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Macro overhang continues; shifting focus on margins

Revenue growth likely to be weak

- The growth of the IT services industry is expected to remain weak in 2QFY24, as macroeconomic uncertainty continues to weigh on discretionary spending. While the industry has witnessed an uptick in order inflow over the past two months with a focus on cost efficiency, the slowdown in project-based business is expected to hamper overall industry growth, even though Q2 is traditionally a robust season for the sector. Our IT Services coverage universe should report a median revenue growth of 1.5% QoQ/5.7% YoY in 2QFY24. This growth rate is among the slowest observed over the last decade, despite a marginal impact from FX fluctuations. However, a focus on cost-control (led by deferrals in wage hikes) measures should lead to margin improvement in 2Q, and help the industry deliver 3.7%/4.1% QoQ growth in EBIT/PAT, respectively. We estimate USD YoY Revenue/INR EBIT/INR PAT to grow at 3.6%/5.7%/6.6% in 2Q.
- The weakness seen in Q1 should continue across the board with no meaningful signs of recovery or deterioration. We expect Tier 2 IT companies to see further moderation in growth, which can lead to narrowing in the valuation gap (1-year forward P/E) between Tier 1 (median 22x) and Tier 2 (median 27x). Deal TCVs should look attractive with recent mega deal wins for selective names. We expect collective deal TCV (Tier1 + Tier 2) growth to stay inline or improve sequentially vs Q1. Q1 reported 1% QoQ decline in deal TCV. However, with elongated ramp-up, these deals will have limited contribution in the second quarter.
- In the face of increasing inflation and declining consumer spending, sectors such as BFSI, Retail, Hi-Tech, and Communication continue to show signs of softness. The growth for BFSI and Retail (IT pack MOFSL) has joined a negative trajectory with 1.2% and 0.4% decline (median USD growth QoQ) in Q1, we expect these two verticals to remain weak in Q2. Additionally, Manufacturing joined weaker growth trajectory with 1.0% QoQ median growth in Q1, affecting specific companies within the sector. On the other hand, there is no sign of demand recovery in the key geographies (US and Europe) with the majority of the clients maintaining caution and pausing contracts that are non-critical to them.
- As spending patterns have shifted toward cost reduction and efficiency-focused initiatives, deal components targeting these essential areas have experienced increased momentum, supporting overall growth. However, the worsening macroeconomic conditions are tightening spends on transformational initiatives and non-critical multi-year projects. Additionally, the adverse macro environment is blurring the near-term visibility of recovery and resumption of spends on discretionary areas.
- We expect revenue growth of Tier-I companies to be in the range of -1.2% to +3.6% QoQ CC. Revenue of Tier-II players are expected to grow to the tune of +0.4% to +3.2% QoQ in CC terms.

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HCLT/LTTS to lead topline growth among Tier I/Tier II firms

- Revenues of Tier-I companies are expected to remain muted on account of weak macro, cuts in discretionary spends, and project deferrals. TECHM and WPRO should see another quarter of QoQ CC decline in revenues to the tune of 1.1%/1.2% QoQ CC, respectively. HCLT should see a recovery (+3.6% QoQ CC) after two consecutive quarters of decline, while INFO/LTIM/TCS should grow 0.8%/1.4%/1.1% sequentially on a CC basis. Overall, Tier-I companies are expected to exhibit weak median revenues (+1.0% QoQ CC).
- Among Tier-II companies, we expect LTTS to outpace its peers with 3.2% QoQ CC revenue growth, aided by ramp up in projects deferred to Q2. Persistent and COFOGRE should see good growth of 2.9%/2.3% QoQ CC, followed by MPHL and CYL at 1.4%/1.1% QoQ CC, while ZENT is expected to be muted at 0.4% QoQ CC.

Deferrals in wage hike and cost-controlling measures to aid margins

- Margin recovery is anticipated across the board following the completion of wage hikes. A strict emphasis on cost-controlling measures should support margins in Q2.
- Additionally, a few select names (under tier-1) have postponed their FY24 wage hike cycles. This strategic decision is expected to support margins in the near-term.
- Tier-I companies should report margin change (+/-) to the tune of -100bp to +90bp QoQ in Q2. TCS should see meaningful margin recovery 90bp QoQ post wage hikes in Q1, while LTIM is expected to see a decline of 100bp QoQ on account of wage revision. TechM is expected to see a further decline in reported margin by 200 bp QoQ (as one-off) after a 440 bp QoQ decline witnessed in Q1, adjusted margin would be stable. The Tier-II pack should see margin change (+/-) to a wider band of -260bp to +180bp QoQ, with Zensar is taking a margin hit of 260bp QoQ in 2QFY24 due to the wage hike.
- The net headcount addition would be lower across the board, aligning with the demand trend. Additionally, companies currently possess sufficient talent to sustain incremental growth. The focus has now shifted toward optimizing bench strength to enhance efficiency.

