

IT Services

2024 outlook: Enthusiasm could wait

Fed's dovish commentary has raised hopes of demand inflection in the sector. That is not a given. Last two times Fed cut rates this sharply - 2000-01 and 2007-09 - IT Services growth plummeted. While probability of a soft-landing this time makes the cause-effect relation (rate cut -> demand inflection) still plausible, absence of any precedence make the timing between the two suspect. A better gauge of demand in 2024 should therefore be on-ground tangible evidences. Those are hardly encouraging. US Banks are talking about NII compression in 2024 as deposits reprice. Basel III endgame proposal could compress banks' ROE. Enterprises across sectors are still treading on cost optimization path. UK's demand has turned incrementally weak. These are reasons enough for clients to hold off discretionary spend in 2024. That is not fully appreciated. Street's optimism on INFO's FY25 USD revenue growth (c.8.3%), for example, is hinged on mega deals' contribution. Deceleration of smaller, discretionary projects could offset part of that. We estimate that INFO's initial FY25 growth guidance could be as low as 4-6%, triggering estimate reset across large-caps. That would cap incremental re-rating as well. Moreover, NIFTY IT's earning yields has converged with US-10Y yields, making re-rating less likely. That said, we realise that multiples may not correct much. We therefore raise target PER across coverage to align with current valuations. A modest return in 2024 is our base case. Mid-caps with growth momentum behind them are better bets.

- **Prediction I: Purse strings to stay tight:** Discretionary spend may remain elusive even in 2024. As we noted in [Budgets ain't budging](#), 2024 IT budgets will likely be flattish. [ACN commentary](#) and our recent interactions with companies corroborate this. Clients have reasons to be cautious. US Banks could face pressure on ROE due to a) NII compression as they reprice deposit; and b) higher capital requirement due to Basel III endgame proposal. There are also evidences of enterprises continuing with their efficiency programs. Nike just announced a USD 2bn cost reduction program. Fedex's "DRIVE" program to cut USD 1.8bn of operational cost is on-going. AT&T increased its cost saving target by USD 2bn.
- **Prediction II: INFO to guide for 4-6% growth:** Street's FY25 USD revenue estimate for INFO builds contribution from mega deals. But it ignores impact of smaller/discretionary revenue run-off, in our view. Two datapoints indicate the impact (of smaller deal) could be substantial. One, our TCW-revenue waterfall model suggests contribution of large deal to INFO's revenues rose to c.53% in 1HFY24 (vs. 49% in FY23). Two, even at upper end of its FY24 revenue guidance, contribution of its FY23 net new deal wins to FY24 incremental revenues will be c.11%, lowest since it started reporting this metric. We believe full year impact of FY24 run-offs could partially offset contribution from mega deals in FY25, especially if core volumes don't pick up. We therefore estimate that INFO's initial FY25 growth guidance could be as low as 4-6%. We are building in 6%.
- **Prediction III: Multiples will not re-rate:** 8% upmove in NIFTY IT since mid-Dec has pushed down its earnings yield closer to US 10Y bond yield ([Exhibit 6](#)), theoretically making it less attractive than US bonds. Last time this happened (pre-GFC), NIFTY IT's earnings yield spiked (or PER contracted steeply). While rate cut expectations will push yields down, any drop in earning yields might negate that. We therefore don't see any imminent PER expansion. In fact, lower than expected INFO's FY25 guidance could reverse some of the recent re-rating in the sector. Another argument against re-rating is that multiples have not corrected at all in 2023, despite sharp earning cuts. Top-5's FY24/25E EPS were cut by 2-45% through 2023. PER, in contrast, were up by (1)-51%.
- **How should one position in the sector?** Overall, we expect the sector to give modest returns, at best, in 2024. A likely weaker FY24 exit and potentially lower than expected initial FY25 guidance could offer investors better entry point post Q4 results. We believe mid-caps with growth momentum will continue to out-perform large caps despite heady valuations. Coforge is our top mid-cap pick. We prefer WPRO among large-caps given low valuation on lower expectations. Besides, higher consulting exposure means its growth could be first off the block, if discretionary spend were to rebound.



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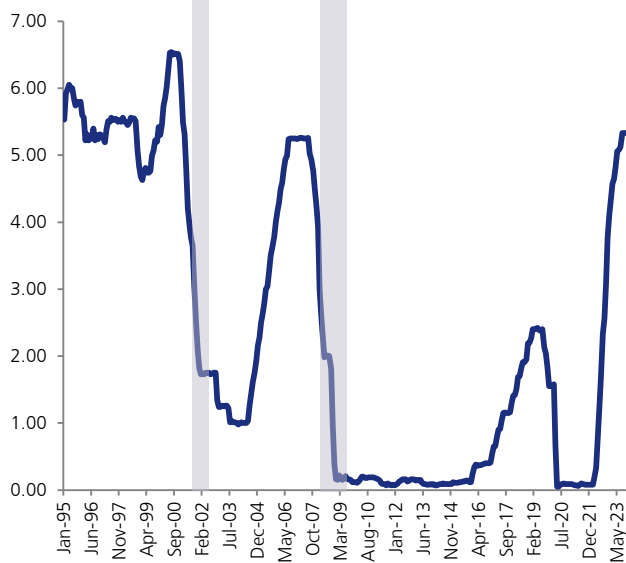
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2024 demand outlook: rate-cut not the correct lead indicator

