

Gradual margin improvement on the cards

2 January 2025

Within Elara IT universe, we expect HCL Technologies (HCLT IN), Coforge (COFORGE IN) and Persistent Systems (PSYS IN) to report strong sequential dollar revenue growth in Q3FY25. Revenue growth for COFORGE and PSYS may be supported by strong orderbook and for HCLT, by its seasonally strong Products & Platform (P&P) business. Dollar-denominated revenue growth for Tata Consultancy Services (TCS IN), Infosys (INFOSYS IN), Wipro (WPRO IN) and Tech Mahindra (TECHM IN) should sequentially drop due to furlough impact and unfavorable currency movements. Furlough impact in Q3 is expected to be normal this year. Expect LTIMindtree (LTIM IN) to post a 1.5% sequential growth in CC terms in Q3FY25E. Margins for TCS, HCLT, TECHM, COFORGE and PSYS may improve sequentially, led by cost optimization and for INFO and LTIM may drop given negative operating leverage and the impact of wage hike, respectively.

Revenue growth – HCLT, PSYS and COFORGE to lead: We expect HCLT to report a sequential growth of 3.3% in USD terms, led by its P&P business. Expect a 20% QoQ growth in P&P due to seasonality. IT services and ER&D business may grow by 1.5% and 1.8% QoQ, respectively. For PSYS, we expect a 3% QoQ USD revenue growth in Q3E, driven by strong orderbook. Growth in Q3 should be led by Hi-Tech and HLS verticals and normal furloughs may play out for the BFSI vertical due to which growth may seem optically lower than in Q1/Q2. For COFORGE, expect a 3%+ growth in Cigniti and Coforge standalone business, resulting in a 3.2% QoQ USD revenue growth (on strong orderbook).

Furloughs likely to hit growth TCS and Infosys: For TCS, we expect USD revenue to decline 0.8% QoQ, hit by furloughs and ebbing revenue from the BSNL deal. For INFOSYS, the ask rate to reach lower/upper range of FY25 revenue guidance is (0.7%)/+0.25%, per our calculation in CC. Expect a CC / USD drop of 0.3%/1% QoQ, led by furloughs. For WPRO, Q3 revenue growth guidance was within -2-0% in CC. Expect revenue to decline 0.9% (median of the guidance) in CC and USD revenue to drop to 1.5% due to cross-currency headwinds. WPRO faced client-specific issues, which hit growth in BFS and Healthcare verticals. This may continue in Q3, which along with furloughs may drag down growth. For TECHM, growth tailwinds are seasonally strong Comviva business but continued weakness in the Telecom vertical may drag down overall revenues. We build in a revenue drop of 0.5% in USD terms in Q3E. For LTIM, expect 1.5% QoQ growth in CC and 1.2% in USD.

Margins to improve for most plays, except for LTIM and INFOSYS: LTIM's margin may be hit by wage hike – Expect 200bps QoQ impact on margin in Q3E. INFOSYS' margin may drop 30bps QoQ due to negative operating leverage. TCS, with wage hike already given in Q1FY25, may see a margin expansion of 40bps QoQ due to deceleration in BSNL deal-related costs, which hit Q2 margins. WPRO's margin may dip just 10bps QoQ despite the main impact of wage hike reflecting in Q3 (salary hiked on 1 September). This is due to higher offshoring. HCLT, which deferred its wage hike from July to September, may witness an impact on IT Services' margins (we factor in 60bps impact). The impact is likely to be mitigated by momentum in the P&P business (expect 30%+ margin in Q3E), resulting in a 40bps QoQ improvement at the company level. TECHM's margin may improve 40bps QoQ due to cost rationalization. Expect margin to expand 50bps QoQ each for COFORGE and PSYS led by strong revenues (both have hiked wages in Q2FY25).

We prefer TCS within large-caps as valuations are comforting. We prefer LTIM in the mid-cap space, especially after 15%+ correction in the stock price in the past month (also, as it is a play on strengths of erstwhile LTI and Mindtree). LTIM is aiming for USD 10bn revenues in FY31/32, which may not be challenging in our view, considering its prior growth rates, strong orderbook and healthy pipeline.

