has bottomed out for HCLT, but there are no signs of pickup in discretionary spends. There have been no major large deal announcements by HCLT in Q4. We expect deal TCV to be around ~USD 2.3bn, in line with average quarterly run-rate. **Margin:** ↓ We expect margin to contract 210bps sequentially due to 1) staggered wage hike, 2) normalisation of segmental margin for products and platforms.
Wipro	**Demand:** ↓ Demand commentary has not improved with continued pressure on discretionary spends. We see continued pressure on growth from weakness in consulting business- refer Accenture results (consulting forms ~10-14% of Wipro revenue). **Deal TCV:** ↔ Orderbook growth is likely to be healthy. Pipeline is also healthy but deal conversions will be slower as there is continued pressure of discretionary spending on enterprises. **Margin:** ↑ Wipro rolled out wage hike in Dec'23. The quantum of wage hike and the number of employees covered in annual compensation cycle were lower than that in a normal year. Hence, we forecast 20bps margin tailwind QoQ in Q4 given the absence of wage hikes.
TechM	**Demand:** ↓ We expect sequential revenue contraction QoQ, impacted by steep slowdown in communication segment. Enterprise segment is also likely to witness QoQ contraction led by weakness in hi-tech. **TCV**: ↓ TCV wins may be lower than ~USD 500mn as no major deal activity was noted for the quarter. **Margin:** ↑ Margin is likely to get a fillip due to absence of furloughs from Q3, absence of one-off costs and strategic cost optimisation measures being implemented as a part of new 3-pronged strategy.
LTIMindtree	**Revenue:** ↓ Revenue will contract sequentially given the extended furloughs. Pricing discounts from Q3FY24 were stretched into Q4, causing revenue contraction. Extended furloughs will be concentrated in BFSI and hi-tech verticals. Hi-tech growth outside top client to remain muted. Retail vertical is relatively less impacted as LTIM has little presence in retail banking (where demand weakness lies currently). LTIM's presence in corporate lending, compliance and governance has insulated it from slowdown in retail. Energy & utilities and manufacturing are likely to be relatively better. **TCV:** ↑We expect orderbook to be strong QoQ. Management needs to update regarding revenue conversion. **Margins:** ↑ Q4FY24 margin may expand by ~60bps QoQ led by absence of wage hikes.
Persistent	**Revenue:** ↑ We expect revenue growth to be healthy at ~3% QoQ USD led by healthcare & lifesciences, followed by hi-tech. BFSI growth may be slightly lesser than company average due to furloughs and discretionary spending cuts. We expect furloughs to reverse in Q4FY24. **TCV:** ↑ We expect orderbook to be similar to Q2FY24 (~USD 400-500mn) aided by renewal component. **Margins:** ↑We expect margin to improve by 50bps QoQ driven by tailwinds from healthy revenue growth and increased offshoring.
Happiestminds	**Demand:** ↑ Revenue growth is likely to be robust 2.9% led by reversal of furloughs and higher working days. The softness in infrastructure management and security services (IMSS) will be partially offset by healthy growth in product engineering and digital business unit. In IMSS, softness was due to a top client's business being impacted (ramp down for this client has continued for the last five quarters). **Margin:** ↑ EBIT margin is likely to expand 80bps QoQ due to furloughs reversal and higher growth leverage. Utilisation may improve when freshers hired in H1FY25 become billable over the next 3 to 6 months.
Mphasis	**Demand:** ↑Despite macro overhang, robust revenue growth is likely to be led by mortgage business recovering from Q3 bottom, continued recovery in insurance business, absence of furloughs, 15 days worth of revenue from Silverline acquisition and deal conversion happening after three quarters of robust deal wins (vs delayed deal conversion in Q3FY24). **TCV:** ↔ We expect orderbook to be in the range of USD 300-400mn as no significant deal announcements were made during the quarter. **Margin:** ↓ EBIT margin is likely to contract 40bps QoQ, partially impacted by Silverline acquisition, absence of one-off gains from Q3FY24, offset partially by margin improvement in BFS and insurance verticals.