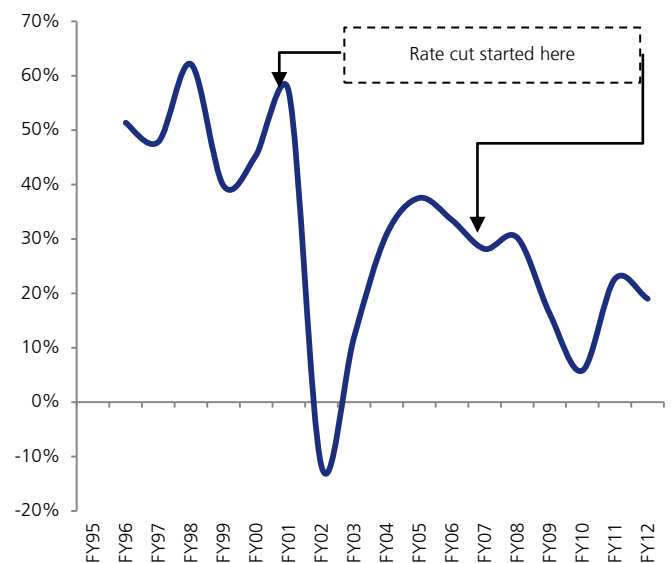
Historically, IT Services growth has had a direct correlation with US Fed rates. Rate cut cycles have coincided with IT Services growth moderation. Clearly, the rate-tightening led US GDP contraction flows into a weaker IT Services demand with a lag. Recent rally in IT Services stock on the back of Fed's dovish commentary therefore appears to be predicated on a soft-landing/no-landing scenario. Though that might break the historical correlation, expectations of rate-cut resulting in immediate demand pick-up has no empirical evidence either. We therefore opine that instead of macro factors, one should gauge demand from more tangible evidences e.g IT budgets, global enterprise's commentary, change in growth trajectory of upstream software/hyperscalers etc.

Exhibit 1. Empirically, US rate cut has coincided with steep decline ...
US Fed Fund Rate (%)



Note: Shaded areas represent period of recession; Source: St Louis Fed, JM Financial

Exhibit 2. ...in IT Services demand before the growth picks up
IT Services exports growth, YoY



Source: Nasscom, JM Financial

Exhibit 3. Commentary from both banks and non-Bank enterprises point to a sustained focus on cost optimization

Companies	Commentary
JP Morgan	So let me take the most important piece first, which is the 17% through the cycle (ROE) target. Are we keeping that or not in light of the Basel III Endgame proposal? So short answer is, we're not going to change that number today. But, you have to start by acknowledging that, that is a major headwind to returns
	I would point out that given how significant operational risk RWA is as part of the proposal, that is - you can think of that sort of as a generic tax across the entire spectrum. And it's, therefore, in some sense, non optimizable .
Citi	"You have some of the benefit from further reduction in stranded cost"; " I think as we get to the medium term you will start to see some of the benefits from ... efficiencies that we start to get in a lower structural cost base
	And while the ultimate impact of potentially higher capital requirements won't be known until the Basel III Endgame is finalized, we have been actively working through mitigating actions
Nike	We are identifying opportunities across the company to deliver up to \$2 billion in cumulative cost-savings over the next three years, both up and down our P&L and across our value chain
FedEx	Given our progress, we are highly confident that we'll deliver on our goal of \$1.8 billion in cost reduction benefits from DRIVE this fiscal year
AT&T	We're off to a strong start as we execute on our plan to generate \$2 billion plus of incremental cost savings within the next 3 years, and we're confident in our ability to achieve this goal.
PepsiCo	we expect the consumer to continue to be cautious and to the degree that they are worse than that, we've got cost plans in place that we would use to mitigate whatever challenges we face

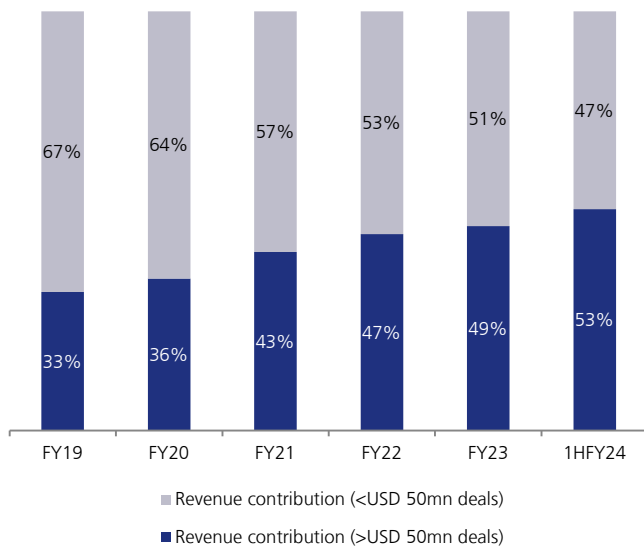
Source: Company, JM Financial

Infosys may guide for a 4-6% YoY cc growth in FY25

Bloomberg consensus FY25 USD revenue growth estimate for Infosys is c.8.3%. We believe this hinges on contribution of recent mega deal wins in FY25. Robust deal wins in 1HFY24 (USD 5bn of net new TCV) lends credence to this hypothesis. However, we believe it does not take into account the impact of smaller/discretionary deal run-offs. Note, Infosys does not report TCV of deals less than USD 50mn. We have tried to analyse the impact that run-offs/lower growth in less than USD 50mn to Infosys' FY24 revenues. Two data points are instructive. One, our quarterly TCV-revenue waterfall model indicates that the contribution of large deal TCV (reported USD 50mn+ deals) to Infosys' revenues has increased to 53% in 1HFY24. This is before the impact of mega deal wins of 2QFY24. In other words, contribution of smaller deals to revenues has declined by 4 ppt in 1HFY24 from FY23 levels. Two, analysis of past year's net new TCV contribution to current year incremental revenues reveals that FY24's incremental revenues (at top-end of INFO's guidance) would be c.11% of FY23 net new TCV. This is significantly below the historical average of 28% (FY20-22). We believe a significant part of this gap could be explained by smaller/discretionary project run-offs. Even if there are no further run-downs, full year impact of FY24 run-downs should be assumed for FY25, in our view.

