

Information Technology

Muted growth; impressive margin performance

Sector Report

▶ QUARTERLY REVIEW ▶

November 5, 2023

NIFTY 50: 19,230

September quarter's performance reflects no marked improvement in the demand environment. Weak discretionary spending and H2 seasonality would weigh on near-term growth visibility. Deal TCV has remained strong, driven by large deal wins, predominantly in the areas of cost optimization and vendor consolidation. Amid slowing revenue growth and macro uncertainties, IT companies have focused on tightening discretionary spending and traditional margin levers like utilization, optimization of subcontracting costs, pyramid correction, etc. to drive margin expansion. Net headcount addition remained weak across most Tier-1 companies, as they opted not to backfill voluntary attrition, given weak revenue growth and focus on efficiencies amid macro uncertainties. Growing divergence between revenue growth and deal intake reduces revenue growth predictability. Macro stability and improvement in discretionary spending are key to meeting our/consensus revenue growth estimates for FY25. Our pecking order is INFO, WPRO, TECHM, HCLT, LTIM, and TCS, among Tier-I companies, and ZOMATO, FSOL, and ECLX in mid-caps.

Revenue – Deal win disparity persists; leaky bucket issues continue

Q2 marked another quarter of weak revenue growth as leakage in the existing revenue base led to weak revenue conversion, although deal wins remained strong. Aggregate revenue growth was 0.2% QoQ, muted in a seasonally strong quarter, due to weak discretionary spending, slower decision-making, and weakness in a few verticals like communications, BFSI, and hi-tech. Companies continue to witness an elongated sales cycle with increased scrutiny on project approvals. Mid-caps (0.1% to 3.1%) continued to outperform large-caps (-2.8% to 2.2%). Deal wins remained strong, led by cost optimization and vendor consolidation. Most mgmts. have shied away from providing comments on the timeline on anticipated growth acceleration, citing macro uncertainties and slower decision-making. Among geographies, North America remains weak, while Europe is relatively resilient. BFSI, hi-tech, telecom and retail have been laggards, while manufacturing, healthcare, and energy have fared better.

Margin performance remains impressive; attrition moderation continues

While companies struggle to meet revenue growth expectations, margin delivery remains impressive. Coverage IT companies (except TECHM, LTIM and WPRO) reported EBITM expansion of 10-150bps on the back of better utilization, lower sub-contracting costs and tightening discretionary expenses. Attrition moderated further for coverage companies, down 30-380bps, and is now below pre-Covid levels (except TCS).

Discretionary spending recovery remains key for growth acceleration

Management's commentary continues to suggest no near-term pickup in demand, as clients continue to calibrate their spending in the absence of any macroeconomic certainty. While few companies have suggested a pickup in H2 compared with H1 based on their deal intake and ramp-ups, most managements have shied away from guiding any timeline on recovery. We expect some improvement in discretionary spending by the end of FY24, which remains key to meet our/consensus estimates of high-single digit aggregate revenue growth in large-caps in FY25. We believe valuation is not demanding, particularly for large caps; however, it lacks near-term triggers. Midcaps maintained growth outperformance over large caps; however, their valuation remains rich. Sustainable upside would hinge on revenue acceleration, which in turn depends on macro stability and recovery in discretionary spending, in our view.

India IT - Ratings and Target prices

Company	Rating	CMP (Rs)	TP (Rs)	Upside (%)	P/E (x)	
					FY24E	FY25E
TCS	HOLD	3,351	3,550	5.9%	26.3	23.2
Infosys	BUY	1,389	1,680	20.9%	23.5	20.2
HCL Tech	BUY	1,266	1,360	7.4%	21.7	18.7
Wipro	BUY	384	475	23.8%	17.8	15.5
TechM	BUY	1,133	1,330	17.4%	34.4	16.8
LTIM	HOLD	5,135	5,500	7.1%	31.3	25.4
Mphasis	HOLD	2,210	2,450	10.8%	25.8	22.3
Coforge	HOLD	5,083	5,050	-0.7%	35.3	27.4
Persistent	HOLD	6,286	5,500	-12.5%	43.4	32.8
Birlasoft	HOLD	588	540	-8.1%	28.5	24.0
Firstsource	BUY	161	190	18.3%	19.9	16.5
eClerx	BUY	1,967	2,100	6.8%	20.1	16.4
Route	HOLD	1,557	1,720	10.5%	24.8	21.9
Zomato	BUY	117	140	20.2%	393.1	86.0

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Revenue missed expectations, while margin remained impressive

Aggregate revenue growth of IT companies under our coverage was slightly below our estimates in Q2 and continues to be impacted by a challenging macro environment, weak discretionary spending, and softness in verticals like financial services, parts of retail, hi-tech, and communications. Barring INFO and LTIM, Tier-1 companies reported weaker-than-expected revenue growth in Q2. Adjusting for higher pass-through revenue and one-timers, INFO's revenue growth also missed our estimates. LTIM, on the other hand, reported in-line revenue. Among mid-cap companies, MPHL and COFORGE missed our estimates, while PSYS reported in-line revenue growth and BSOFT reported better-than-expected revenue growth. Overall, margin performance was better than our estimates, as companies have focused on operating efficiencies and controlling discretionary spending. TECHM's margin was weaker than expectations, as the management is taking actions to exit/divest businesses that are not strategically suitable, which impacted our aggregate coverage universe's margin performance. COFORGE missed our margin estimates by ~160bps due to higher ESOP costs during the quarter. Net profit was broadly in line with our estimates with WPRO, TECHM and COFORGE missing our estimates. Total revenue (in USD terms) of our coverage universe was 0.2% QoQ and grew by 2.7% YoY in Q2FY24. EBITM expanded ~50bps QoQ and declined ~30bps YoY. Aggregate profit grew 1.7% QoQ and 2.5% YoY in Q2FY24.

Muted revenue growth performance continues in Q2

Tier-1 IT companies posted muted revenue growth performance on a sequential basis. INFO, HCLT and LTIM reported sequential USD revenue growth of 2.2%, 0.8% and 1.6%, respectively, while TCS, WPRO and TECHM reported a decline of 0.2%, 2.3% and 2.8%, respectively. Adjusting for pass-through and one-timers, INFO's revenue growth in Q2 was almost flat QoQ. Barring MPHL, Tier-2 IT companies reported 2.3-3.1% QoQ USD revenue growth. MPHL's revenue growth was flat QoQ due to delays in ramp-ups, as clients increased scrutiny on spending and continued weak discretionary spending, particularly in select pockets of BFS. On a YoY basis, Tier-1 companies reported further moderation in growth and posted -5.1% to 5.2% change, while Tier-2 companies, barring MPHL, reported 6.4% to 14.1% growth. Revenue growth continued to be impacted in a seasonally strong quarter by a challenging macro environment, weak discretionary spending, and softness in verticals like financial services, parts of retail, hi-tech and communications. Companies are witnessing delays in decision-making with greater scrutiny on project approvals and slower project ramp-ups, with bookings supported by cost takeout and efficiency deals. While managements remain cautiously optimistic about the near-term demand environment, companies are confident about the long-term structural demand for IT, primarily driven by increasing digitalization and cloud adoption.

Among Tier-1 companies, INFO lowered its upper end of the FY24 revenue growth guidance range to 1.0-2.5% CC YoY (earlier 1.0-3.5%), implying -1.9% to flat sequential growth in H2. Management has attributed the revenue guidance revision to weak discretionary spending, delay in decision-making, and slower ramp-up of large programs. HCLT has also lowered its FY24 revenue growth guidance to 5-6% CC YoY (earlier 6-8%), citing weak discretionary spending and lower-than-expected performance in H1. The revised guidance implies a revenue CQGR of 4.0-5.3% in H2, which management remains confident of achieving, considering the planned ramp-up of the recent large deal wins, seasonality in the software business, momentum from the ongoing business, and contribution from ASAP's acquisition. Wipro has guided for revenue growth range of -3.5% to -1.5% in CC for Q3FY24. Among Tier-2 companies, COFORGE retained its revenue growth guidance of 13-16% CC YoY, implying a 1.6-5.0% CQGR in H2, backed by large deal signings and maintaining the existing business.