Price performance

(%)	3M	6M	12M
Nifty	(6.2)	0.3	11.6
TCS	(2.6)	3.9	10.9
Infosys	2.8	20.8	28.3
HCL Technologies	8.6	33.2	34.2
Wipro	11.1	12.9	29.5
LTIMindtree	(8.3)	5.1	(6.4)
Tech Mahindra	6.2	17.3	35.1
Persistent Systems	18.1	44.0	76.9
Coforge	36.1	71.5	60.6

Source: Bloomberg

Company	Revenue (INR bn)		
	FY25E	FY26E	FY27E
TCS	2,558	2,717	2,951
Infosys	1,617	1,717	1,837
HCL Technologies	1,176	1,275	1,366
Wipro	893	949	1,035
LTIMindtree	383	427	472
Tech Mahindra	531	566	616
Persistent Systems	118	139	162
Coforge	119	141	153

Company	Adj. PAT (INR bn)		
	FY25E	FY26E	FY27E
TCS	481	536	604
Infosys	262	295	325
HCL Technologies	176	193	209
Wipro	117	126	139
LTIMindtree	53	60	67
Tech Mahindra	42	53	67
Persistent Systems	14	18	23
Coforge	9	13	16

Note: *Pricing as on 2 January 2025

Source: Elara Securities Estimate

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Key financials

Company	Revenue (USD mn)					Revenue (INR mn)					EBIT margin (%)					Adjusted net profit (INR mn)				
	Q3 FY24	Q2 FY25	Q3 FY25E	QoQ (%)	YoY (%)	Q3 FY24	Q2 FY25	Q3 FY25E	QoQ (%)	YoY (%)	Q3 FY24	Q2 FY25	Q3 FY25E	QoQ (bp)	YoY (bp)	Q3 FY24	Q2 FY25	Q3 FY25E	QoQ (%)	YoY (%)
TCS	7,281	7,670	7,611	(0.8)	4.5	605,830	642,590	639,292	(0.5)	5.5	23.4	24.1	24.5	40	110	110,580	119,090	121,803	2.3	10.1
Infosys	4,663	4,894	4,845	(1.0)	3.9	388,210	409,860	406,985	(0.7)	4.8	20.5	21.1	20.8	(30)	30	61,060	65,080	64,378	(1.1)	5.4
HCL Tech	3,415	3,445	3,559	3.3	4.2	284,460	288,620	298,997	3.6	5.1	19.7	18.6	19.0	50	(70)	43,500	42,350	44,031	4.0	1.2
Wipro	2,656	2,660	2,619	(1.5)	(1.4)	222,313	222,620	220,793	(0.8)	(0.7)	14.8	16.7	16.6	0	190	26,942	32,088	31,196	(2.8)	15.8
LTIMindtree	1,084	1,127	1,140	1.2	5.2	90,166	94,329	95,760	1.5	6.2	15.4	15.5	13.5	(200)	(190)	11,693	12,516	11,126	(11.1)	(4.8)
TechM	1,573	1,589	1,581	(0.5)	0.5	131,013	133,132	132,785	(0.3)	1.4	5.4	9.6	10.0	40	460	5,104	12,501	10,336	(17.3)	102.5
Persistent	301	346	356	3.0	18.4	24,982	28,972	30,071	3.8	20.4	14.5	14.0	14.5	50	0	2,861	3,250	3,421	5.3	19.6
Coforge	338	369	381	3.2	12.7	27,913	30,623	32,031	4.6	14.8	13.7	11.8	12.3	50	(140)	2,861	2,336	2,642	13.1	(7.7)

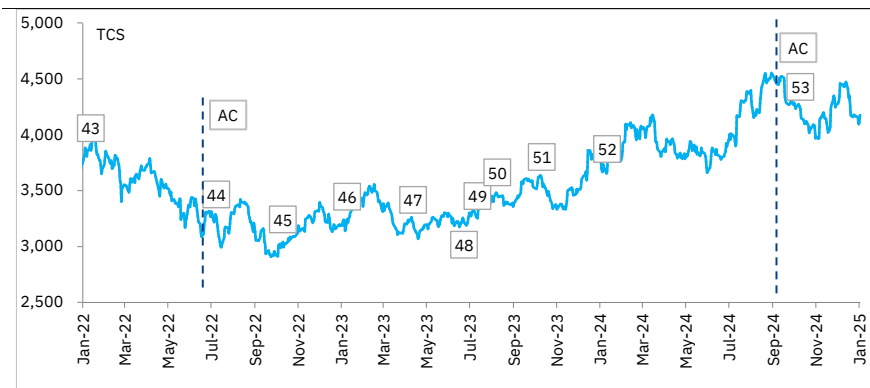
Source: Company, Elara Securities Estimate