Source: Company data, I-Sec research

Exhibit 6: Revenue growth and EBIT margin for our coverage universe

	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue YoY CC							
TCS	5.3%	0.6%	15.9%	8.6%	4.3%	7.7%	10.7%
Infosys	9.8%	5.0%	20.1%	15.4%	1.6%	7.1%	12.6%
Wipro	3.9%	-2.3%	26.9%	11.5%	-4.4%	2.3%	6.4%
HCLT	16.7%	1.1%	12.7%	13.7%	5.0%	7.2%	8.6%
TechM	5.6%	-2.2%	16.7%	14.5%	-4.8%	2.7%	9.6%
LTIMindtree	11.2%	5.1%	27.5%	20.0%	4.5%	8.3%	15.1%
Mphasis	11.7%	4.9%	21.2%	9.7%	-6.7%	10.4%	11.5%
Persistent	4.3%	12.8%	35.2%	35.3%	14.2%	14.4%	16.9%
Happiestminds	16.7%	6.3%	40.9%	23.7%	11.5%	13.9%	22.8%
EBIT margin							
TCS	24.6%	25.9%	25.3%	24.1%	24.5%	25.2%	25.2%
Infosys	21.3%	24.5%	23.0%	21.1%	20.7%	20.6%	21.8%
Wipro	16.6%	19.4%	17.2%	14.9%	14.8%	15.3%	16.4%
HCLT	19.6%	21.4%	18.9%	18.2%	18.2%	17.9%	18.6%
TechM	11.6%	14.2%	14.6%	11.4%	6.1%	10.0%	14.3%
LTIMindtree	13.6%	18.6%	17.8%	16.2%	16.0%	16.9%	17.8%
Mphasis	15.9%	15.8%	14.6%	15.6%	15.5%	15.8%	15.8%
Persistent	9.2%	12.1%	13.9%	14.9%	14.6%	16.5%	17.2%
Happiestminds	11.0%	21.8%	20.6%	22.0%	17.2%	18.3%	19.8%

Source: I-Sec research, Company data, Note: Wipro growth in FY22 and FY23 is excluding Capco and Rizing acquisitions respectively; LTIMindtree growth is YoY USD growth

Exhibit 7: QoQ currency movement

Exchange rate	Mar'23	Dec'23	Mar'24	QoQ %	YoY %
USD/INR					
Average	82.2	83.3	83.1	-0.2%	1.1%
Close	82.2	83.2	83.4	0.1%	1.4%
Euro/USD					
Average	1.07	1.09	1.08	-0.3%	0.7%
Close	1.09	1.10	1.08	-1.6%	-0.7%
GBP/USD					
Average	1.22	1.25	1.27	1.2%	3.4%
Close	1.24	1.27	1.26	-0.5%	1.9%