Exhibit 1: Q2FY24 performance

Company	Revenue			Revenue			EBITM			Net profit			EPS		
	USD mn	YoY (%)	QoQ (%)	Rs bn	YoY (%)	QoQ (%)	EBITM (%)	YoY (bps)	QoQ (bps)	Rs bn	YoY (%)	QoQ (%)	Rs/sh	YoY (%)	QoQ (%)
TCS	7,210	4.8%	-0.2%	596.9	7.9%	0.5%	24.3	30	110	113.4	8.7%	2.4%	31.0	8.7%	2.4%
INFO	4,718	3.6%	2.2%	389.9	6.7%	2.8%	21.2	(30)	40	62.1	3.2%	4.5%	15.0	4.6%	4.5%
HCLT	3,225	4.6%	0.8%	266.7	8.0%	1.4%	18.5	60	150	38.3	9.8%	8.4%	14.1	9.8%	8.4%
WPRO	2,713	-3.7%	-2.3%	225.2	-0.1%	-1.4%	14.8	40	(30)	26.5	-0.5%	-7.8%	5.1	4.5%	-3.1%
TECHM	1,555	-5.1%	-2.8%	128.6	-2.0%	-2.2%	4.7	(670)	(210)	4.9	-61.6%	-28.7%	7.3	-51.0%	-7.2%
LTIM	1,076	5.2%	1.6%	89.1	8.2%	2.3%	16.0	(150)	(70)	11.6	-2.2%	0.9%	39.3	-2.2%	0.9%
MPHL	396	-9.8%	0.1%	32.8	-6.9%	0.8%	15.5	20	10	3.9	-6.3%	-1.1%	20.8	-6.6%	-1.1%
COFORGE	278	12.6%	2.3%	22.8	16.2%	2.5%	11.9	(260)	30	1.8	-10.0%	-0.5%	29.4	-10.9%	-1.2%
PSYS	292	14.1%	3.1%	24.1	17.7%	3.9%	13.7	(90)	90	2.6	19.7%	15.1%	34.2	18.9%	15.1%
BSOFT	158	6.4%	3.1%	13.1	9.9%	3.7%	14.2	110	60	1.5	26.1%	5.5%	5.2	27.2%	5.4%
Total	21,621	2.7%	0.2%	1,789	5.8%	0.9%	19.2	(33)	52	267	2.5%	1.7%	201	-1.2%	3.2%

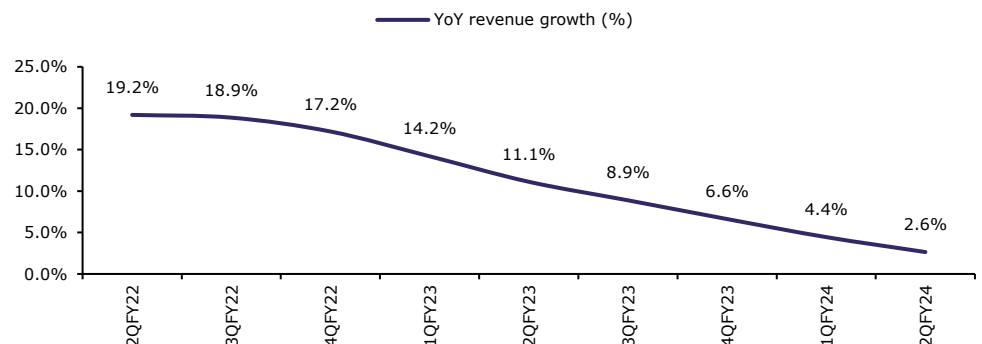
Source: Company, Emkay Research

Exhibit 2: CY23/FY24 guidance by IT companies indicates continued softness in the demand environment

Company	Y/E	FY24/CY23 revenue guidance (latest)	FY24/CY23 revenue guidance (earlier)
Infosys	Mar	1-2.5% CC for FY24	1-3.5% CC for FY24
HCLT	Mar	5-6% CC for FY24; 4.5-5.5% growth in services organic business	6-8% CC for FY24; 6.5-8.5% growth in the services business (including inorganic)
Coforge	Mar	13-16% CC for FY24	13-16% CC for FY24
Accenture	Aug	2-5% in LC in FY24 (organic 0-3%)	Reported 8.2% YoY in LC in FY23
Cognizant	Dec	-0.7% to flat in CC for CY23, includes ~110bps from acquisitions	-1 to 1% CC for CY23, includes ~100bps from acquisitions
DXC	Mar	-4 to -3% for FY24	-4 to -3% for FY24
ServiceNow	Dec	Subscription revenue growth 25% CC for CY23	Subscription revenue growth of 24% CC for CY23
EPAM	Dec	USD4.66-4.67bn for CY23, reflecting YoY decline of 3% at the mid-point of the range.	USD4.65-4.7bn for CY23, reflecting YoY decline of 3% at the mid-point of the range.
WNS	Mar	Revenue less repair payments is expected to be USD1.254-1.3bn for FY24	Revenue less repair payments is expected to be USD1.296-1.354bn for FY24
EXL	Dec	Revenue of USD1.620-1.628bn, 15% YoY (15-16% CC)	Revenue of USD1.605-1.625bn, 14-15% YoY (14-15% CC)

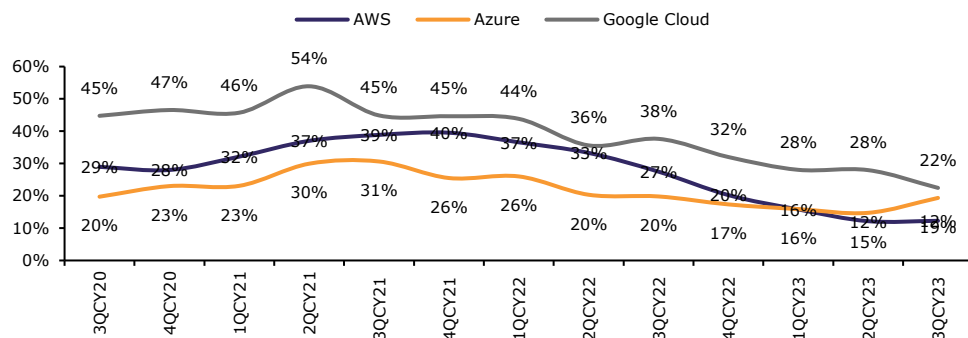
Source: Company, Emkay Research

Exhibit 3: YoY revenue growth moderation continues (for the coverage universe)



Source: Company, Emkay Research

Exhibit 4: Cloud hyperscalers growth (YoY) moderates although growing at a healthy pace



Source: Company, Emkay Research

Exhibit 5: IT companies' performance (Actual vs. Estimates)

Company	Revenue (USD mn) (Actual)	Revenues USD mn Estimate	Variation (%)	EBITM (%) (Actual)	EBITM (%) (Estimate)	Variation (bps)	Net profit (Rs mn) (Actual)	Net profit (Rs mn) (Estimate)	Variation (%)
TCS	7,210	7,298	-1.2%	24.3	23.9	36	1,13,420	1,14,152	-0.6%
INFO	4,718	4,663	1.2%	21.2	21.0	27	62,120	62,673	-0.9%
HCLT	3,225	3,249	-0.8%	18.5	17.5	101	38,320	37,598	1.9%
WPRO	2,713	2,765	-1.9%	14.8	15.5	-66	26,463	29,233	-9.5%
TECHM	1,555	1,593	-2.4%	4.7	9.5	-477	6,434	9,749	-34.0%
LTIM	1,076	1,075	0.1%	16.0	16.1	-10	11,618	11,627	-0.1%
MPHL	398	410	-2.9%	15.5	15.5	-5	3,919	4,005	-2.2%
COFORGE	278	281	-1.2%	11.9	13.4	-155	1,809	2,254	-19.8%
PSYS	292	291	0.1%	13.7	13.8	-10	2,633	2,592	1.6%
BSOFT	158	157	1.0%	14.2	13.8	37	1,451	1,410	2.9%
Total	21,623	21,782	-0.7%	19.2	19.3	-10	2,68,187	2,75,292	-2.6%

Source: Company, Emkay Research

Mid-cap companies' outperformance continued in Q2

Mid-cap companies' outperformance continued over large caps in Q2. Performance of mid-cap companies reflected better correlation between revenue growth and deal intake. Better-performing mid-cap companies are likely to maintain double-digit growth in FY24, despite the challenging demand environment.