PAT to be supportive; aiding through margin recovery

- We expect our Tier-I IT coverage universe to achieve a 4.1% QoQ improvement in PAT, with a corresponding 5.9% YoY. However, TECHM is expected to experience a decline of 5.4% QoQ/32.2% YoY, while LTIM is likely to see a decrease of 0.6% QoQ/3.7% YoY, primarily due to the recent wage revision.
- Tier-II players (Ex-ZENT) should register a PAT growth of 6.5% QoQ/15.0% YoY, stronger than Tier-I firms, aided by revenue growth. COFORGE/CYL should see robust PAT growth of 35.2%/5.3% QoQ.

Prefer Tier I over Tier II companies; TCS remains our top pick

- With valuations correcting meaningfully over the last two years (IT services sector P/E at 24x, down 26% from the peak), we maintain our positive stance on the IT Services sector, supported by a favorable medium- to long-term demand outlook, despite some near-term pain.
- We continue to prefer Tier-I players over their Tier-II counterparts, given the former's attractive valuations (one-year forward median 22x), payout yield (median 4.1% FY25E), and diversified business portfolios. Among Tier-I players, we prefer TCS, HCLT, and INFO. TCS augurs well to benefit from long-term secular demand on IT services, and even in the near-term, it is expected to win disproportionately through the current nature of spends. HCLT is one of the key beneficiaries of business mix and cloud adoption at scale, given its expertise in ERD and IMS. We expect INFO to be a key beneficiary of the acceleration in digital and business transformation in the medium term.
- Among Tier-II players, our preference lies with CYL, which is poised for robust performance. This is supported by the revival in the aerospace vertical and the easing challenges in sectors such as railways and communications.

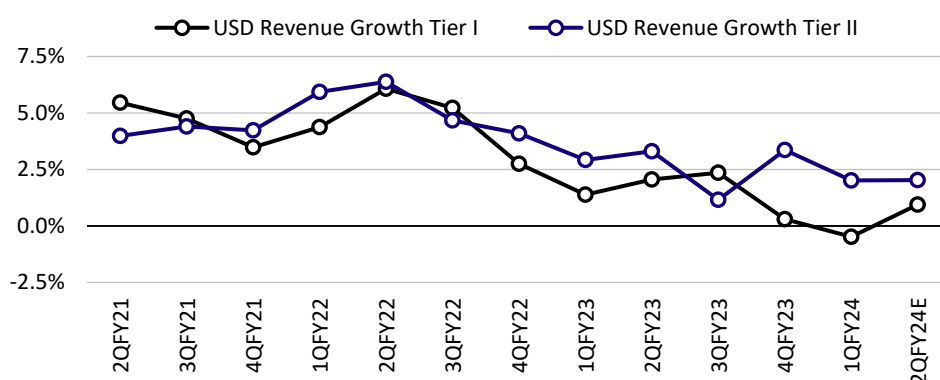
Exhibit 1: Expect Tier-I companies' revenue (USD) to grow 0.9% QoQ

Company	Revenue (USD m)					Revenue (INR b)				
	2QFY24E	1QFY24	QoQ (%)	2QFY23	YoY (%)	2QFY24E	1QFY24	QoQ (%)	2QFY23	YoY (%)
TCS	7,309	7,226	1.1	6,877	6.3	604	594	1.7	553	9.2
INFO	4,651	4,617	0.7	4,555	2.1	384	379	1.3	365	5.2
HCLT	3,297	3,200	3.0	3,082	7.0	273	263	3.6	247	10.4
WPRO	2,745	2,779	-1.2	2,817	-2.6	228	228	-0.2	225	1.1
TECHM	1,582	1,601	-1.1	1,638	-3.4	131	132	-0.6	131	-0.4
LTIM	1,074	1,059	1.5	1,022	5.1	89	87	2.0	82	7.9
Tier I aggregate	20,659	20,481	0.9	19,992	3.3	1,708	1,683	1.5	1,604	6.5
Company	EBIT margin (%)					Adjusted PAT (INR b)				
	2QFY24E	1QFY24	QoQ (Bps)	2QFY23	YoY (Bps)	2QFY24E	1QFY24	QoQ	2QFY23	YoY
TCS	24.1	23.2	90.0	24.0	10	116.1	111.2	4.4	104.7	10.9
INFO	20.7	20.8	-10.0	21.5	-80	62.2	59.5	4.6	60.3	3.2
HCLT	17.7	17.0	70.0	17.9	-30	38.7	35.3	9.6	34.9	10.9
WPRO	15.6	15.1	50.0	14.4	120	28.8	28.9	-0.1	26.5	8.9
TECHM	8.7	8.8	-10.0	11.4	-270	9.1	9.6	-5.4	13.4	-32.3
LTIM	15.7	16.7	-100.0	17.5	-180	11.5	11.5	-0.6	11.9	-3.7
Tier I aggregate	19.6	19.1	40.0	19.8	-20	266	256	4.1	252	5.9