Source: RBI, I-Sec research, Company data

Exhibit 8: Notable deal wins/acquisitions/partnerships in Q4FY24

IT Company	Date of announcement	Client	Vertical / Service line	Geography	Deal description
TCS	21-Mar-24	Ramboll	Engineering, IT architecture	Denmark	TCS will help reduce costs and realize economies of scale within Ramboll's IT estate. This will be achieved by streamlining and consolidating the IT architecture and operations structure. The result will be an agile IT platform that is resilient and can support future transformation. Ramboll will also get access to the rich contextual knowledge in TCS, innovations and technologies to further strengthen its IT processes. As a part of this strategic partnership, TCS will also induct more than 300 Ramboll IT employees in 12 countries.
TCS	19-Mar-24	Central Bank	BFSI	US	Central Bank's strategic partnership with TCS aims to create frictionless and flexible customer onboarding processes, enabling continued growth for the bank.
TCS	14-Mar-24	Nuuday	Hi-tech	Copenhagen	As part of this multi-million-dollar deal, TCS will take full responsibility for Nuuday's IT infrastructure and migrate it to the TCS hybrid cloud, paving the way for future transformations.
TCS	21-Feb-24	Co-op	Retail	London	The expanded partnership will see TCS help Co-op move from a traditional data centre model to a fully managed, scalable cloud environment powered by TCS Enterprise Cloud. This migration to a scalable cloud will help Co-op by enabling a foundation for future capabilities and growth, while reducing energy usage and supporting sustainability goals. TCS will also manage the hybrid cloud and SaaS estate for enhanced resilience and agility.
TCS	08-Feb-24	Eneto	Hi-tech	Stockholm	TCS will help Enento realize its vision of "One Enento" by simplifying its operating model and harmonizing its technology stack. TCS' cloud and DevOps solutions will help accelerate Enento's business agility and provide a best-in-class digital customer experience. Furthermore, TCS will work with Enento to strengthen its IT security, provide modern workplace services, and enable resilient round-the-clock business operations. TCS will leverage its strong local presence across the Nordics to deliver high-quality services with required business agility.
TCS	05-Feb-24	Europ Assistance	Travel Insurance	Paris	The multi-year partnership will also see TCS leveraging its proprietary solution, ignio™ AIOps from its Digitate suite of offerings to enhance operational resilience and business agility. Powered by AI and ML, the solution will provide Europ Assistance with actionable insights into its technology stack, improving productivity and availability. In addition, the partnership will focus on co-innovation, with TCS and Europ Assistance working together on novel use cases leveraging generative AI and other advanced technologies.
TCS	30-Jan-24	Aviva	BFSI (Insurance)	US	Tata Consultancy Services to transform customer experience through TCS BaNCSTM based platform. The partnership to serve over 5.5 million Life and Pensions policies further enhances TCS' growth momentum in the UK
TCS	22-Jan-24	Euroclear finland	BFSI (Capital Markets)	Finland	TCS has enabled Euroclear Finland, the National Central Securities Depository (CSD) of Finland, to integrate its core platform with the European securities settlement engine. This transformation program ensures easier cross-border settlements for investors in Finnish securities and has resulted in the most modern post-trade platform in Europe.
TCS	17-Jan-24	Macquarie University	BFSI	Sydney, Australia	In addition to providing expertise and advisory services around best practices and technologies to leverage, the TCS GoZero Hub will offer a curated set of proven digital solutions for driving decarbonisation and the circular economy across value chains, and tailor them to every organisation's unique context, helping them accelerate their net-zero journeys. The TCS GoZero Hub will also support education pathways, providing relevant skills and knowledge to prepare students for successful, future-focused careers.
Infosys	09-Mar-24	ATP	Customer Experience, AI,	Vienna, Austria	Infosys Topaz to enhance AI-driven digital features for all stakeholders of tennis. The three-year extension of the partnership will continue to draw on Infosys' deep expertise in digital technologies like Artificial Intelligence, Data Analytics, and Cloud, which will enrich the fan experience and player performance in professional tennis.
Infosys	01-Mar-24	PROG Holdings	BFSI, Fintech	Utah, US	PROG Holdings and Infosys Forge Strategic Collaboration to Bring AI-Powered Experiences to Customers and Intelligent Automation to Operations. The collaboration will enable PROG Holdings to take advantage of Infosys' digital services, including cutting-edge technologies, which PROG Holdings believes will help it realize operational efficiencies, accelerate technology enhancements, and improve speed to market.
Infosys	21-Feb-24	Wall Street Journal	BFSI	New York, US	Dow Jones leveraged its partnership with Infosys to design and build the updated preference center to save decision makers time while offering them greater control. Using analytics and machine learning, these solutions help match subscribers' unique context and key interests with WSJ news, analysis, and data with content recommendations most relevant to them.
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Infosys	31-Jan-24	Musgrave	Retail	Ireland, Europe	As part of this collaboration, Infosys will help automate Musgrave's IT operations by leveraging its industry leading AI and Cloud offerings, Infosys Topaz, an AI-first set of services, solutions and platforms using generative AI technologies, and Infosys Cobalt, a set of services, solutions and platforms for enterprises to accelerate their cloud journey.
Infosys	30-Jan-24	Regional Investment Corporation	BFSI	Australia	The new platform, which offers comprehensive API capabilities, has empowered RIC to seamlessly integrate with various service providers across banking, CRM, data lake, and document management providers. With this capability, RIC now has the advantage to implement Federal government mandates much faster than before.
Infosys	11-Jan-24	InSemi	Hi-tech (Semi conductor , ER&D)	India	InSemi, is a leading end-to-end semiconductor design services provider. InSemi is growing expeditiously and with a team of 900+ technology specialists, brings competitive advantage, agile mindset, and innovation to address technological challenges and transform businesses across the semiconductor value chain. This collaboration will help accelerate Infosys' Chip-to-Cloud strategy, by bringing niche design skills at scale and will also pair seamlessly with existing investments in AI/Automation platforms and industry partnerships. The collaboration will aim to orchestrate comprehensive end-to-end product development for clients
Wipro	05-Mar-24	General Motors (partnership for	Manufacturing	US	General Motors (GM), global automotive supplier Magna, and leading technology services and consulting company Wipro Limited, have teamed up to develop a B2B sales platform for buying and selling automotive software. The platform, called SDVerse, aims to revolutionize the