Exhibit 6: Mid-cap companies continue to outperform in Q2FY24

Company	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue (USD mn)									
Large-cap IT companies									
INFO	3,998	4,250	4,280	4,444	4,555	4,659	4,554	4,617	4,718
TCS	6,333	6,524	6,696	6,780	6,877	7,075	7,195	7,226	7,210
WPRO - IT Services	2,580	2,640	2,722	2,736	2,798	2,804	2,823	2,779	2,713
HCLT	2,791	2,978	2,993	3,025	3,082	3,244	3,235	3,200	3,225
CTSH	4,744	4,777	4,826	4,906	4,857	4,839	4,812	4,886	4,897
TECHM	1,473	1,533	1,608	1,632	1,638	1,668	1,668	1,601	1,555
LTIM	859	918	954	980	1,022	1,047	1,058	1,059	1,076
Sub-total	22,777	23,620	24,079	24,502	24,829	25,335	25,344	25,367	25,394
Mid-cap IT Companies									
PSYS	182	199	217	242	256	264	275	283	292
MPHL	388	418	435	439	439	426	409	396	396
COFORGE	213	222	232	239	247	252	264	272	278
FSOL	193	195	206	191	187	183	190	186	189
BSOFT	137	143	146	149	149	148	149	151	157
CYL	150	158	157	162	175	197	213	205	215
ZENT	142	147	153	156	155	146	148	149	150
KPITTECH	80	84	87	90	94	111	124	134	145
MAST	72	74	77	74	78	80	86	88	93
TELX	80	85	91	94	96	99	102	103	107
LTTS	217	225	232	257	270	273	288	280	283
SSOF - International Services	49	53	56	57	58	61	66	77	81
Sub-total	1,905	2,003	2,089	2,147	2,203	2,240	2,313	2,325	2,385
Total	24,682	25,623	26,168	26,649	27,032	27,575	27,657	27,692	27,778
Top-7 (YoY %)	17.4%	17.5%	15.1%	12.3%	9.0%	7.3%	5.3%	3.5%	2.3%
Mid-cap (YoY %)	22.8%	22.4%	21.7%	18.9%	15.7%	11.8%	10.7%	8.3%	8.2%
Mid-cap outperformance (YoY %)	5.5%	4.8%	6.6%	6.6%	6.7%	4.6%	5.5%	4.8%	6.0%

Source: Company, Emkay Research

Margin expansion impresses; have further scope of improvement

Margin performance was better than our estimates, as companies have focused on operating efficiencies (higher utilization, lowering the average cost of resources, optimization of sub-contracting cost etc.) and controlling discretionary spending. EBITM for Tier-1 companies (barring WPRO, LTIM and TECHM) expanded 40-150bps QoQ. TECHM's margin was impacted as the management is taking actions to exit/divest businesses that are not strategically suitable. Wipro's IT services' EBITM expanded ~10bps QoQ to 16.1%. However, the reported EBITM was impacted due to the Rs2.2bn loss in reconciling items (one-time actions taken to right-size the talent pool). LTIM's EBITM declined 70bps QoQ due to salary hike. Among mid-cap companies, the margin expanded by 10-90bps QoQ. Margin expansion trajectory is likely to sustain, as companies have further scope to lower the average cost of resources and control discretionary spending. Management suggested that progress on lowering ARC was slower than expected in H1, and it expects a more aggressive shift in H2. Further, deterioration in demand may pose risks to the margin trajectory. INFO retained its FY24 EBITM guidance of 20-22% (21% in H1FY24) and continues to focus on the broader margin expansion program launched in Q1FY24. HCLT also retains its EBITM guidance of 18-19% for FY24 (~17.7% for H1FY24; ~150bps QoQ expansion in Q2). COFORGE also retained its adjusted EBITDAM guidance of ~18% for FY24.

Exhibit 7: Sub-contracting cost as a % of revenue has moderated for most companies in Q2

Company	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
TCS	8.9%	9.2%	9.5%	10.0%	10.0%	9.4%	8.6%	7.7%	7.2%
Infosys	10.3%	11.0%	11.1%	11.3%	10.1%	8.7%	8.3%	8.2%	7.9%
Wipro	13.9%	13.9%	13.7%	13.7%	12.9%	12.3%	12.1%	11.6%	11.8%
HCLT	14.9%	14.9%	14.2%	15.3%	15.0%	14.4%	14.2%	13.8%	13.2%
TechM	15.3%	16.4%	15.7%	16.3%	15.4%	14.4%	14.1%	14.0%	12.4%
LTIM		8.6%	8.8%	8.8%	8.9%	8.8%	7.7%	7.4%	7.5%
Persistent	14.8%	13.6%	13.1%	13.9%	12.9%	13.2%	10.3%	10.2%	10.0%
Zensar	14.9%	15.2%	15.3%	16.5%	14.3%	15.4%	12.1%	12.0%	12.2%

Source: Company, Emkay Research

Deal intake remains strong

Deal win TCV growth continued to remain healthy across most companies. Despite record TCV conversion, the deal pipeline remained healthy. Several companies highlighted reprioritization of spending with a clear focus on faster RoI, elongated sales cycle and slower project ramp-ups amid a challenging macro environment. Clients continue to spend on new programs that drive business growth with a clear RoI. Companies are witnessing increased mix of cost take-outs and vendor-consolidation deals amid a challenging demand environment, which usually have a longer tenure, leading to slower revenue conversion. Discretionary spending remains weak, which poses risks to our/consensus assumption for FY25 growth forecasts.

TCS has signed deals worth USD11.2bn in Q2, with book-to-bill improving to 1.6x, and cost takeout and consolidation deals again the mainstay. INFO reported its highest-ever large deal TCV of USD7.7bn in Q2 (48% net new) vs. USD2.3bn in Q1. Wipro signed large deals worth USD1.3bn TCV in Q2, and the total deal intake was USD3.8bn in Q2. HCLT signed 10 large services deals and 6 software deals with a total net new deal TCV of ~USD4bn in Q2. TECHM's net new deal improved sequentially and came at USD640mn in Q2 vs. USD359mn in Q1. Among Tier-II companies, MPHL signed net new deals worth USD255mn (70% in new-gen services), tad softer after record signing in Q1. It is observing some normalization in the conversion of the deal pipeline to deal signing; however, deal signing to revenue conversion cycle remains slow. COFORGE's order booking was healthy at USD313mn in Q2, taking the order book executable over the next 12 months to USD935mn (up ~17% YoY). Order booking for PSYS stood at USD479.3mn (1.6x book-to-bill; ACV of USD315.9mn) of TCV, including USD184.2mn of new business TCV. BSOFT's order intake stood at USD271mn in Q2 vs. USD146mn in Q1. The deal pipeline remains robust across the industry, with a higher mix of cost takeout deals. The recent large deal signings across companies augur well for H2 growth acceleration.

Exhibit 8: Healthy deal intake across companies in Q2

Deal intake (USD mn)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
INFO (a)	3,145	7,129	2,111	2,570	2,152	2,525	2,257	1,691	2,744	3,300	2,076	2,285	7,684
TCS (b)	8,600	6,800	9,200	8,100	7,600	7,600	11,300	8,200	8,100	7,800	10,000	10,200	11,200
Wipro (e)		1,200	1,400	715	580	600	445	1,123	713	978	1,083	1,198	1,300
HCLT (c)	1,630	1,400	3,100	1,664	2,245	2,135	2,260	2,054	2,384	2,347	2,074	1,565	3,969
TechM (c)	421	456	1,043	815	750	704	1,011	802	716	795	592	359	640
LTIM (f)								1,206	1,064	1,250	1,350	1,410	1,300
MPHL (c)	360	247	245	505	241	335	347	302	302	401	309	707	255
COFORGE (b)	201	192	201	318	285	247	301	315	304	345	301	531	313
PSYS (b)		302	247	245	283	334	361	394	368	440	422	380	479
BSOFT (b)	274	109	325	153	140	182	221	185	166	231	286	146	271

Source: Company, Emkay Research. Note: a - includes large deal wins (>USD50mn)

b - includes all deal wins

c - includes net new deal wins

d - includes only net new and large deal wins

e - includes large deal wins (>USD30mn)

f - total order inflow

Valuation

Management commentary continues to suggest that demand is expected to remain muted in the near term. Continued weak discretionary spending, lower working days and the possibility of elevated furloughs would weigh on sequential growth in Q3FY24. While few companies have suggested a pickup in H2 compared with H1, most managements have shied away from guiding for any timeline of recovery. A few of the companies expect elevated furloughs not only in BFSI, hi-tech and manufacturing, but also in other verticals.