Our projection of a 4-6% USD revenue growth guidance for Infosys is based on a) 20-25% (at lower and upper-end) of FY24 net new TCV flowing into FY25 revenues. Given, longer tenure of deals won in FY24, 20-25% annual contribution seems reasonable; and b) assuming run-downs were spread out evenly through FY24, an impact of run-down similar to FY24 should be there in FY25 as well.

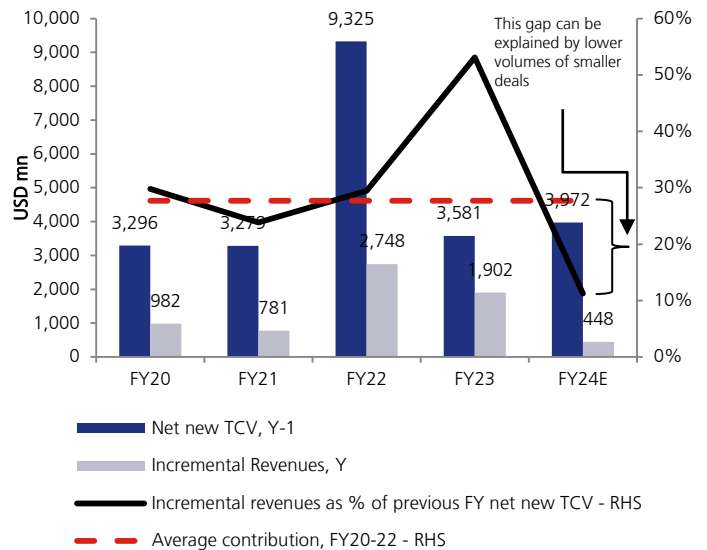
Exhibit 4. Our TCV-Revenue waterfall model indicates that share of smaller deals to rev. has come down (even before recent mega deals)



Assumptions:

1. Have assumed average tenure of five years for all large deals announced to project revenues;
2. Assumed revenues are evenly spread out over 20 quarters of deal tenure;
3. Have not assumed any leakage from large deals; Source: Company, JM Financial estimates

Exhibit 5. This, along with lower contribution of FY23 net new TCV to FY24E revenue reflect impact of smaller deal run-downs

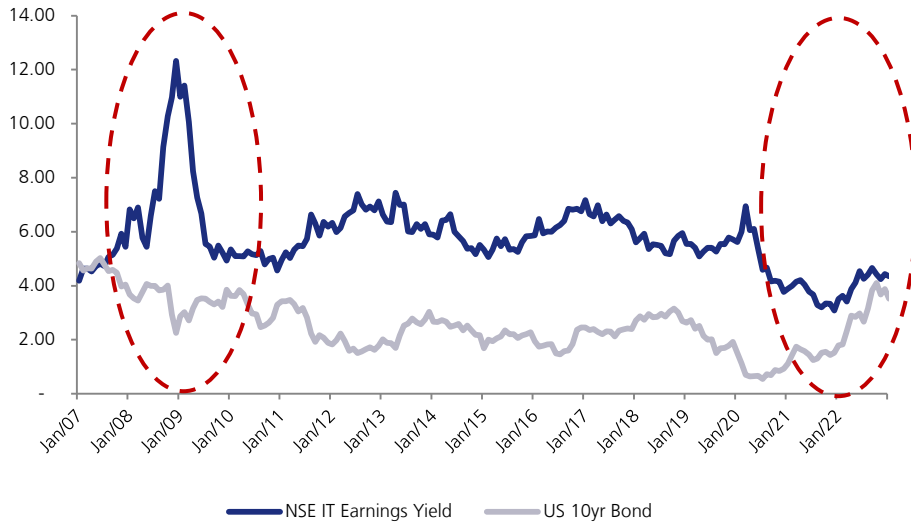


Note: In this analysis, we assume that impact of net new deal TCV of a particular year is felt on the incremental revenues of only the succeeding year as post that it becomes part of the base revenues; Source: Company, JM Financial estimates

Multiples to stay range-bound

Sharp up-move in IT Services stocks since mid-Dec Feb-pivot suggests market has started pricing in demand inflection. We differ. First, we believe earning upgrades may not be as forthcoming as the market expects. Second, IT Services stocks did not correct despite sharp EPS downgrades in CY23, limiting scope of a mean-reversion. Further, recent move has pushed up NSE IT's earnings yields closer to US-10Y bond yield. Last time this happened (pre-GFC), yields spiked (or multiples contracted) before normalising. Though we don't expect any spike given a possible soft-landing scenario, a drop in earning yield is also difficult to fathom, especially when the 10Y bond yields are likely to trend down.