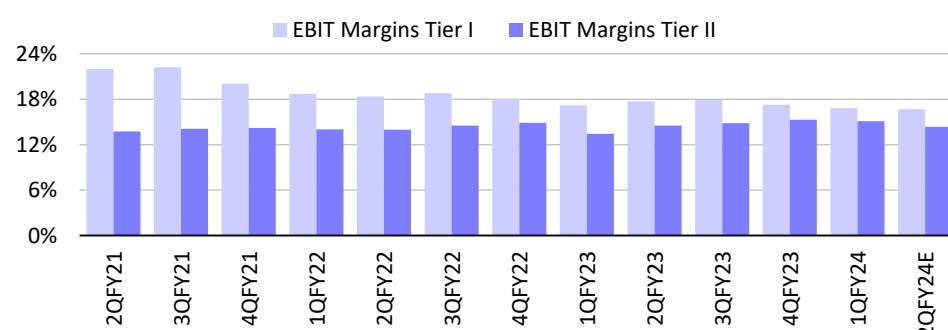
Exhibit 2: Expect Tier-II firms' revenue (USD) to grow 2.2% QoQ

Company	Revenue (USD m)					Revenue (INR b)				
	2QFY24E	1QFY24	QoQ (%)	2QFY23	YoY (%)	2QFY24E	1QFY24	QoQ (%)	2QFY23	YoY (%)
LTTS	289	280	3.2	247	16.9	23.9	23.0	3.8	20.0	19.7
MPHL	404	398	1.5	440	-8.3	33.4	32.7	2.0	35.3	-5.4
COFORGE	279	272	2.6	247	12.9	23.0	22.2	3.7	19.6	17.6
PSYS	291	283	3.0	256	14.0	24.1	23.2	3.8	20.5	17.6
ZENT	150	149	0.6	155	-3.1	12.4	12.3	1.2	12.3	0.6
CYL	208	205	1.4	175	19.2	17.2	16.9	2.1	14.0	23.3
Tier II aggregate	1,622	1,587	2.2	1,520	6.7	134.0	130.3	2.9	121.6	10.2
Company	EBIT margin (%)					Adjusted PAT (INR b)				
	2QFY24E	1QFY24	QoQ (Bps)	2QFY23	YoY (Bps)	2QFY24E	1QFY24	QoQ	2QFY23	YoY
LTTS	16.3	17.2	-90.0	18.2	-190	3.2	3.1	1.5	2.8	11.8
MPHL	15.3	15.3	-	15.2	10	4.0	4.0	1.8	4.2	-3.6
COFORGE	13.4	11.6	180.0	14.5	-110	2.5	1.8	35.2	2.0	22.8
PSYS	14.6	14.9	-30.0	14.6	-	2.8	2.8	0.3	2.2	26.5
ZENT	12.7	15.3	-260.0	4.6	810	1.3	1.6	-18.8	0.6	123.2
CYL	14.1	14.7	-60.0	11.9	220	1.9	1.8	5.3	1.2	52.8
Tier II aggregate	14.6	14.8	-20.0	14.0	60	15.6	15.0	3.8	13.0	19.8

Source: Company, MOFSL

Exhibit 3: The weakness in revenue growth is expected to continue in Q2

Source: MOFSL, Company

Exhibit 4: Tier I should perform better on margin

Source: MOFSL, Company

Exhibit 5: Cross-currency will have no meaningful impact on Q2 USD revenue growth

	CC USD growth QoQ (%)	USD growth QoQ (%)	Cross-currency impact (bp)
TCS	1.1	1.1	-
INFO	0.8	0.7	-10
HCLT	3.6	3.0	-50
WPRO	-1.2	-1.2	-
TECHM	-1.1	-1.1	-
LTIM	1.4	1.5	-
LTTS	3.2	3.2	-
MPHL	1.4	1.5	10
COFORGE	2.3	2.6	30
PSYS	2.9	3.0	10
ZENT	0.4	0.6	20
CYL (DET)	1.1	0.9	-20

Source: Company, MOFSL

Exhibit 6: Currency highlights (INR) in 2QFY24

	Rates (INR)				Change (QoQ, %)			
	USD	EUR	GBP	AUD	USD	EUR	GBP	AUD
Average	82.65	90.10	104.86	54.13	0.56	0.70	1.92	-1.43
Closing	83.15	88.42	101.68	53.41	1.35	-0.64	-1.91	-2.48

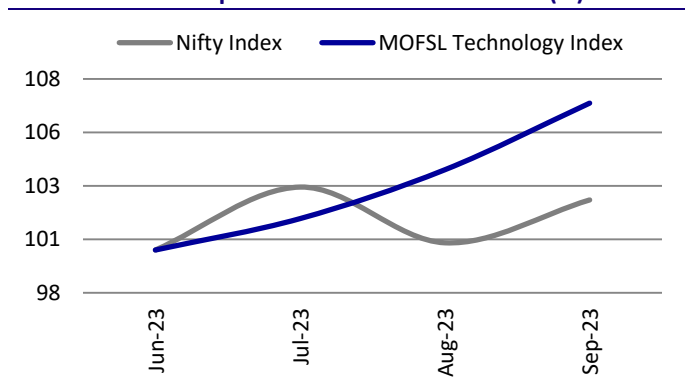
Source: Bloomberg, MOFSL

Exhibit 7: Currency highlights (USD) in 2QFY24

	Rates (USD)			Change (QoQ, %)		
	EUR	GBP	AUD	EUR	GBP	AUD
Average	1.09	1.27	0.65	0.13	1.35	-1.98
Closing	1.06	1.22	0.64	-1.97	-3.21	-3.61