FY24 revenue growth was impacted by demand normalization post-Covid and additional caution by clients amid macro uncertainties. Clients have paused/deferred discretionary programs and even increased scrutiny on project approvals with a clear focus on quick ROI. We expect some improvement in discretionary spending by the end of FY24, which remains key to meeting our/consensus estimates of high single-digit aggregate revenue growth in large caps in FY25. Clients' fickle behavior continues amid macro uncertainties and any further weakness in macros may weigh on the recovery in discretionary spending and may lead to a cut in revenue estimates for FY25. As per IMF's latest estimates, growth rates of U.S. and Europe are expected to be moderate but positive in 2024. This is our base case and, thus, recession probability remains a risk to our growth assumptions.

Weak revenue performance and muted near-term outlook are expected to weigh on Nifty IT's performance in the last 1M (down 3.0%; 1.4% underperformance compared to broader markets). We believe that the valuation is not demanding, particularly for large caps; however, it lacks near-term triggers. Midcaps maintained growth outperformance over large caps; however, their valuation remains rich. Our pecking order is INFO, WPRO, TECHM, HCLT, LTIM and TCS among Tier-I companies, and ZOMATO, FSOL and ECLX in mid-caps.

Exhibit 9: Financial Summary

Company	US\$ revenue (mn)					Revenue (Rs bn)					EBITM (%)					EPS (Rs/share)				
	FY23	FY24E	FY25E	FY26E	FY23-26 CAGR (%)	FY23	FY24E	FY25E	FY26E	FY23-26 CAGR (%)	FY23	FY24E	FY25E	FY26E	FY23-26 (bps)	FY23	FY24E	FY25E	FY26E	FY23-26 CAGR (%)
TCS	27,927	29,291	32,081	35,106	7.9%	2,255	2,424	2,695	2,984	9.8%	24.1	24.2	24.8	25.0	96	115.2	127.5	144.5	162.5	12.1%
INFO	18,212	18,699	20,374	22,405	7.2%	1,468	1,546	1,711	1,904	9.1%	21.1	20.8	21.3	21.5	43	58.1	59.2	68.6	77.3	10.0%
HCLT	12,586	13,294	14,554	15,943	8.2%	1,015	1,100	1,223	1,355	10.1%	18.2	18.2	18.8	18.9	68	54.7	58.3	67.8	75.5	11.3%
WPRO	11,234	10,782	11,269	12,165	2.7%	905	895	951	1,038	4.7%	15.4	15.4	16.7	16.8	137	20.7	21.6	24.7	27.6	10.1%
TECHM	6,607	6,280	6,686	7,324	3.5%	533	520	562	623	5.3%	11.4	7.1	13.6	14.0	256	54.9	33.0	67.5	77.6	12.2%
LTIM	4,106	4,394	5,010	5,762	12.0%	332	364	421	490	13.9%	16.2	16.7	17.4	17.6	138	149.0	164.3	202.5	238.5	17.0%
MPHL	1,712	1,652	1,871	2,095	7.0%	138	137	157	178	8.9%	15.3	15.3	15.6	15.7	45	86.9	85.6	99.1	114.6	9.7%
COFORGE	1,002	1,131	1,296	1,491	14.2%	80	93	109	127	16.5%	12.8	13.6	14.5	14.7	190	111.2	143.9	185.8	219.9	25.5%
PSYS	1,036	1,193	1,389	1,625	16.2%	84	99	117	138	18.3%	14.9	14.5	16.1	16.4	145	120.5	144.9	191.4	232.2	24.4%
BSOFT	595	637	720	813	11.0%	48	53	60	69	13.0%	9.1	13.9	14.3	14.4	527	11.9	20.7	24.5	28.6	34.0%
FSOL	751	773	874	961	8.6%	60	64	74	82	10.9%	9.4	11.9	12.0	12.2	284	7.4	8.1	9.7	11.3	15.5%
ECLX	333	348	374	404	6.7%	26	29	31	34	9.1%	23.0	22.1	23.3	23.5	51	97.3	97.8	119.9	137.4	12.2%
ROUTE						36	44	53	60	18.7%	10.2	10.6	11.0	11.4	120	52.4	62.8	71.1	85.5	17.8%
ZOMATO						71	119	168	217	45.4%	-23.3	-3.8	5.5	9.6	3,290	-1.2	0.3	1.4	2.4	NA

Source: Company, Emkay Research

Exhibit 10: Valuation Summary

Company	CMP (Rs)	Mkt Cap (USD bn)	Promoter Holding (%)	ADTV 6M (USD mn)	Target (Rs)	Rating	P/E (x)				EV/EBITDA (x)				ROE (%)			
							FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
TCS	3,351	147.2	72.3	76.3	3,550	HOLD	29.1	26.3	23.2	20.6	20.0	18.5	16.0	14.1	45.9	50.6	52.3	48.3
INFO	1,389	69.2	14.9	105.6	1,680	BUY	23.9	23.5	20.2	18.0	15.5	14.6	12.7	11.1	31.8	30.6	31.6	31.6
HCLT	1,266	41.3	60.8	33.9	1,360	BUY	23.1	21.7	18.7	16.8	14.4	13.3	11.5	10.3	23.3	23.6	25.8	26.9
WPRO	384	24.1	72.9	24.5	475	BUY	18.5	17.8	15.5	13.9	10.6	10.6	9.1	8.0	15.8	15.3	18.0	18.4
TECHM	1,133	13.3	35.1	35.6	1,330	BUY	20.6	34.4	16.8	14.6	11.7	16.7	9.3	8.2	18.5	10.8	19.9	21.0
LTIM	5,135	18.2	68.7	27.2	5,500	HOLD	34.5	31.3	25.4	21.5	24.5	21.5	17.9	15.2	26.6	26.9	28.1	27.9
MPHL	2,210	5.0	55.6	14.1	2,450	HOLD	25.4	25.8	22.3	19.3	16.2	16.4	13.7	11.8	22.0	19.6	20.9	22.1
COFORGE	5,083	3.8	-	32.5	5,050	HOLD	45.7	35.3	27.4	23.1	24.2	19.9	16.4	14.1	25.7	27.4	30.2	30.6
PSYS	6,286	5.8	31.1	23.0	5,500	HOLD	52.2	43.4	32.8	27.1	30.9	26.9	20.7	17.1	25.9	25.3	27.6	27.9
BSOFT	588	1.9	41.0	15.3	540	HOLD	49.5	28.5	24.0	20.6	29.0	18.0	14.8	12.5	13.2	21.8	22.1	22.0
FSOL	161	1.3	53.7	5.3	190	BUY	21.8	19.9	16.5	14.2	14.1	11.3	9.7	8.2	16.1	16.0	17.7	18.7
ECLX	1,967	1.2	53.6	2.5	2,100	BUY	20.2	20.1	16.4	14.3	13.1	11.5	9.5	8.2	29.8	24.6	24.9	26.1
ROUTE	1,557	1.2	58.2	5.9	1,720	HOLD	29.7	24.8	21.9	18.2	20.2	16.7	13.7	11.5	18.7	20.1	19.7	20.6
ZOMATO	117	12.0	NA	79.5	140	BUY	NA	393.1	86.0	48.5	NA	1,876.8	60.2	31.9	-5.4	1.4	6.1	9.9