Elara IT Services universe – Coverage matrix

Company	Ticker	Rating	Mcap	CMP*	Target	Upside	P/E (x)			Mcap/ Sales (x)			ROE (%)		
			(INR bn)	(INR)	(INR)	(%)	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
TCS	TCS IN	Accumulate	15,203	4,164	4,680	12	31.3	28.1	24.9	5.9	5.6	5.2	46.9	41.0	36.7
Infosys	INFO IN	Reduce	8,090	1,952	1,880	(4)	30.9	27.5	24.9	5.0	4.7	4.4	29.1	30.2	24.3
HCL Tech	HCLT IN	Sell	5,315	1,963	1,620	(17)	30.2	27.5	25.4	4.5	4.2	3.9	25.2	26.9	28.3
Wipro	WPRO IN	Sell	3,215	302	238	(21)	27.2	25.2	22.9	3.6	3.4	3.1	13.7	13.0	12.7
LTIMindtree	LTIM IN	Accumulate	1,707	5,752	6,820	19	32.0	28.5	25.3	4.5	4.0	3.6	24.9	24.6	24.4
Tech M	TECHM IN	Sell	1,551	1,733	1,370	(21)	36.8	28.7	22.8	2.9	2.7	2.5	15.0	17.3	19.4
Persistent	PSYS IN	Accumulate	978	6,469	5,880	(9)	72.1	55.6	44.0	8.3	7.1	6.0	23.1	24.0	25.1
Coforge	COFORGE IN	Accumulate	616	9,694	8,110	(16)	70.2	51.9	41.8	5.2	4.4	4.0	22.7	25.7	26.5

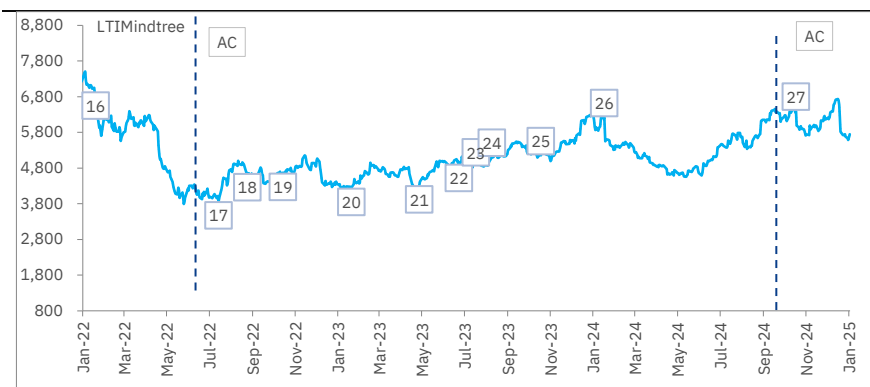
Note: *Pricing as on 2 January 2025; TP and ratings as per our last published reports; Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price
46 9-Jan-2023	Buy	INR 4,060	INR 3,320
47 12-Apr-2023	Buy	INR 3,980	INR 3,242
48 23-Jun-2023	Buy	INR 4,070	INR 3,216
49 12-Jul-2023	Buy	INR 4,010	INR 3,260
50 9-Aug-2023	Buy	INR 4,150	INR 3,463
51 11-Oct-2023	Buy	INR 4,290	INR 3,610
52 11-Jan-2024	Buy	INR 4,430	INR 3,736
53 10-Oct-2024*	Accumulate	INR 4,680	INR 4,227

*AC = Analyst change



Date	Rating	Target Price	Closing Price
20 20-Jan-2023	Reduce	INR 4,220*	INR 4,268
21 27-Apr-2023	Reduce	INR 4,400	INR 4,320
22 23-Jun-2023	Reduce	INR 4,600	INR 4,957
23 17-Jul-2023	Reduce	INR 4,860	INR 5,135
24 9-Aug-2023	Buy	INR 6,190	INR 5,104
25 18-Oct-2023	Buy	INR 6,220	INR 5,155
26 17-Jan-2024	Accumulate	INR 6,570	INR 6,276
27 17-Oct-2024*	Accumulate	INR 6,820	INR 6,394

*AC = Analyst change

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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