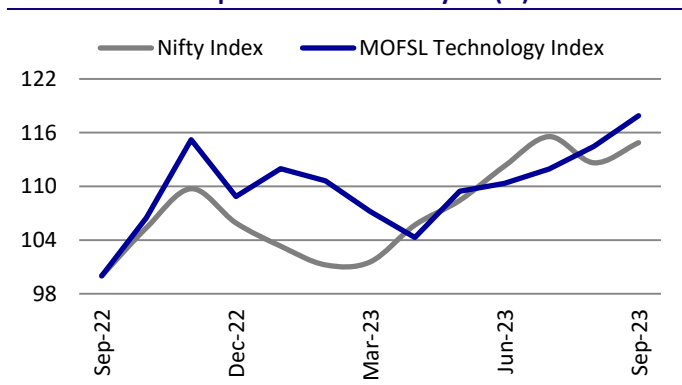
Source: Bloomberg, MOFSL

Exhibit 8: Relative performance – three-months (%)



Source: Bloomberg, MOFSL

Exhibit 9: Relative performance – one-year (%)



Source: Bloomberg, MOFSL

Exhibit 10: Changes to our estimates

	Revised EPS (INR)		Earlier EPS (INR)		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
TCS	128	148	128	152	-0.3	-2.5
INFO	60	70	60	71	0.7	-0.9
HCLT	59	68	58	67	1.9	1.0
WPRO	21	24	21	24	1.0	-0.3
TECHM	45	61	51	64	-11.8	-4.8
LTIM	162	202	164	204	-1.2	-1.3
LTTS	125	150	127	153	-1.5	-2.4
MPHL	88	108	87	107	1.0	0.7
COFORGE	161	188	166	194	-3.0	-3.2
PSYS	151	183	152	184	-0.9	-0.5
ZENT	24	26	24	26	1.2	0.1
CYL (DET)	68	81	66	78	3.2	3.2

Source: Company, MOFSL

Exhibit 11: Expected quarterly performance summary

Companies	CMP		Sales (INR b)			EBIT (INR b)			Adjusted net profit (INR b)		
	(INR)	Rating	Sep'23E	Variance YoY (%)	Variance QoQ (%)	Sep'23E	Variance YoY (%)	Variance QoQ (%)	Sep'23E	Variance YoY (%)	Variance QoQ (%)
TCS	3,531	Buy	604.1	9.2	1.7	145.6	9.6	5.8	116.1	10.9	4.4
INFO	1,435	Buy	384.4	5.2	1.3	79.6	1.1	0.9	62.2	3.2	4.6
HCLT	1,236	Buy	272.5	10.4	3.6	48.2	8.8	8.0	38.7	10.9	9.6
WPRO	406	Neutral	227.8	1.1	-0.2	35.5	9.1	2.8	28.8	8.9	-0.1
TECHM	1,223	Neutral	130.8	-0.4	-0.6	11.4	-23.8	-1.4	9.1	-32.3	-5.4
LTIM	5,210	Neutral	88.8	7.9	2.0	13.9	-3.2	-3.9	11.5	-3.7	-0.6
MPHL	2,375	Neutral	23.9	19.7	3.8	3.9	7.3	-1.5	3.2	11.8	1.5
LTTS	4,575	Buy	33.4	-5.4	2.0	5.1	-4.9	2.3	4.0	-3.6	1.8
PSYS	5,793	Neutral	23.0	17.6	3.7	3.1	8.9	20.0	2.5	22.8	35.2
COFORGE	5,101	Neutral	24.1	17.6	3.8	3.5	17.8	1.5	2.8	26.5	0.3
CYL	1,690	Buy	12.4	0.6	1.2	1.6	180.6	-16.0	1.3	123.2	-18.8
ZENT	518	Neutral	17.2	23.3	2.1	2.4	46.2	-2.1	1.9	52.8	5.3
Sector aggregate (INR b)			1,842	6.7	1.6	354	5.7	3.7	282	6.6	4.1