Source: Company, Emkay Research

Exhibit 11: Bloomberg – Relative valuation

Company	Year -end	Currency	CMP	M Cap (USD bn)	P/E		EV/Sales		EV/EBITDA		ROE (%)	
					1FY	2FY	1FY	2FY	1FY	2FY	1FY	2FY
TATA CONSULTANCY SVCS LTD	03/2023	INR	3,351	147.2	26.4	23.8	4.9	4.4	18.5	16.6	48.8	49.9
INFOSYS LTD	03/2023	INR	1,389	69.2	23.3	20.6	3.6	3.4	15.2	13.9	31.3	32.6
WIPRO LTD	03/2023	INR	384	24.1	17.7	15.8	2.0	1.9	10.8	9.8	14.8	15.9
HCL TECHNOLOGIES LTD	03/2023	INR	1,266	41.3	21.8	19.4	3.0	2.7	13.5	12.1	23.7	25.5
TECH MAHINDRA LTD	03/2023	INR	1,133	13.3	32.3	20.5	2.0	1.9	17.9	12.4	12.0	18.9
LTIMINDTREE LTD	03/2023	INR	5,135	18.2	31.1	26.0	4.0	3.6	21.4	18.2	26.8	27.4
MPHASIS LTD	03/2023	INR	2,210	5.0	25.6	22.3	3.0	2.6	16.5	14.4	20.1	21.7
L&T TECHNOLOGY SERVICES LTD	03/2023	INR	4,232	5.4	34.4	29.7	4.5	4.0	22.6	19.6	24.6	24.7
BIRLASOFT LTD	03/2023	INR	588	1.9	28.3	24.0	2.8	2.5	18.5	15.8	21.6	22.2
COFORGE LIMITED	03/2023	INR	5,083	3.8	33.9	26.5	3.5	3.0	20.5	16.9	27.1	29.4
CYIENT LTD	03/2023	INR	1,661	2.2	24.2	20.5	2.6	2.3	14.1	12.3	20.0	21.0
PERSISTENT SYSTEMS LTD	03/2023	INR	6,286	5.8	42.8	34.4	4.9	4.2	27.3	22.6	25.8	27.3
ZENSAR TECHNOLOGIES LTD	03/2023	INR	505	1.4	18.8	18.1	2.0	1.9	11.8	11.2	18.6	17.0
MASTEK LTD	03/2023	INR	2,235	0.8	22.2	17.2	2.3	2.0	13.7	11.3	17.0	19.2
SONATA SOFTWARE LTD	03/2023	INR	1,226	2.1	32.0	25.9	1.9	1.6	20.7	17.0	37.3	37.7
FIRSTSOURCE SOLUTIONS LTD	03/2023	INR	161	1.3	20.0	17.1	1.9	1.8	12.3	11.3	16.6	18.0
ECLERX SERVICES LTD	03/2023	INR	1,967	1.2	19.0	16.3	3.4	3.0	11.7	10.2	26.6	26.2
INTL BUSINESS MACHINES CORP	12/2022	USD	147	134.2	15.3	14.5	2.9	2.9	12.5	12.0	36.3	32.8
ACCENTURE PLC-CL A	08/2023	USD	308	205.0	26.4	24.2	3.0	2.8	15.8	14.5	28.0	27.7
COGNIZANT TECH SOLUTIONS-A	12/2022	USD	64	31.9	14.4	13.9	1.6	1.6	9.2	8.7	17.2	16.8
HEWLETT PACKARD ENTERPRISE	10/2022	USD	16	20.0	7.1	7.5	1.0	1.0	5.4	5.3	13.7	11.0
CAPGEMINI SE	12/2022	EUR	172	31.8	15.0	13.9	1.5	1.4	9.9	9.2	18.6	18.4
CGI INC	09/2022	CAD	137	23.2	19.1	17.8	2.4	2.3	12.1	11.4	20.9	21.4
DXC TECHNOLOGY CO	03/2023	USD	22	4.3	7.0	6.4	0.6	0.6	3.7	3.5	14.9	18.3
ATOS SE	12/2022	EUR	6	0.8	8.4	3.0	0.4	0.4	4.9	4.3	1.6	5.5
EPAM SYSTEMS INC	12/2022	USD	232	13.4	22.1	21.2	2.5	2.4	14.1	13.4	18.8	16.8
ALTEN SA	12/2022	EUR	115	4.3	14.7	12.6	1.0	0.9	8.6	7.7	13.8	13.9
ENDAVA PLC- SPON ADR	06/2023	USD	52	3.0	32.0	21.9	3.0	2.6	16.7	11.7	15.6	18.8
GLOBANT SA	12/2022	USD	177	7.5	30.2	25.3	3.5	3.0	17.2	15.0	15.2	15.4
ASSYSTEM	12/2022	EUR	39	0.7	14.7	12.7	1.0	0.9	10.9	9.7	10.1	11.0
BERTRANDT AG	09/2022	EUR	46	0.5	15.4	10.5	0.6	0.5	6.2	5.0	6.7	9.7
ADECCO GROUP AG-REG	12/2022	CHF	40	7.4	14.6	12.3	0.4	0.4	10.6	9.5	11.4	13.8

Source: Bloomberg, Emkay Research

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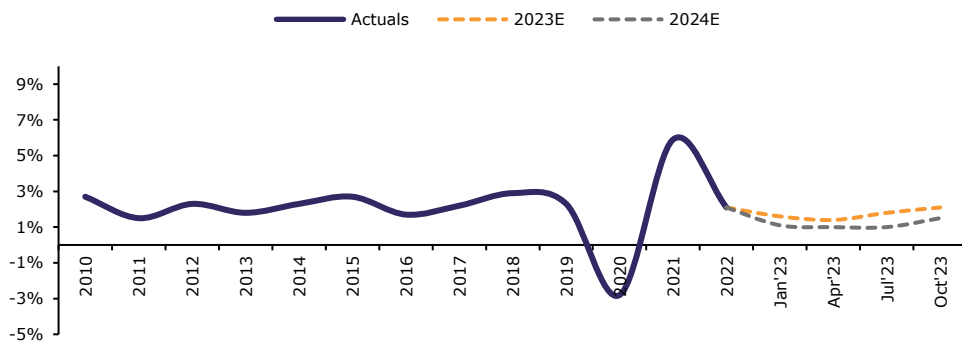
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Exhibit 12: Price performance

Index / Stock	CMP (Rs)	Return (%)					(%) Outperformance / Underperformance w.r.t. Nifty				
		1M	3M	6M	1Y	3Y	1M	3M	6M	1Y	3Y
Nifty 50	19,231	-2%	-1%	6%	7%	63%					
Nifty IT	30,780	-3%	3%	11%	7%	48%	-1%	3%	5%	0%	-14%
TCS	3,351	-5%	-1%	5%	7%	27%	-3%	-1%	-1%	0%	-36%
INFO	1,389	-3%	2%	9%	-9%	31%	-2%	3%	3%	-16%	-32%
WPRO	384	-5%	-4%	0%	-1%	14%	-4%	-3%	-7%	-8%	-49%
HCLT	1,266	2%	13%	20%	21%	56%	4%	13%	13%	15%	-7%
TECHM	1,133	-7%	-1%	9%	9%	40%	-5%	0%	3%	3%	-23%
LTIM	5,135	-1%	5%	14%	6%	75%	0%	6%	8%	0%	12%
MPHL	2,210	-7%	-1%	19%	11%	62%	-6%	0%	13%	5%	0%
PSYS	6,286	10%	34%	35%	68%	464%	11%	35%	28%	61%	401%
COFORGE	5,083	0%	7%	24%	34%	139%	1%	7%	18%	27%	76%
BSOFT	588	18%	35%	113%	111%	225%	20%	36%	107%	105%	163%
FSOL	161	-2%	12%	36%	55%	131%	0%	12%	30%	48%	69%
ECLX	1,967	6%	14%	43%	49%	338%	7%	15%	37%	42%	275%
ROUTE	1,557	0%	4%	24%	17%	49%	1%	5%	17%	10%	-13%
ZOMATO	117	11%	35%	83%	87%	53%	12%	35%	77%	81%	-9%

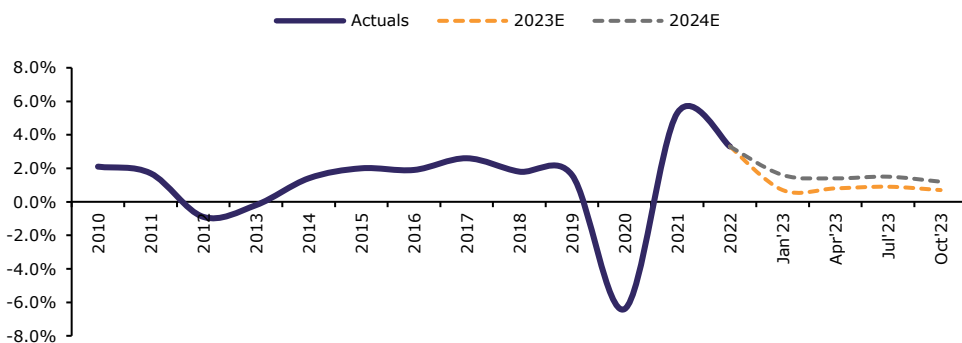
Source: Bloomberg, Emkay Research

Exhibit 13: U.S. real GDP growth has seen upgrades for CY23 and stayed relatively flat for CY24