		acquisition of SDVerse)			automotive software sourcing and procurement process by providing a matchmaking platform for buyers and sellers of embedded automotive software.
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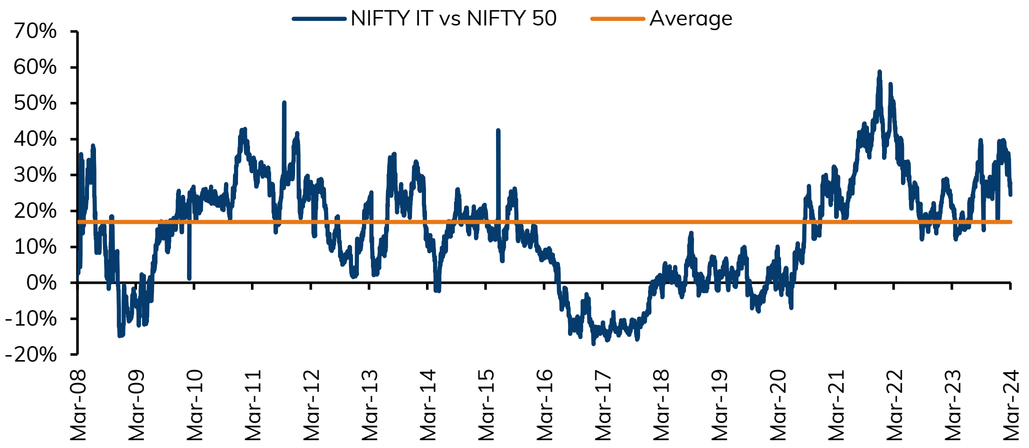
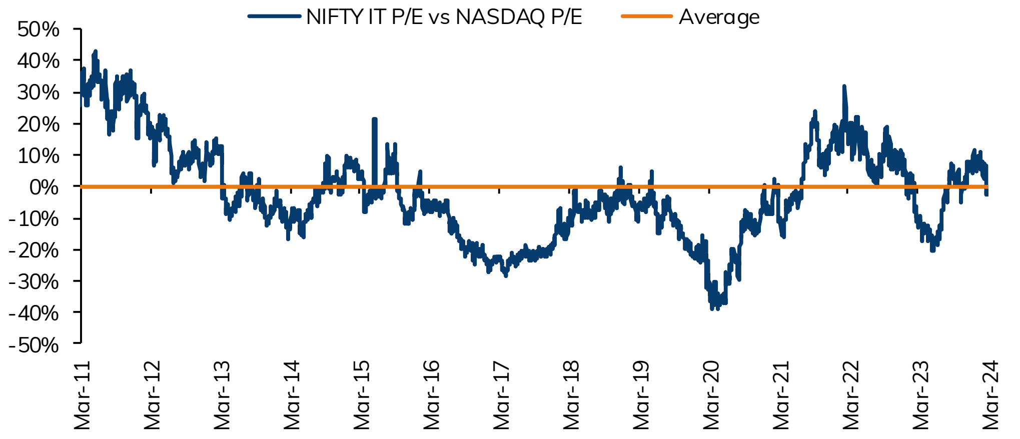
Source: I-Sec research, Company data

Exhibit 9: NIFTY IT is trading at 25% premium to NIFTY 50 vs historical average premium of 16%



Source: I-Sec research, Company data

Exhibit 10: NIFTY IT is trading at 2% discount to NASDAQ--in-line with historical average



Source: I-Sec research, Company data

Exhibit 11: TCS: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	29,126	31,369	34,725	29,126	31,369	34,725	0.0%	0.0%	0.0%
Revenue growth YoY CC	3.6%	7.7%	10.7%	3.6%	7.8%	10.7%	0bps	-10bps	0bps
USD Revenue growth	4.3%	7.7%	10.7%	4.3%	7.7%	10.7%	0bps	0bps	0bps
USD/INR	82.8	83.5	84.0	82.8	83.5	84.0	0.0%	0.0%	0.0%
INR mn									
Revenues	24,12,246	26,19,317	29,16,908	24,12,617	26,19,317	29,16,908	0.0%	0.0%	0.0%
EBIT	5,89,986	6,61,064	7,35,739	5,90,288	6,61,064	7,35,739	-0.1%	0.0%	0.0%
EBIT margin	24.5%	25.2%	25.2%	24.5%	25.2%	25.2%	0bps	0bps	0bps
EPS (INR/share)	125	142	158	125	142	158	0.0%	0.0%	0.0%