Source: Company, MOFSL

Exhibit 12: Comparative valuations

Company	CMP (INR)	M-cap (INR b)	Target Price	Upside/ Downside (%)	EPS (INR)		EPS CAGR (%)	Dividend yield (%)	P/E (x)	
					FY24E	FY25E	FY23-25E	FY23	FY24E	FY25E
TCS	3,531	12,919	4,000	13	127.8	147.8	13.2	3.3	27.6	23.9
INFO	1,435	5,956	1,680	17	60.0	70.1	10.6	2.3	23.9	20.5
HCLT	1,236	3,355	1,430	16	59.0	67.9	11.3	3.9	20.9	18.2
WPRO	406	2,121	440	8	21.3	24.4	8.5	0.2	19.0	16.7
TECHM	1,223	1,193	1,150	-6	44.9	60.7	2.9	4.1	27.3	20.2
LTIM	5,210	1,542	5,440	4	162.2	201.6	15.2	1.2	32.1	25.8
MPHL	2,375	448	2,380	0	88.3	108.1	11.5	2.2	26.9	22.0
LTTS	4,575	484	5,090	11	124.7	149.7	16.4	1.0	36.7	30.6
PSYS	5,793	446	5,310	-8	150.8	183.1	21.3	0.8	38.4	31.6
COFORGE	5,101	313	4,690	-8	161.0	187.7	19.9	1.3	31.7	27.2
CYL	1,690	187	1,950	15	69.7	85.5	35.3	1.5	24.3	19.8
ZENT	518	117	495	-4	24.4	26.1	34.8	1.0	21.2	19.8

Source: Company, MOFSL

The tables below provide a snapshot of actual and estimated numbers for IT companies under the MOFSL coverage universe. Highlighted columns indicate the quarter/financial year under review.

Coforge

Neutral

CMP INR5101 | TP: INR4690 (-8%)

EPS CHANGE (%): FY24|25: -3.0|-3.2

- Growth momentum is expected to slow down in 2QFY24 with 2.3% QoQ CC growth on account of weakening demand environment and building caution among clients
- EBITDA margin (Pre-RSU) is expected to see a sharp recovery of 150bp QoQ post the Q1 wage hike
- Commentary on deal wins, client engagement, and vertical outlook to be watched out for
- We expect the company to maintain revenue guidance to its earlier band of 13-16% YoY CC

Quarterly performance (Ind-AS)

Y/E March	FY23				FY24E				FY23	FY24E
(Consolidated)	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Rev. (USD m)	239	247	252	264	272	279	285	294	1,002	1,129
QoQ (%)	2.7	3.4	1.9	5.0	2.8	2.6	2.1	3.3	15.6	12.7
Revenue (INR m)	18,294	19,594	20,558	21,700	22,210	23,042	23,615	24,402	80,146	93,269
YoY (%)	25.2	24.9	24.0	24.5	21.4	17.6	14.9	12.5	24.6	16.4
GPM (%)	30.4	32.0	33.4	34.1	30.7	32.0	33.0	34.5	32.5	32.6
SGA (%)	13.9	13.7	14.9	14.5	14.7	14.5	14.6	14.5	14.3	14.6
EBITDA (INR m)	2,922	3,449	3,615	4,076	3,329	3,848	4,156	4,685	14,062	16,019
EBITDA margin (%)	16.0	17.6	17.6	18.8	15.0	16.7	17.6	19.2	17.5	17.2
EBIT (INR m)	2,292	2,835	2,991	3,359	2,572	3,088	3,377	3,880	11,477	12,917
EBIT margin (%)	12.5	14.5	14.5	15.5	11.6	13.4	14.3	15.9	14.3	13.8
Other income	-76	-150	83	-487	-152	161	165	171	-630	345
ETR (%)	22.2	17.7	23.3	18.3	20.0	22.5	22.5	22.5	20.4	22.1
Minority Interest	-222.0	-195.0	-77.0	-19.0	-104.0	-41.3	-41.5	-41.5	-513.0	-228.3
Adj. PAT	1,501	2,016	2,282	2,327	1,831	2,477	2,704	3,098	8,126	10,110
QoQ (%)	-29.3	34.3	13.2	2.0	-21.3	35.2	9.2	14.6		
YoY (%)	10.3	32.7	21.1	9.6	22.0	22.8	18.5	33.1	18.0	24.4
Adj. EPS (INR)	24.2	32.5	36.7	37.4	29.2	39.4	43.1	49.3	130.6	161.0

Cyient

Buy

CMP INR1690 | TP: INR1950 (+15%)

EPS CHANGE (%): FY24|25: 3.2|3.2

- Expect 1.1% QoQ CC growth for DET in 2QFY24, majorly aided by Transportation and Sustainability, while Connectivity is expected to be weak.
- The communication vertical is expected to see a sharper decline than the decline witnessed in Q2
- DET margins are likely to see an uptick of 10bp on account of cost-controlling initiatives
- The commentary on communications and emerging areas to be watched out for