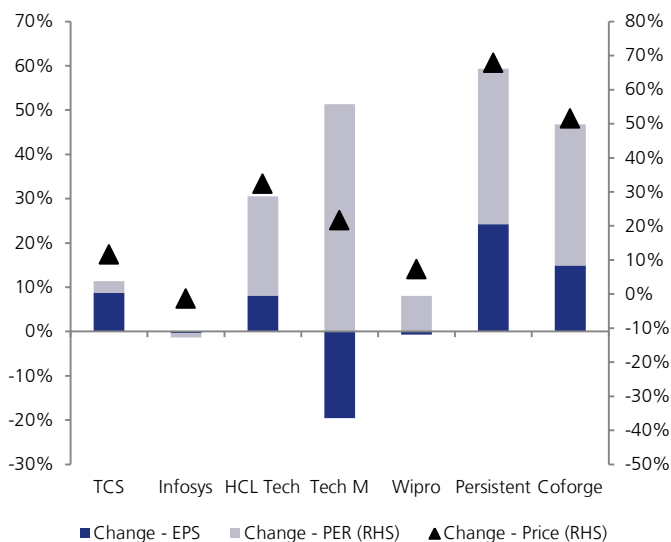
Exhibit 6. Convergence of NSE IT's earnings yield with US 10Y bond reduces scope of multiple expansion in the near-term



Source: Bloomberg, JM Financial

Exhibit 7. CY23 price performance for IT Services stocks was driven predominantly from multiple increase

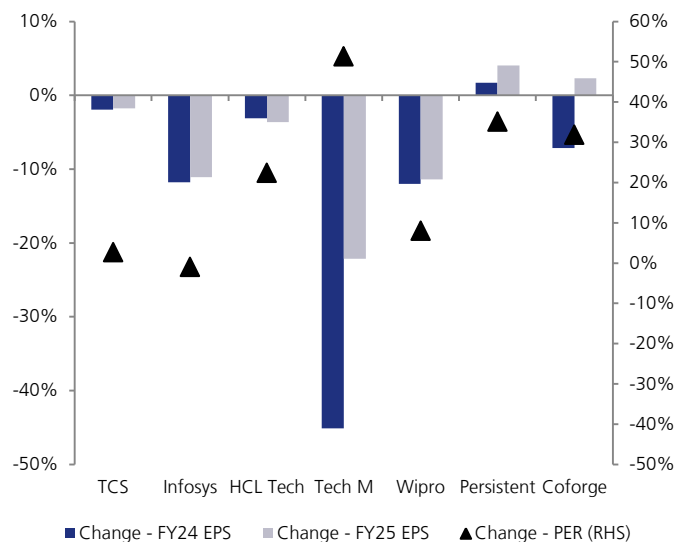
Price movement break-up between 12-M Fwd EPS and PER in CY23



Source: Bloomberg, JM Financial

Exhibit 8. All large caps saw cuts to FY24/25E EPS in CY23 which limits scope of mean reversion in PER if EPS upgrades don't come in