Source: I-Sec research, Company data

Exhibit 12: Infosys: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	18,603	19,908	22,423	18,668	20,317	22,848	-0.3%	-2.0%	-1.9%
Revenue growth YoY CC	1.6%	7.1%	12.6%	2.0%	9.0%	12.5%	-40bps	-190bps	10bps
USD Revenue growth	2.1%	7.0%	12.6%	2.5%	8.8%	12.5%	-40bps	-180bps	10bps
USD/INR	82.8	83.5	84.0	82.8	83.5	84.0	0.0%	0.0%	0.0%
INR mn									
Revenues	15,40,192	16,62,318	18,83,490	15,46,232	16,97,000	19,19,000	-0.4%	-2.0%	-1.9%
EBIT	3,18,961	3,43,095	4,09,808	3,22,507	3,61,000	4,17,000	-1.1%	-5.0%	-1.7%
EBIT margin	20.7%	20.6%	21.8%	20.9%	21.3%	21.7%	-20bps	-70bps	10bps
EPS (INR/share)	58	64	78	59	68	79	-1.1%	-4.8%	-2.0%

Source: I-Sec research, Company data

Exhibit 13: HCLT: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	13,270	14,220	15,445	13,306	14,369	15,607	-0.3%	-1.0%	-1.0%
Revenue growth YoY CC	5.0%	7.2%	8.6%	5.3%	8.1%	8.6%	-30bps	-90bps	0bps
USD Revenue growth	5.4%	7.2%	8.6%	5.7%	8.0%	8.6%	-30bps	-80bps	0bps
USD/INR	82.8	83.5	84.0	82.9	83.5	84.0	0.0%	0.0%	0.0%
INR mn									
Revenues	10,99,204	11,87,372	12,97,404	11,02,793	11,99,781	13,10,974	-0.3%	-1.0%	-1.0%
EBIT	2,00,375	2,12,272	2,41,777	2,02,608	2,18,471	2,44,522	-1.1%	-2.8%	-1.1%
EBIT margin	18.2%	17.9%	18.6%	18.4%	18.2%	18.7%	-10bps	-30bps	0bps
EPS (INR/share)	58	62	70	58	64	71	-1.0%	-2.7%	-1.2%

Source: I-Sec research, Company data

Exhibit 14: Wipro: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	10,799	11,019	11,730	10,817	11,091	11,805	-0.2%	-0.6%	-0.6%
Revenue growth YoY CC	-4.4%	2.3%	6.4%	-4.2%	2.8%	6.4%	-20bps	-60bps	0bps
USD Revenue growth	-3.2%	2.0%	6.4%	-3.1%	2.5%	6.4%	-20bps	-50bps	0bps
USD/INR	82.73	83.50	84.00	82.79	83.50	84.00	-0.1%	0.0%	0.0%
INR mn									
Revenues	8,97,203	9,23,812	9,89,654	8,99,293	9,29,790	9,95,974	-0.2%	-0.6%	-0.6%
EBIT	1,32,846	1,41,351	1,62,577	1,33,534	1,41,523	1,60,694	-0.5%	-0.1%	1.2%
EBIT margin	14.8%	15.3%	16.4%	14.8%	15.2%	16.1%	0bps	10bps	30bps
EPS (INR/share)	20	22	25	21	22	25	-0.5%	-0.1%	1.1%

Source: I-Sec research, Company data

Exhibit 15: TechM: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	6,280	6,443	7,064	6,320	6,610	7,245	-0.6%	-2.5%	-2.5%
Revenue growth YoY CC	-4.8%	2.7%	9.6%	-4.2%	4.7%	9.6%	-60bps	-200bps	0bps
USD Revenue growth	-4.9%	2.6%	9.6%	-4.3%	4.6%	9.6%	-60bps	-200bps	0bps
USD/INR	82.8	83.5	84.0	82.9	83.5	84.0	-0.1%	0.0%	0.0%
INR mn									
Revenues	5,20,149	5,37,994	5,93,353	5,23,797	5,51,943	6,08,603	-0.7%	-2.5%	-2.5%
EBIT	31,551	53,937	84,555	32,887	58,131	85,222	-4.1%	-7.2%	-0.8%
EBIT margin	6.1%	10.0%	14.3%	6.3%	10.5%	14.0%	-20bps	-50bps	20bps
EPS (INR/share)	27	45	71	28	49	72	-3.9%	-7.3%	-1.0%