Quarterly performance (Consol)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	162	175	197	213	205	208	215	228	746	857
QoQ (%)	3.1	8.2	12.7	8.1	-3.6	1.4	3.3	6.1	22.7	14.8
Revenue (INR m)	12,501	13,962	16,182	17,514	16,865	17,214	17,863	18,944	60,159	70,887
YoY (%)	18.1	25.6	36.7	48.3	34.9	23.3	10.4	8.2	32.7	17.8
GPM (%)	36.8	38.4	37.8	38.0	36.6	36.2	36.8	37.3	37.8	36.7
SGA (%)	21.2	22.0	20.6	19.6	17.9	18.1	18.2	18.4	20.8	18.2
EBITDA	1,946	2,290	2,785	3,222	3,156	3,116	3,323	3,580	10,243	13,175
EBITDA margin (%)	15.6	16.4	17.2	18.4	18.7	18.1	18.6	18.9	17.0	18.6
EBIT	1,435	1,660	2,086	2,496	2,480	2,427	2,608	2,823	7,677	10,338
EBIT margin (%)	11.5	11.9	12.9	14.3	14.7	14.1	14.6	14.9	12.8	14.6
Other income	160	-148	60	-257	-176	34	36	38	-185	-68
ETR (%)	27.2	19.4	24.1	21.3	22.9	24.0	24.0	24.0	23.0	23.7
Adj. PAT	1,161	1,218	1,628	1,762	1,767	1,861	1,999	2,164	5,769	7,791
QoQ (%)	-24.7	4.9	33.7	8.2	0.3	5.3	7.4	8.2		
YoY (%)	0.9	0.5	23.7	14.3	52.2	52.8	22.8	22.8	10.5	35.0
EPS (INR)	10.6	11.1	14.8	16.0	16.0	16.8	18.1	19.6	52.4	70.4

HCL Technologies**Buy****CMP INR1,236 | TP: INR1,430 (+16%)****EPS CHANGE (%): FY24|25: 1.9| 1.0**

- Revenue growth is expected to see a sharp recovery (+3.6% QoQ CC) in revenues after seeing two consecutive quarter of decline
- The growth would be aided by the recovery in ERD services, complemented by the supportive IMS service. However, we do not expect any contribution from the recently signed mega deal.
- HCLT should see a 70bp QoQ margin improvement on account of wage hike deferrals and operating leverage
- We expect the company to maintain its revenue guidance and margins. Commentary on the ramp up of mega wins and the demand trends around ERD space would be watched out for

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	3,025	3,082	3,244	3,235	3,200	3,297	3,454	3,491	12,586	13,443
QoQ (%)	1.1	1.9	5.3	-0.3	-1.1	3.0	4.8	1.1	9.6	6.8
Revenue (INR b)	235	247	267	266	263	273	287	290	1,015	1,112
YoY (%)	16.9	19.5	19.6	17.7	12.1	10.4	7.4	8.9	18.5	9.6
GPM (%)	35.8	35.8	37.4	36.5	35.6	36.0	36.7	36.9	36.4	36.3
SGA (%)	12.9	12.2	12.0	12.8	13.6	13.2	13.0	13.4	12.5	13.3
EBITDA	50	54	63	59	54	58	64	64	226	240
EBITDA margin (%)	21.1	22.0	23.7	22.3	20.5	21.3	22.2	22.1	22.3	21.6
EBIT	40	44	52	48	45	48	53	54	185	200
EBIT margin (%)	17.0	17.9	19.6	18.2	17.0	17.7	18.7	18.5	18.2	18.0
Other income	3	2	1	4	2	3	3	3	10	11
ETR (%)	24.3	23.9	23.8	23.4	24.8	24.0	24.0	24.0	23.8	24.2
Adjusted PAT	33	35	41	40	35	39	43	43	148	160
QoQ (%)	-8.7	6.3	17.4	-2.8	-11.2	9.6	10.7	0.3		
YoY (%)	2.1	6.9	19.0	10.8	7.6	11.0	4.6	8.0	9.9	7.7
EPS	12.1	12.9	15.1	14.7	13.0	14.3	15.8	15.9	54.8	59.0

Infosys**Buy****CMP INR1435 | TP: INR1680 (+17%)****EPS CHANGE (%): FY24|25: 0.7|-0.9**

- We expect muted revenue growth of 0.8% QoQ CC due to continued demand slowdown with no meaningful contribution coming from the recently signed mega deals
- Operating margin largely remains stable due to weak topline growth with no wage hike this quarter
- Deal TCVs should look attractive due to multiple mega wins recently. We would be closely monitoring the ramp-up of these wins and the formation of deal pipeline.
- We expect the company to maintain its guidance on the back of healthy deal wins, which should provide strong footing in H2.