Movement in FY24/25E EPS and 12-M fwd PER in CY23



Source: Bloomberg, JM Financial

Earning estimates: We build some moderation ahead

Exhibit 9. Changes to estimates – JM IT Services coverage universe

Infosys	OLD			NEW			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	18,660	20,020	21,877	18,652	19,778	21,580	0.0%	-1.2%	-1.4%
Revenue Growth - USD (YoY)	2.5%	7.3%	9.3%	2.4%	6.0%	9.1%	-4bp	-126bp	-16bp
Sales (INRm)	15,44,145	16,61,683	18,15,772	15,44,827	16,41,563	17,91,160	0.0%	-1.2%	-1.4%
EBIT (INRm)	3,23,622	3,54,641	3,98,772	3,23,900	3,45,796	3,91,051	0.1%	-2.5%	-1.9%
EBIT margin	21.0%	21.3%	22.0%	21.0%	21.1%	21.8%	1bp	-28bp	-13bp
EPS (INR)	58.70	63.92	70.98	58.54	62.10	69.14	-0.3%	-2.9%	-2.6%
TCS	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	29,109	31,569	34,993	28,864	31,063	34,430	-0.8%	-1.6%	-1.6%
Revenue Growth - USD (YoY)	4.2%	8.5%	10.8%	3.4%	7.6%	10.8%	-87bp	-84bp	bp
Sales (INRm)	24,08,569	26,20,246	29,04,427	23,91,817	25,78,230	28,57,728	-0.7%	-1.6%	-1.6%
EBIT (INRm)	5,88,566	6,56,073	7,40,629	5,80,788	6,45,084	7,28,721	-1.3%	-1.7%	-1.6%
EBIT margin	24.4%	25.0%	25.5%	24.3%	25.0%	25.5%	-15bp	-2bp	bp
EPS (INR)	128.41	142.99	160.45	126.82	140.72	157.94	-1.2%	-1.6%	-1.6%
Wipro	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	10,836	11,667	12,959	10,806	11,379	12,661	-0.3%	-2.5%	-2.3%
Revenue Growth - USD (YoY)	-3.5%	7.7%	11.1%	-3.8%	5.3%	11.3%	-27bp	-237bp	18bp
IT Services Sales (INRm)	8,95,093	9,68,372	10,75,630	8,93,838	9,44,490	10,50,848	-0.1%	-2.5%	-2.3%
IT services EBIT (INRm)	1,42,520	1,63,778	1,92,635	1,40,339	1,57,321	1,86,036	-1.5%	-3.9%	-3.4%
IT Services EBIT margin	16.2%	17.2%	18.0%	15.9%	16.9%	17.8%	-22bp	-25bp	-20bp
Consolidated EPS (INR)	21.34	25.28	30.15	20.9	24.3	29.2	-2.2%	-3.8%	-3.2%
HCL Tech	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	13,303	14,457	15,963	13,223	14,468	15,975	-0.6%	0.1%	0.1%
Revenue Growth - USD (YoY)	5.7%	8.7%	10.4%	5.1%	9.4%	10.4%	-63bp	74bp	bp
Sales (INRm)	11,00,898	11,99,894	13,24,915	10,95,468	12,00,818	13,25,941	-0.5%	0.1%	0.1%
EBIT (INRm)	2,02,957	2,28,064	2,51,277	2,00,237	2,26,447	2,54,131	-1.3%	-0.7%	1.1%
EBIT margin	18.4%	19.0%	19.0%	18.3%	18.9%	19.2%	-16bp	-15bp	20bp
EPS (INR)	57.90	65.74	72.38	57.2	65.3	73.1	-1.3%	-0.7%	1.0%
TechM	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	6,234	6,631	7,447	6,238	6,514	7,226	0.1%	-1.8%	-3.0%
Revenue Growth - USD (YoY)	-5.6%	6.4%	12.3%	-5.6%	4.4%	10.9%	6bp	-194bp	-138bp
Sales (INRm)	5,15,693	5,50,351	6,18,117	5,16,774	5,40,635	5,99,754	0.2%	-1.8%	-3.0%
EBIT (INRm)	34,869	68,835	88,861	32,053	67,411	86,138	-8.1%	-2.1%	-3.1%
EBIT margin	6.8%	12.5%	14.4%	6.2%	12.5%	14.4%	-56bp	-4bp	-1bp
EPS (INR)	30.96	60.70	77.39	28.6	59.4	75.0	-7.8%	-2.2%	-3.1%
LTIMindtree	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	4,350	4,788	5,424	4,324	4,692	5,248	-0.6%	-2.0%	-3.2%
Revenue Growth - USD (YoY)	6.0%	10.1%	13.3%	5.3%	8.5%	11.9%	-65bp	-155bp	-142bp
Sales (INRm)	3,60,010	3,97,392	4,50,165	3,57,804	3,89,402	4,35,600	-0.6%	-2.0%	-3.2%
EBIT (INRm)	59,957	71,183	82,434	59,255	67,790	78,514	-1.2%	-4.8%	-4.8%
EBIT margin	16.7%	17.9%	18.3%	16.6%	17.4%	18.0%	-9bp	-50bp	-29bp
EPS (INR)	161.81	194.66	226.98	162.36	189.75	219.48	0.3%	-2.5%	-3.3%
Persistent	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	1,181	1,348	1,565	1,182	1,348	1,565	0.1%	0.0%	0.0%
Revenue Growth - USD (YoY)	14.0%	14.1%	16.1%	14.1%	14.0%	16.1%	11bp	-11bp	bp
Sales (INRm)	97,666	1,11,899	1,29,928	97,901	1,11,899	1,29,928	0.2%	0.0%	0.0%
EBIT (INRm)	14,783	18,266	21,915	14,295	17,857	21,570	-3.3%	-2.2%	-1.6%
EBIT margin	15.1%	16.3%	16.9%	14.6%	16.0%	16.6%	-53bp	-37bp	-27bp
EPS (INR)	150.87	181.35	222.73	146.70	178.03	219.95	-2.8%	-1.8%	-1.2%
Coforge	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (USDm)	1,130	1,310	1,532	1,125	1,308	1,531	-0.5%	-0.1%	-0.1%
Revenue Growth - USD (YoY)	12.5%	15.9%	17.0%	12.0%	16.3%	17.0%	-52bp	40bp	bp
Sales (INRm)	93,237	1,09,164	1,27,390	92,801	1,09,031	1,27,235	-0.5%	-0.1%	-0.1%
EBIT (INRm)	12,870	16,864	20,252	12,619	16,764	20,135	-2.0%	-0.6%	-0.6%
EBIT margin	13.8%	15.9%	16.1%	13.6%	15.8%	16.0%	-21bp	-7bp	-7bp
EPS (INR)	152.27	214.13	258.71	149.1	212.8	257.1	-2.1%	-0.6%	-0.6%