Source: I-Sec research, Company data

Exhibit 16: LTIMindtree: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	4,299	4,655	5,359	4,311	4,706	5,418	-0.3%	-1.1%	-1.1%
Revenue growth YoY CC	4.5%	8.3%	15.1%	4.8%	9.2%	15.1%	-30bps	-90bps	0bps
USD Revenue growth	4.7%	8.3%	15.1%	5.0%	9.2%	15.1%	-30bps	-90bps	0bps
USD/INR	82.8	83.5	84.0	82.9	83.5	84.0	0.0%	0.0%	0.0%
INR mn									
Revenues	3,56,070	3,88,715	4,50,165	3,57,172	3,92,973	4,55,074	-0.3%	-1.1%	-1.1%
EBIT	56,964	65,792	80,242	57,140	66,513	81,117	-0.3%	-1.1%	-1.1%
EBIT margin	16.0%	16.9%	17.8%	16.0%	16.9%	17.8%	0bps	0bps	0bps
EPS (INR/share)	157	177	219	157	177	216	-0.3%	0.1%	1.1%

Source: I-Sec research, Company data

Exhibit 17: Mphasis: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	1,609	1,776	1,980	1,609	1,776	1,980	0.0%	0.0%	0.0%
Revenue growth YoY CC	-6.7%	10.4%	11.5%	-6.7%	10.4%	11.5%	0bps	0bps	0bps
USD Revenue growth	-6.3%	10.4%	11.5%	-6.3%	10.4%	11.5%	0bps	0bps	0bps
USD/INR	82.8	83.5	84.0	82.9	83.5	84.0	-0.1%	0.0%	0.0%
INR mn									
Revenues	1,33,260	1,48,300	1,66,301	1,33,338	1,48,300	1,66,301	-0.1%	0.0%	0.0%
EBIT	20,601	23,386	26,201	20,852	23,386	26,201	-1.2%	0.0%	0.0%
EBIT margin	15.5%	15.8%	15.8%	15.6%	15.8%	15.8%	-20bps	0bps	0bps
EPS (INR/share)	81.0	92.2	106.2	82.0	92.2	106.2	-1.2%	0.0%	0.0%

Source: I-Sec research, Company data

Exhibit 18: Persistent: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	1,185	1,355	1,584	1,187	1,365	1,596	-0.2%	-0.8%	-0.8%
Revenue growth YoY CC	14.2%	14.4%	16.9%	14.5%	15.1%	16.9%	-20bps	-60bps	0bps
USD Revenue growth	14.3%	14.4%	16.9%	14.6%	15.0%	16.9%	-20bps	-60bps	0bps
USD/INR	82.8	83.50	84.00	82.8	83.5	84.0	0.0%	0.0%	0.0%
INR mn									
Revenues	98,033	1,13,126	1,33,051	98,229	1,13,987	1,34,066	-0.2%	-0.8%	-0.8%
EBIT	14,276	18,703	22,911	14,357	18,845	23,085	-0.6%	-0.8%	-0.8%
EBIT margin	14.6%	16.5%	17.2%	14.6%	16.5%	17.2%	-10bps	0bps	0bps
EPS (INR/share)	73	95	117	73	96	120	-0.3%	-1.6%	-3.1%