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	4,444	4,555	4,659	4,554	4,617	4,651	4,680	4,787	18,212	18,735
QoQ (%)	3.8	2.5	2.3	-2.3	1.4	0.7	0.6	2.3	11.7	2.9
Revenue (INR m)	345	365	383	374	379	384	388	397	1,468	1,550
YoY (%)	23.6	23.4	20.2	16.0	10.0	5.2	1.4	6.1	20.7	5.6
GPM (%)	29.3	30.5	30.7	30.5	30.5	30.4	29.9	30.6	30.3	30.3
SGA (%)	9.2	8.9	9.2	9.5	9.6	9.7	9.6	9.6	9.2	9.6
EBITDA	79	89	93	90	89	90	89	94	351	363
EBITDA margin (%)	22.9	24.4	24.4	23.9	23.5	23.4	23.0	23.7	23.9	23.4
EBIT	69	79	82	79	79	80	79	83	309	321
EBIT margin (%)	20.1	21.5	21.5	21.0	20.8	20.7	20.3	21.0	21.1	20.7
Other income	6	5	7	6	5	5	6	6	24	22
ETR (%)	28.8	28.2	26.3	27.5	28.9	26.5	26.5	26.5	27.7	27.1
PAT	54	60	66	61	59	62	62	66	241	250
QoQ (%)	-5.7	12.3	9.4	-7.0	-3.0	4.4	0.6	5.6		
YoY (%)	3.2	11.1	13.4	7.8	10.9	3.1	-5.2	7.5	9.0	3.7
EPS (INR)	12.8	14.3	15.7	14.8	14.4	15.0	15.1	15.9	57.3	60.0

LTIMindtree**Neutral****CMP INR5,210 | TP: INR 5,440 (+4%)****EPS CHANGE (%): FY24|25: -1.2|-1.3**

- LTIM should see a decent 1.4% CC growth in 2QFY24. In terms of USD, the growth is projected to be 1.5%
- We expect margins to see a 100bp decline as the impact of wage hikes will be partly offset by improved utilization.
- Expect broad-based growth; Hi-tech and BFSI should remain stable.
- Commentary about the demand environment and the deal pipeline remains the key monitorable.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	980	1,022	1,047	1,058	1,059	1,074	1,107	1,144	4,106	4,384
QoQ (%)	3.7	4.3	2.4	1.0	0.1	1.5	3.1	3.3	17.2	6.8
Revenue (INR m)	76,442	82,278	86,200	86,910	87,021	88,774	91,890	94,965	3,31,830	3,62,650
YoY (%)	32.9	29.6	25.3	21.9	13.8	7.9	6.6	9.3	27.1	9.3
GPM (%)	31.1	30.8	28.6	29.9	31.6	30.5	31.2	31.2	30.1	31.1
SGA (%)	11.6	11.0	11.7	11.4	12.8	12.7	12.8	12.8	11.4	12.8
EBITDA	14,937	16,356	14,548	16,037	16,355	15,802	16,908	17,465	61,878	66,530
EBITDA margin (%)	19.5	19.9	16.9	18.5	18.8	17.8	18.4	18.4	18.6	18.3
EBIT	13,273	14,397	12,767	14,214	14,508	13,938	15,070	15,566	54,651	59,081
EBIT margin (%)	17.4	17.5	14.8	16.4	16.7	15.7	16.4	16.4	16.5	16.3
Other income	1,465	1,233	1,139	228	856	1,332	1,378	1,424	4,065	4,990
ETR (%)	24.9	23.9	22.3	22.9	25.0	25.0	25.0	25.0	23.5	25.0
Adj. PAT	11,066	11,890	10,807	11,141	11,523	11,453	12,337	12,744	44,904	48,057
QoQ (%)	-0.2	7.4	-9.1	3.1	3.4	-0.6	7.7	3.3		
YoY (%)	31.7	25.1	2.9	0.5	4.1	-3.7	14.2	14.4	13.7	7.0
EPS (INR)	36.1	40.1	35.4	37.6	38.9	38.7	41.6	43.0	151.8	162.2

LTTS**Buy****CMP INR4575 | TP: INR5090 (+11%)****EPS CHANGE (%): FY24|25: -1.5|-2.4**

- We expect revenue growth of ~3.2% QoQ CC in the coming quarter. This growth is attributed to ramp-up of projects that were deferred to Q2, and the consistent demand observed in the ER&D space.
- In Q2, we expect a decrease in the margins (-90 bps QoQ) on account of the recent wage hike. However, we expect a large part the impact to be absorbed through operating leverage.
- We expect the deal momentum to continue in Q2 on select verticals
- We expect the company to maintain its FY24 organic revenue guidance of 10% YoY CC