Source: JM Financial estimates

How are we different from consensus

Exhibit 10. JMFe vs. consensus

Infosys	Consensus estimates			JMFe estimates			JMFe vs. Consensus		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	15,43,886	16,75,981	18,40,723	15,44,827	16,41,563	17,91,160	0.1%	-2.1%	-2.7%
EBITDA (INRm)	3,68,855	4,05,239	4,47,246	3,70,746	3,95,259	4,45,751	0.5%	-2.5%	-0.3%
EBITDA margin	23.9%	24.2%	24.3%	24.0%	24.1%	24.9%	11bp	-10bp	59bp
Net Income (INRm)	2,47,320	2,79,949	3,11,007	2,43,796	2,58,246	2,87,123	-1.4%	-7.8%	-7.7%
EPS (INR)	59.62	67.47	74.73	58.5	62.1	69.1	-1.8%	-8.0%	-7.5%
TCS	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	24,25,621	26,54,186	28,95,913	23,91,817	25,78,230	28,57,728	-1.4%	-2.9%	-1.3%
EBITDA (INRm)	6,38,151	7,10,919	7,83,929	6,31,061	6,99,227	7,88,733	-1.1%	-1.6%	0.6%
EBITDA margin	26.3%	26.8%	27.1%	26.4%	27.1%	27.6%	8bp	34bp	53bp
Net Income (INRm)	4,63,670	5,15,709	5,67,590	4,58,845	5,09,132	5,71,438	-1.0%	-1.3%	0.7%
EPS (INR)	126.7	140.9	155.1	126.8	140.7	157.9	0.1%	-0.2%	1.8%
Wipro	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	9,00,777	9,59,545	10,28,801	8,96,647	9,47,256	10,55,377	-0.5%	-1.3%	2.6%
EBITDA (INRm)	1,70,501	1,86,574	2,02,229	1,66,824	1,87,708	2,19,361	-2.2%	0.6%	8.5%
EBITDA margin	18.9%	19.4%	19.7%	18.6%	19.8%	20.8%	-32bp	37bp	113bp
Net Income (INRm)	1,12,758	1,26,328	1,40,137	1,09,535	1,27,647	1,53,062	-2.9%	1.0%	9.2%
EPS (INR)	21.04	23.75	26.39	20.9	24.3	29.2	-0.8%	2.5%	10.6%
HCL Tech	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	10,97,652	12,04,587	13,22,198	10,95,468	12,00,818	13,25,941	-0.2%	-0.3%	0.3%
EBITDA (INRm)	2,41,809	2,69,219	2,95,238	2,40,310	2,63,704	2,96,396	-0.6%	-2.0%	0.4%
EBITDA margin	22.0%	22.3%	22.3%	21.9%	22.0%	22.4%	-9bp	-39bp	2bp
Net Income (INRm)	1,57,323	1,77,021	1,96,652	1,55,099	1,77,142	1,98,390	-1.4%	0.1%	0.9%
EPS (INR)	57.97	65.23	72.47	57.2	65.3	73.1	-1.4%	0.1%	0.9%
TechM	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	5,23,832	5,62,150	6,14,940	5,16,774	5,40,635	5,99,754	-1.3%	-3.8%	-2.5%
EBITDA (INRm)	59,109	86,448	1,02,526	50,400	85,887	1,04,957	-14.7%	-0.6%	2.4%
EBITDA margin	11.3%	15.4%	16.7%	9.8%	15.9%	17.5%	-153bp	51bp	83bp
Net Income (INRm)	33,505	53,827	65,356	25,310	52,616	66,509	-24.5%	-2.3%	1.8%
EPS (INR)	37.84	60.79	73.81	28.6	59.4	75.0	-24.5%	-2.4%	1.7%
LTIMindtree	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	3,62,017	4,06,284	4,61,336	3,57,804	3,89,402	4,35,600	-1.2%	-4.2%	-5.6%
EBITDA (INRm)	68,276	80,121	93,729	67,364	76,357	88,097	-1.3%	-4.7%	-6.0%
EBITDA margin	18.9%	19.7%	20.3%	18.8%	19.6%	20.2%	-3bp	-11bp	-9bp
Net Income (INRm)	48,898	58,367	68,260	48,056	56,136	64,930	-1.7%	-3.8%	-4.9%
EPS (INR)	165.51	197.30	233.91	162.4	189.8	219.5	-1.9%	-3.8%	-6.2%
Persistent	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	97,727	1,13,164	1,32,252	97,901	1,11,899	1,29,928	0.2%	-1.1%	-1.8%
EBITDA (INRm)	17,461	21,129	25,327	17,347	20,944	24,631	-0.7%	-0.9%	-2.7%
EBITDA margin	17.9%	18.7%	19.2%	17.7%	18.7%	19.0%	-15bp	5bp	-19bp
Net Income (INRm)	11,266	14,021	17,166	10,905	13,695	16,920	-3.2%	-2.3%	-1.4%
EPS (INR)	146.96	183.41	224.52	146.7	178.0	220.0	-0.2%	-2.9%	-2.0%
Coforge	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales (INRm)	92,891	1,06,613	1,23,354	92,801	1,09,031	1,27,235	-0.1%	2.3%	3.1%
EBITDA (INRm)	15,776	19,077	22,319	15,735	20,470	24,053	-0.3%	7.3%	7.8%
EBITDA margin	17.0%	17.9%	18.1%	17.0%	18.8%	18.9%	-3bp	88bp	81bp
Net Income (INRm)	9,242	11,805	14,089	9,190	13,109	15,836	-0.6%	11.1%	12.4%
EPS (INR)	150.80	191.72	229.04	149.1	212.8	257.1	-1.1%	11.0%	12.2%

Source: Bloomberg, JM Financial estimates

Multiples: Aligning with current multiples

Exhibit 11. 1-Year forward PER

	PER - 1 Year Forward			
	5 Yr Avg	Avg CY23	Current P/E	Target P/E
Infosys	23X	22X	24X	22X
TCS	26X	26X	28X	25X
Wipro	19X	17X	20X	18X
HCL Tech	17X	19X	23X	21X
TechM	17X	19X	23X	18X
LTIMindtree	27X	28X	33X	27X
Persistent	25X	32X	42X	35X
Coforge	26X	27X	35X	28X

Source: Bloomberg, JM Financial

We have raised our target PER multiple closer to the average 12-M forward PER of the stocks in CY23; Note, our target multiples are c.10% below the current PER

Exhibit 12. Changes to our Reco, Multiple and Target Price

	Changes in Reco		Multiple		Target price		
	Old	New	Old	New	Old	New	Change
Infosys	HOLD	HOLD	20X	22X	1,350	1,480	10%
TCS	HOLD	HOLD	23X	25X	3,500	3,840	10%
Wipro	BUY	BUY	16X	18X	450	500	11%
HCL Tech	HOLD	HOLD	18X	21X	1,250	1,500	20%
TechM	HOLD	HOLD	16X	18X	1,120	1,280	14%
LTIMindtree	HOLD	HOLD	23X	27X	4,880	5,730	17%
Persistent	HOLD	HOLD	28X	35X	5,720	7,340	28%
Coforge	BUY	BUY	24X	28X	5,730	6,890	20%