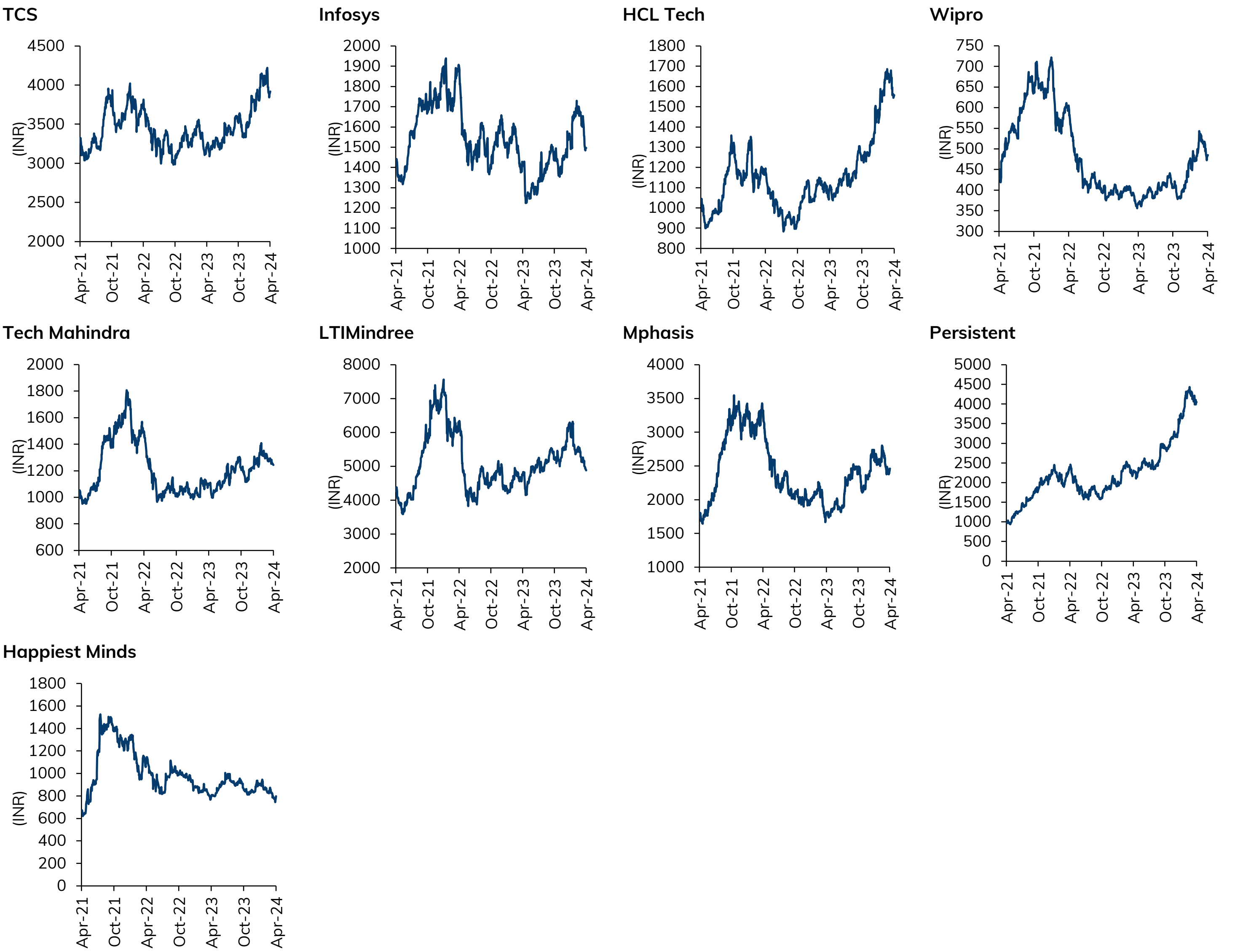
Source: I-Sec research, Company data

Exhibit 19: Happiestminds: Change in estimates

	Revised			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	197	224	275	197	224	275	0.0%	0.0%	0.0%
Revenue growth YoY CC	11.5%	13.9%	22.8%	11.5%	13.9%	22.8%	0bps	0bps	0bps
USD Revenue growth	10.8%	13.7%	22.8%	10.8%	13.7%	22.8%	0bps	0bps	0bps
USD/INR	82.8	83.5	84.0	82.7	83.5	84.0	0.1%	0.0%	0.0%
INR mn									
Revenues	16,300	18,696	23,090	16,293	18,696	23,090	0.0%	0.0%	0.0%
EBIT	2,806	3,420	4,580	2,805	3,420	4,580	0.0%	0.0%	0.0%
EBIT margin	17.2%	18.3%	19.8%	17.2%	18.3%	19.8%	0bps	0bps	0bps
EPS (INR/share)	16.2	19.3	24.9	16.2	19.3	24.9	0.2%	-0.1%	-0.2%

Source: I-Sec research, Company data

Price charts



Source: Bloomberg

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