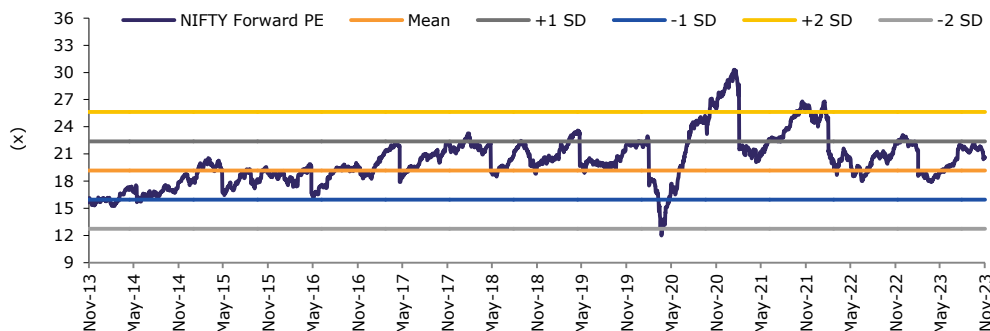
Source: IMF, Emkay Research

Exhibit 14: Euro area real GDP growth witnessed upgrades in CY23/24E since Apr-23



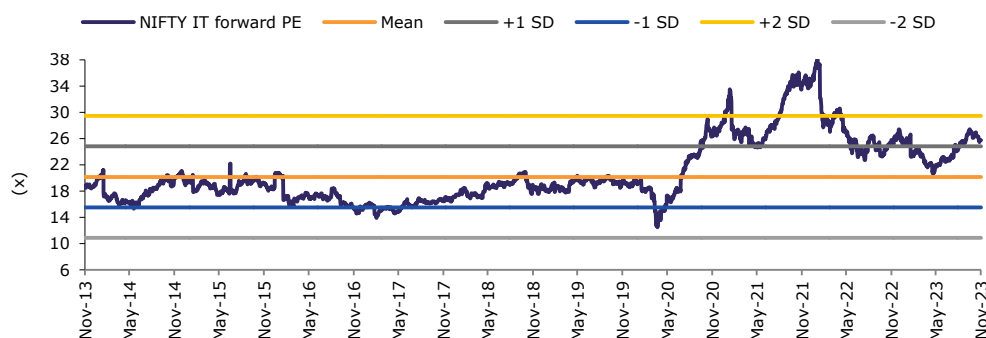
Source: IMF, Emkay Research

Exhibit 15: NIFTY one-year forward P/E is trading closer to its mean



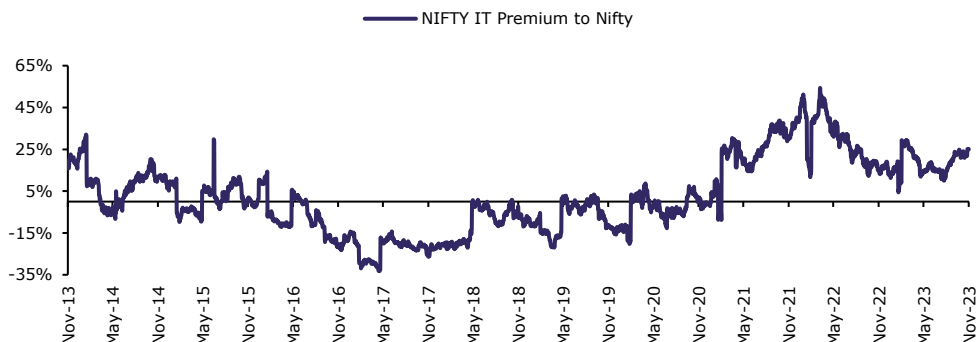
Source: Bloomberg, Emkay Research

Exhibit 16: NIFTY IT one-year forward P/E trades closer to Mean+1SD



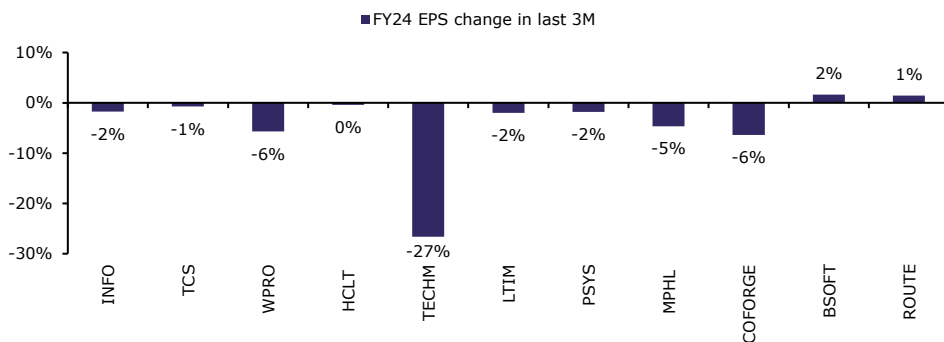
Source: Bloomberg, Emkay Research

Exhibit 17: NIFTY IT premium to NIFTY stands at ~25%



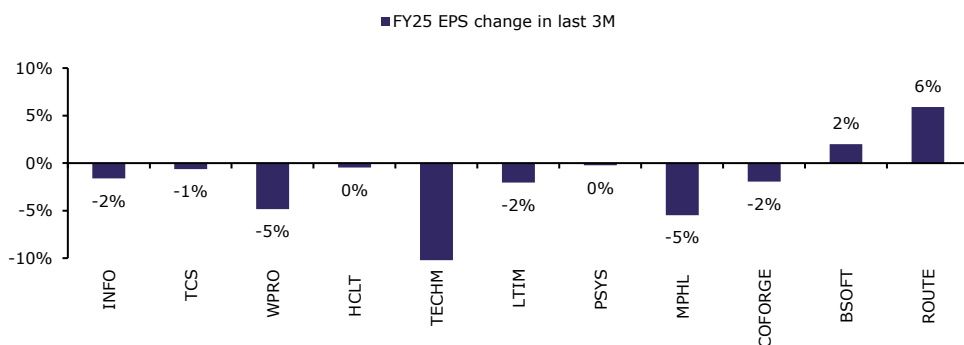
Source: Bloomberg, Emkay Research

Exhibit 18: FY24 Consensus EPS change in the last three months



Source: Bloomberg, Emkay Research

Exhibit 19: FY25 Consensus EPS change in the last three months



Source: Bloomberg, Emkay Research

Net headcount declined sequentially further as companies focused on efficiencies and reduced fresher intake

Aggregate net headcount declined sequentially for the fourth quarter in a row in our coverage universe, as companies focus on driving efficiencies, anticipating a weak growth outlook in the near term and lower fresher intake. Net hiring reduced across companies; however, it was more pronounced in large caps. Due to muted demand, large-cap companies are choosing not to backfill attrition and reduce the intake of freshers and, hence, witnessed a decline in headcount on a YoY basis (barring HCL). Companies are even pulling back on the fresher hiring targets considering macro uncertainties and the comfortable supply side. Overall, IT services companies in our coverage universe reduced their headcount by ~18,000 employees in Q2. Considering delays in certain projects, companies are focusing on redeploying the existing talent wherever projects are available. Global tech majors have slowly resumed hiring after slashing headcount citing over hiring during periods of rapid growth and demand-supply mismatch. Quarterly annualized attrition is moderating and is much below the pre-COVID levels (except TCS).

Exhibit 20: Aggregate headcount declined further in Q2 with most companies reporting a YoY decline in headcount

Headcount ('000)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
TCS	528.7	557.0	592.2	606.3	616.2	614.0	614.8	615.3	609.0
Infosys	279.6	292.1	314.0	335.2	345.2	346.8	343.2	336.3	328.8
HCL Tech	187.6	197.8	208.9	211.0	219.3	222.3	225.9	223.4	221.1
Wipro	221.4	231.7	243.1	262.0	262.6	262.1	258.6	249.8	244.7
TechM	141.2	145.1	151.2	158.0	163.9	157.1	152.4	148.3	150.6
LTIMindtree	70.1	74.2	79.6	84.0	86.9	86.5	84.5	82.7	83.5
Mphasis	32.3	34.9	36.5	36.9	36.9	35.5	34.0	34.0	33.8
Coforge	20.8	22.1	22.5	22.7	23.0	22.5	23.2	24.2	24.6
Persistent	15.9	17.0	18.6	21.6	22.5	22.6	22.9	23.1	22.8
Birlasoft	12.1	11.9	12.2	12.6	12.8	12.5	12.2	12.2	12.3