Source: JM Financial

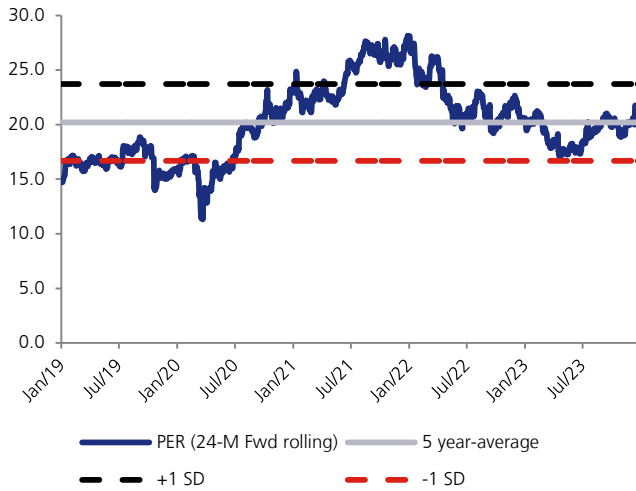
Exhibit 13. JM Financial IT Services Coverage Universe – Price Target and Recommendation

Co Name	CMP (INR)	Reco.	Target Multiple (x)	Target Price (INR)	USD revenue growth (%)			EPS			P/E			EV/EBIT			ROE		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
TCS	3,793	HOLD	25	3,840	3.4	7.6	10.8	126.8	140.7	157.9	29.9	27.0	24.0	23.0	20.7	18.4	48.3	50.4	52.0
Infosys	1,543	HOLD	22	1,480	2.4	6.0	9.1	58.9	62.4	69.4	26.2	24.7	22.2	19.4	18.4	16.0	30.3	30.6	32.1
Wipro*	471	BUY	18	500	-3.8	5.3	11.3	20.9	24.4	29.3	22.5	19.3	16.1	17.5	15.2	12.5	14.3	16.6	18.6
HCL Tech	1,466	HOLD	21	1,500	5.1	9.4	10.4	57.2	65.3	73.1	25.7	22.5	20.1	18.9	16.7	14.8	23.8	26.8	28.9
Tech Mahindra	1,273	HOLD	18	1280	-5.6	4.4	10.9	28.6	59.6	75.3	44.4	21.4	16.9	34.6	16.4	12.9	9.5	20.4	25.2
LTIMindtree	6,295	HOLD	27	5,730	5.3	8.5	11.9	162.4	189.8	219.5	38.8	33.2	28.7	16.4	13.8	11.4	26.4	25.7	24.5
Persistent Systems	7,389	HOLD	35	7,340	14.1	14.0	16.1	146.7	178.0	220.0	50.4	41.5	33.6	38.7	30.4	24.6	26.0	26.4	27.0
Coforge	6,274	BUY	28	6,890	12.0	16.3	17.0	149.1	212.8	257.1	42.1	29.5	24.4	30.7	22.2	18.4	27.2	31.7	30.7

Note: IT Services revenue for Wipro; Source: Bloomberg, JM Financial estimates, Note; Price as on 1 January 2024