YoY (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
TCS	16.6%	18.7%	21.2%	19.1%	16.5%	10.2%	3.8%	1.5%	-1.2%
Infosys	16.4%	17.1%	21.0%	25.1%	23.5%	18.8%	9.3%	0.3%	-4.8%
HCL Tech	22.6%	23.9%	23.6%	19.5%	16.9%	12.4%	8.2%	5.9%	0.8%
Wipro	19.5%	21.7%	23.0%	24.9%	18.6%	13.1%	6.4%	-4.7%	-6.8%
TechM	13.6%	19.0%	24.9%	25.2%	16.1%	8.3%	0.8%	-6.2%	-8.1%
LTIMindtree	29.2%	32.0%	33.1%	31.9%	24.0%	16.6%	6.2%	-1.5%	-3.9%
Mphasis	19.0%	24.2%	24.0%	17.3%	14.2%	1.5%	-6.8%	-8.0%	-8.4%
Coforge	86.2%	93.7%	81.6%	11.0%	10.6%	1.7%	3.2%	6.5%	7.2%
Persistent	46.8%	36.6%	36.0%	45.2%	41.5%	33.0%	23.1%	6.9%	1.6%
Birlasoft	20.5%	14.9%	10.4%	9.2%	5.7%	4.9%	-0.1%	-2.6%	-3.4%

Source: Company, Emkay Research

Exhibit 21: Sequential change in headcount across companies

QoQ addition ('000)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
TCS	19.7	28.2	35.2	14.1	9.8	-2.2	0.8	0.5	-6.3
Infosys	11.7	12.5	21.9	21.2	10.0	1.6	-3.6	-6.9	-7.5
HCL Tech	11.1	10.1	11.1	2.1	8.4	2.9	3.7	-2.5	-2.3
Wipro	11.5	10.3	11.5	18.9	0.6	-0.5	-3.5	-8.8	-5.1
TechM	14.9	3.9	6.1	6.9	5.9	-6.8	-4.7	-4.1	2.3
LTIMindtree	6.4	4.0	5.4	4.4	2.9	-0.5	-1.9	-1.8	0.8
Mphasis	0.8	2.6	1.6	0.4	0.0	-1.4	-1.4	-0.1	-0.2
Coforge	0.3	1.3	0.4	0.2	0.2	-0.5	0.7	1.0	0.4
Persistent	1.0	1.1	1.6	3.0	0.8	0.1	0.3	0.2	-0.3
Birlasoft	0.6	-0.1	0.3	0.4	0.2	-0.2	-0.3	0.0	0.1

Source: Company, Emkay Research

Exhibit 22: Attrition moderated further in Q2

Attrition rate (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
INFO (a)	20.1%	25.5%	27.7%	28.4%	27.1%	24.3%	20.9%	17.3%	14.6%
TCS (c)	11.9%	15.3%	17.4%	19.7%	21.5%	21.3%	20.1%	17.8%	14.9%
WPRO (b)	20.5%	22.7%	23.8%	23.0%	22.9%	21.2%	19.4%	17.3%	15.5%
HCLT (c)	15.7%	19.8%	21.9%	23.8%	23.8%	21.7%	19.5%	16.3%	14.2%
TECHM (e)	21.2%	23.5%	23.5%	22.2%	19.6%	17.3%	14.8%	12.8%	11.4%
LTIM (c)	18.6%	22.1%	23.8%	24.0%	24.1%	22.3%	20.2%	17.8%	15.2%
COFORGE (f)	15.3%	16.3%	17.7%	18.0%	16.4%	15.8%	14.1%	13.3%	13.0%
PSYS (c)	23.6%	26.9%	26.6%	24.8%	23.7%	21.6%	19.8%	15.5%	13.5%
BSOFT (d)	21.5%	27.3%	29.4%	27.9%	27.4%	25.5%	22.1%	18.8%	15.0%

Source: Company, Emkay Research

(a) Voluntary IT Services (LTM) Attrition %

(b) For IT Services (LTM), excl. Infocrossing, DO&P, Designit, Cellent, HPS, Appirio, Cooper, Infoserver and India & Middle East

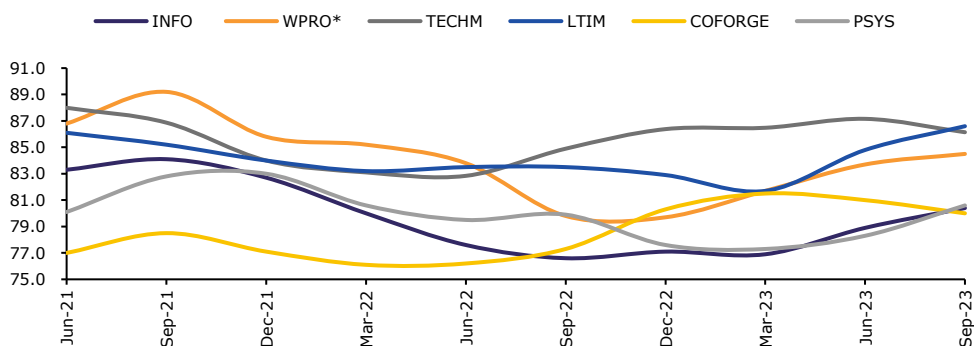
(c) For IT Services (LTM) only

(d) For IT Services (LTM) only - Adj. for < 6 months exits

(e) IT Attrition % (LTM) - for organic business

(f) LTM Attrition % - excl. BPS

Exhibit 23: Utilization improved in Q2 as freshers get deployed and become billable



Source: Company, Emkay Research. Note: *excluding trainees

BFSI, parts of retail, hi-tech, telecom, and North America continue to be impacted

Among geographies, North America remains weak, while Europe has been relatively resilient. BFSI, hi-tech, telecom and retail have been the laggards, while manufacturing, healthcare and energy have fared better. Managements of a few companies are seeing green shoots in the BFSI and hi-tech sectors and are cautiously optimistic about the medium-term outlook, but recovery depends on macros. Retail continues to be impacted by weak consumer sentiment. Telecom remains weak and would likely take longer to recover. Manufacturing and healthcare segments remained resilient; however, with growth moderation in the U.S., these segments may come under pressure.

Exhibit 24: Technology-related spending of larger banks was healthy on a YoY basis

Technology expenses YoY (%)	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23
Citi	5.6%	2.8%	8.9%	9.1%	7.4%	13.1%	5.5%	11.7%	5.2%
JP Morgan	-3.5%	-5.6%	-6.3%	-4.5%	-4.3%	-8.3%	-7.5%	-4.6%	0.8%
Morgan Stanley	27.9%	19.5%	13.1%	12.0%	10.9%	12.0%	10.4%	8.1%	8.4%
Goldman Sachs	16.8%	26.1%	13.1%	19.7%	15.6%	11.9%	9.9%	8.6%	2.0%
Bank of America	6.2%	4.6%	8.1%	6.0%	9.2%	12.0%	10.2%	7.1%	8.4%
Royal Bank of Canada	3.7%	3.9%	6.2%	7.4%	7.5%	11.2%	10.8%	14.1%	14.8%
Discover Financial Services	9.0%	-36.9%	14.7%	-16.6%	2.5%	14.4%	11.2%	24.0%	20.2%
Capital One	2.9%	10.5%	12.3%	7.6%	9.4%	8.0%	3.2%	1.5%	-1.4%
State Street	2.8%	10.7%	0.5%	-1.5%	-1.7%	-4.6%	-2.1%	3.3%	3.0%
Charles Schwab	58.7%	0.0%	13.5%	23.0%	18.7%	26.0%	11.2%	8.5%	4.5%

Source: Company, Emkay Research

Exhibit 25: BFSI revenue witnessed soft sequential growth in Q2

BFSI revenue (USD mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
INFO	1,060	1,164	1,192	1,248	1,291	1,339	1,340	1,360	1,389	1,365	1,316	1,297	1,297
TCS	1,730	1,785	1,928	2,000	2,052	2,094	2,136	2,176	2,311	2,342	2,367	2,348	2,350
WPRO	622	632	656	806	898	929	963	978	995	987	977	942	912
HCLT – At service level				517	532	551	580	571	576	570	616	652	660
TECHM	208	209	219	227	240	237	280	272	267	265	266	257	250