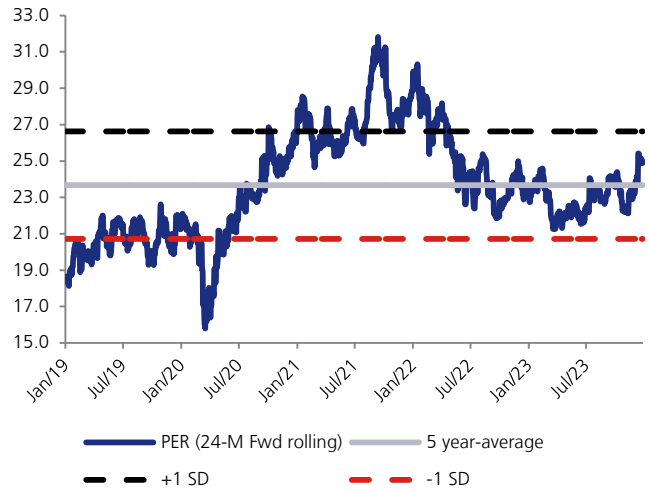
Valuation charts

Exhibit 14. Infosys- 2yr fwd PER



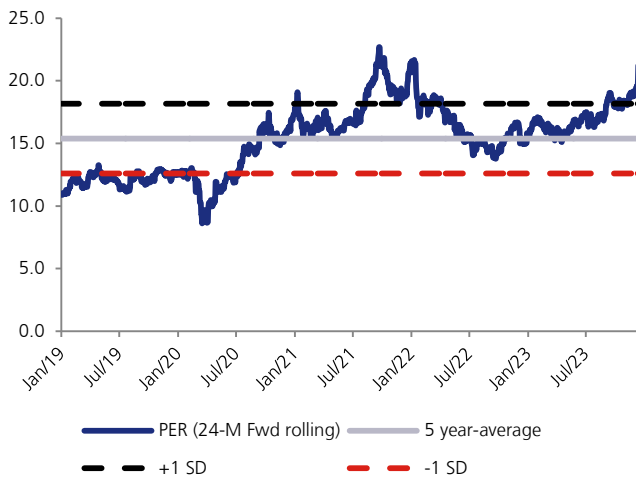
Source: Bloomberg, JM Financial

Exhibit 15. TCS- 2yr fwd PER



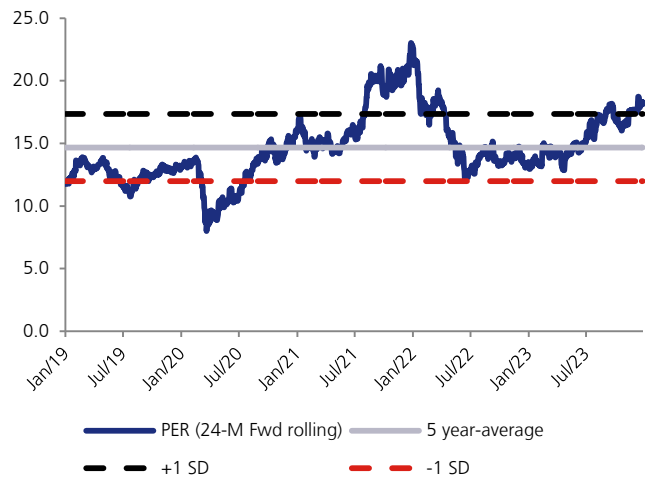
Source: Bloomberg, JM Financial

Exhibit 16. HCL Tech- 2yr fwd PER



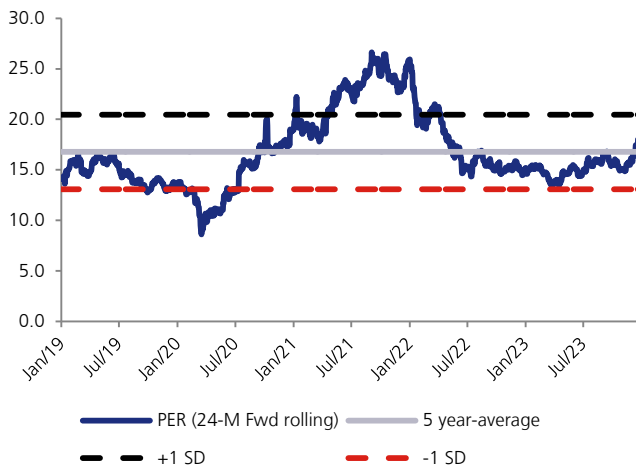
Source: Bloomberg, JM Financial

Exhibit 17. TechM- 2yr fwd PER



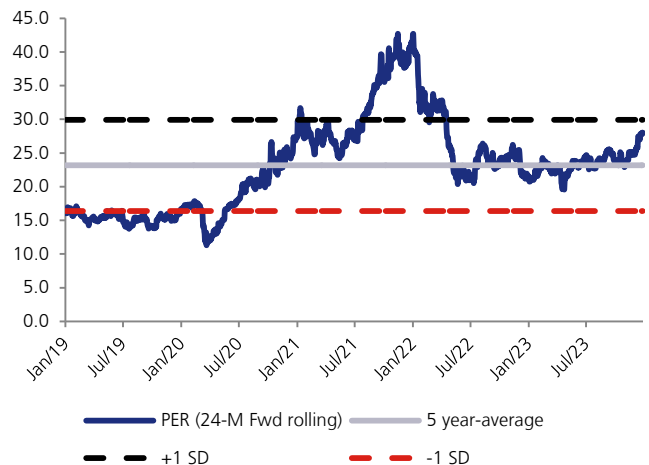
Source: Bloomberg, JM Financial

Exhibit 18. Wipro – 2 yr fwd PER



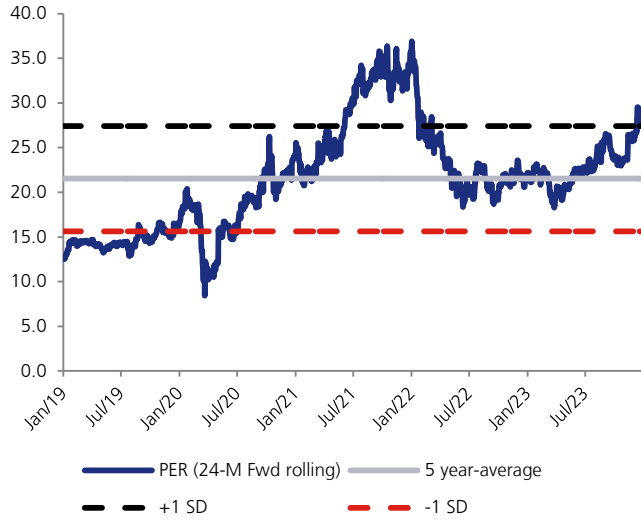
Source: Bloomberg, JM Financial

Exhibit 19. LTIM – 2 yr fwd PER



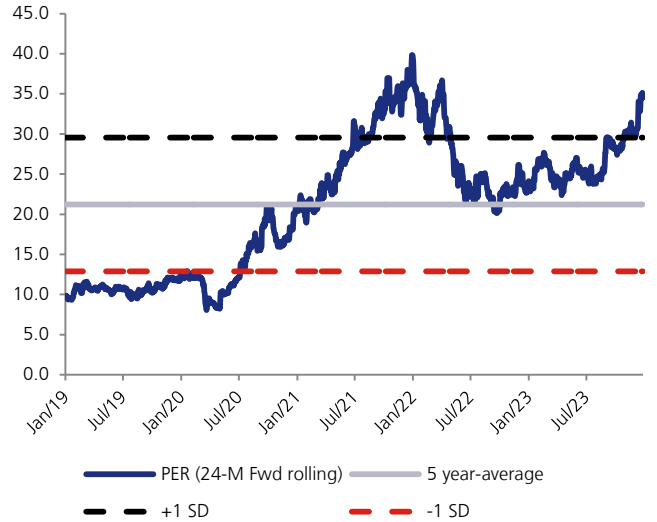
Source: Bloomberg, JM Financial

Exhibit 20. Coforge – 2 yr fwd PER



Source: Bloomberg, JM Financial

Exhibit 21. Persistent – 2 yr fwd PER



Source: Bloomberg, JM Financial

APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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