QoQ (%)													
INFO	7.8%	9.8%	2.4%	4.7%	3.5%	3.7%	0.1%	1.5%	2.2%	-1.7%	-3.6%	-1.4%	0.0%
TCS	9.3%	3.1%	8.1%	3.7%	2.6%	2.1%	2.0%	1.9%	6.2%	1.3%	1.1%	-0.8%	0.1%
WPRO	5.4%	1.6%	3.9%	22.8%	11.3%	3.5%	3.7%	1.5%	1.6%	-0.7%	-1.1%	-3.6%	-3.2%
HCLT					2.9%	3.5%	5.3%	-1.7%	0.9%	-1.1%	8.2%	5.7%	1.3%
TECHM	9.6%	0.4%	4.9%	3.5%	6.0%	-1.5%	18.4%	-2.9%	-2.0%	-0.5%	0.3%	-3.2%	-3.0%

Source: Company, Emkay Research

Exhibit 26: Management commentary on the BFSI vertical

Company	BFSI commentary
Infosys	Infosys signed 21 large deals with a combined TCV of USD7.7bn (48% net new) in Q2, including three in BFSI. The outlook continues to remain uncertain, with a slowdown in areas like mortgages, asset management, investment banking, cards and payments. Q2 growth was impacted by spend reduction in some large clients, which was partially offset by ramp-ups of large deal wins in areas like cost optimization and vendor consolidation. The company remains cautiously optimistic about the medium-term outlook due to the movement to cloud, led by increased need for real-time insights and analytics.
TCS	BFSI declined 0.5% CC QoQ and had a new deal TCV of USD3bn.
Wipro	The financial services sector has been significantly slower this year, which first started to appear in America and moved to Europe. It is witnessing growth coming back, particularly in Tier-2 banks in America. Banks are definitely focusing on cost takeout and productivity exercise. A lot of consolidation activities are going on, which augur well for the company. Europe, which has been the growth engine for Wipro over the last two years, is also witnessing reprioritization of client spending, demand slowdown, and weakness in financial services and manufacturing.
LTIM	BFSI grew 5.9% YoY. Despite the prevailing industry headwinds, the insurance vertical remained resilient owing to significant deal wins. There is continued caution in the BFSI sector because of seasonal and macro uncertainties. Large financial institutions are actively seeking opportunities to consolidate and optimize spend.
Persistent	The company expects furloughs to be in line with the historical trends, with BFSI and hi-tech clients taking furloughs in Q3.
Coforge	Coforge is witnessing green shoots in BFS and demand uptick in insurance within the P&C segment.

Source: Company, Emkay Research

Exhibit 27: Continued softness in parts of the retail segment

Retail (USD mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
INFO	584	616	612	644	647	666	674	669	717
TCS	1,011	1,048	1,087	1,135	1,149	1,174	1,189	1,202	1,180
WPRO	446	467	487	513	535	536	537	520	507
HCLT – At service level	242	278	263	254	257	255	262	262	280
LTIM	141	143	148	154	157	159	163	160	165
QoQ (%)									
INFO	2.9%	5.6%	-0.7%	5.3%	0.4%	3.0%	1.2%	-0.7%	7.1%
TCS	4.0%	3.7%	3.7%	4.4%	1.2%	2.2%	1.3%	1.1%	-1.8%
WPRO	6.9%	4.7%	4.3%	5.2%	4.4%	0.1%	0.1%	-3.2%	-2.3%
HCLT	-3.6%	15.1%	-5.3%	-3.5%	1.1%	-0.9%	2.7%	0.3%	6.9%
LTIM	18.7%	1.8%	3.5%	3.7%	2.3%	1.1%	2.4%	-1.8%	2.9%

Source: Company, Emkay Research

Exhibit 28: Management commentary on the retail vertical

Company	Retail commentary
Infosys	The company continues to witness weakness in parts of retail. Budgets continue to remain tight with clients continuing to focus on budget consolidation, cost and efficiency.
LTIM	The Retail, CPG and TTH verticals grew 3% QoQ on the back of deal wins across the portfolio. The deal pipeline remains healthy, with some deal closures expected in Q3. TTH has witnessed a recovery in the international leisure and business travel sectors.
TCS	Retail revenue growth was impacted by weakness in essential retail sales due to weak consumer sentiment. Once consumer spending picks up, things will bottom out and then likely report growth.

Source: Company, Emkay Research

Exhibit 29: Management commentary on the hi-tech vertical

Company	Hi-tech commentary
Infosys	The company continues to witness weakness in the hi-tech vertical.
LTIM	Hi-tech, media and entertainment grew 1.9% QoQ, and management expects the growth momentum to continue in Q3 too.
HCLTech	Technology and services remained weak (-0.4% QoQ, -9.5% YoY); however, management is hopeful of growth coming back going ahead.
Persistent	Hi-tech grew 3.8% QoQ and management expects it to remain the key growth driver as the company is the strongest in engineering and has developed good capabilities on the IT side. The company expects furloughs to be in line with the historical trends, with BFSI and hi-tech clients taking furloughs in Q3.

Source: Company, Emkay Research

Exhibit 30: Management commentary on the manufacturing vertical

Company	Manufacturing commentary
LTIM	Manufacturing and resources showed healthy growth in Q2; management expects this to sustain on the back of expansion into new accounts.
Infosys	While the external environment continues to be volatile, manufacturing continued to show double-digit growth YoY in Q2. Capabilities in areas like digital transformation, cloud ERP, supply chain, smart factory, etc., are resonating well with clients, thereby resulting in benefits with vendor consolidation and, in turn, leading to stronger deal signings. While pressure on discretionary spending continues, there are opportunities in areas like infra transformation, cost consolidation, etc., which are resulting in a stronger pipeline.

Source: Company, Emkay Research

Exhibit 31: North America continues to be impacted in Q2

North America revenue (USD)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
TCS	2,707	2,800	2,911	3,040	3,185	3,308	3,455	3,607	3,734	3,799	3,770	3,758	3,728
INFO	2,010	2,166	2,226	2,333	2,475	2,627	2,628	2,746	2,847	2,889	2,778	2,807	2,883
WPRO	1,191	1,212	1,259	1,403	1,499	1,547	1,614	1,648	1,688	1,684	1,675	1,634	1,620
HCLT – At service level				1,491	1,548	1,632	1,696	1,736	1,811	1,817	1,854	1,860	1,884
TECHM	612	613	605	646	704	750	777	809	832	829	827	823	828
QoQ (%)													
TCS	4.1%	3.4%	4.0%	4.4%	4.8%	3.8%	4.5%	4.4%	3.5%	1.7%	-0.8%	-0.3%	-0.8%
INFO	4.7%	7.7%	2.8%	4.8%	6.1%	6.1%	0.1%	4.5%	3.7%	1.5%	-3.8%	1.1%	2.7%
WPRO	4.2%	1.7%	3.9%	11.4%	6.9%	3.2%	4.3%	2.1%	2.4%	-0.2%	-0.5%	-2.5%	-0.9%
HCLT					3.8%	5.5%	3.9%	2.4%	4.3%	0.4%	2.0%	0.3%	1.3%
TECHM	2.7%	0.1%	-1.3%	6.8%	9.0%	6.5%	3.7%	4.2%	2.8%	-0.4%	-0.3%	-0.5%	0.7%

Source: Company, Emkay Research

Exhibit 32: Europe is relatively resilient across companies

Europe revenue (USD)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
INFO	805	844	882	915	992	1,058	1,079	1,111	1,125	1,202	1,230	1,237	1,250
TCS	1,725	1,819	1,964	2,031	2,027	2,062	2,082	2,041	1,994	2,101	2,216	2,262	2,264
WPRO	520	580	611	729	779	784	797	777	789	813	832	820	776
HCLT – At service level				676	712	739	771	752	768	833	840	827	833
TECHM	318	345	352	376	382	392	424	416	401	408	422	394	367
QoQ (%)													
INFO	7.4%	4.8%	4.5%	3.8%	8.3%	6.7%	1.9%	3.0%	1.3%	6.8%	2.3%	0.6%	1.0%
TCS	10.3%	5.5%	8.0%	3.4%	-0.2%	1.7%	1.0%	-2.0%	-2.3%	5.4%	5.5%	2.1%	0.1%
WPRO	1.4%	11.5%	5.4%	19.3%	6.9%	0.6%	1.7%	-2.5%	1.5%	3.0%	2.4%	-1.5%	-5.3%
HCLT					5.4%	3.8%	4.4%	-2.5%	2.2%	8.4%	0.9%	-1.5%	0.6%
TECHM	2.1%	8.5%	2.0%	6.6%	1.6%	2.6%	8.2%	-1.9%	-3.5%	1.6%	3.5%	-6.6%	-6.9%

Source: Company, Emkay Research

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