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	240	247	248	255	280	289	298	310	990	1,176
QoQ (%)	3.2	3.2	0.4	2.9	9.8	3.2	3.1	3.9	12.4	18.9
Revenue (INR m)	18,737	19,951	20,486	20,962	23,014	23,884	24,723	25,699	80,136	97,320
YoY (%)	23.4	24.1	21.4	19.4	22.8	19.7	20.7	22.6	22.0	21.4
GPM (%)	33.0	32.1	33.0	32.5	30.0	29.0	29.7	29.5	32.6	29.5
SGA (%)	11.6	11.0	11.5	11.0	10.4	10.2	10.0	10.1	11.3	10.2
EBITDA	4,010	4,218	4,412	4,492	4,528	4,490	4,870	4,974	17,132	18,863
EBITDA margin (%)	21.4	21.1	21.5	21.4	19.7	18.8	19.7	19.4	21.4	19.4
EBIT	3,434	3,628	3,829	3,927	3,954	3,893	4,252	4,332	14,818	16,431
EBIT margin (%)	18.3	18.2	18.7	18.7	17.2	16.3	17.2	16.9	18.5	16.9
Other income	340	261	627	392	357	406	420	437	1,620	1,620
ETR (%)	27.1	27.2	31.6	28.0	27.6	26.5	26.5	26.5	28.6	26.8
PAT	2,742	2,824	3,036	3,096	3,111	3,158	3,432	3,503	11,698	13,204
QoQ (%)	4.7	3.0	7.5	2.0	0.5	1.5	8.7	2.1		
YoY (%)	26.8	22.8	22.0	18.2	13.5	11.8	13.1	13.1	22.2	12.9
EPS (INR)	26.0	26.7	28.7	29.2	29.4	29.8	32.4	33.1	110.5	124.7

Mphasis**Neutral****CMP INR2375 | TP: INR2380 (0%)****EPS CHANGE (%): FY24|25: 1.0|0.7**

- We expect a 1.4% CC revenue growth QoQ, after three consecutive quarters of decline. We believe the revenues have bottomed out and are poised for gradual recovery from Q2
- In Q2, we anticipate a slowdown in the pace of revenue decline for DR business. This deceleration is expected to be supportive in terms of volume
- We expect margins to remain flat QoQ in 2QFY24.
- The volume recovery for its DR business, outlook for the mortgage business and deal TCVs, need to be watched out for.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	436	440	429	412	398	404	412	427	1,718	1,641
QoQ (%)	1.2	1.0	-2.5	-4.1	-3.4	1.5	2.0	3.6	7.8	-4.5
Revenue (INR m)	34,113	35,198	35,062	33,612	32,520	33,384	34,201	35,422	1,37,985	1,35,526
YoY (%)	26.8	22.7	12.2	2.5	-4.7	-5.2	-2.5	5.4	15.4	-1.8
GPM (%)	29.8	28.1	28.5	29.2	29.1	29.2	29.6	30.3	28.9	29.6
SGA (%)	12.2	10.5	10.8	11.4	11.1	11.2	11.4	11.4	11.2	11.3
EBITDA	6,001	6,177	6,175	5,987	5,869	6,009	6,225	6,703	24,340	24,806
EBITDA margin (%)	17.6	17.5	17.6	17.8	18.0	18.0	18.2	18.9	17.6	18.3
EBIT	5,205	5,376	5,354	5,152	4,995	5,112	5,305	5,751	21,087	21,164
EBIT margin (%)	15.3	15.3	15.3	15.3	15.4	15.3	15.5	16.2	15.3	15.6
Other income	125	174	156	189	263	267	274	283	644	1,087
ETR (%)	24.6	24.6	25.2	24.1	24.7	25.0	25.0	25.0	24.6	24.9
PAT	4,020	4,184	4,123	4,053	3,961	4,034	4,184	4,526	16,380	16,705
QoQ (%)	2.5	4.1	-1.5	-1.7	-2.3	1.8	3.7	8.2		
YoY (%)	18.3	17.1	15.3	3.4	-1.5	-3.6	1.5	11.7	13.2	2.0
EPS (INR)	21.2	22.1	21.8	21.5	20.9	21.3	22.1	23.9	86.9	88.3

Persistent Systems**Neutral****CMP INR5793 | TP: INR5310 (-8%)****EPS CHANGE (%): FY24|25: -0.9|-0.5**

- Expect revenue growth of 2.9% QoQ CC, aided by favorable demand in selective verticals and the ramp-up of projects secured through earlier wins
- Margins are likely to see a decline of 30bp QoQ due to the recent wage hike, while operating leverage is likely to absorb majority of these drags
- Deal wins should be positive on BFS and Healthcare, which should support ACV to improve to an earlier mark of Q4
- Commentaries on the demand environment and deal pipeline are closely to be watched out for

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
(Consolidated)										
Revenue (USD m)	241.5	255.6	264.4	274.6	282.9	291.5	299.2	308.7	1,036	1,182
QoQ (%)	11.1	5.8	3.4	3.9	3.0	3.0	2.7	3.2	35.3	14.1
Revenue (INR m)	18,781	20,486	21,694	22,545	23,212	24,091	24,837	25,625	83,506	97,765
QoQ (%)	14.7	9.1	5.9	3.9	3.0	3.8	3.1	3.2		
YoY (%)	52.7	51.6	45.4	37.6	23.6	17.6	14.5	13.7	46.2	17.1
GPM (%)	33.8	33.5	33.8	33.9	34.2	33.5	34.0	34.5	33.8	34.1
SGA (%)	16.1	15.5	15.3	15.5	16.0	15.8	15.7	15.5	15.6	15.7
EBITDA	3,333	3,680	4,016	4,163	4,229	4,264	4,545	4,869	15,191	17,908
EBITDA margin (%)	17.7	18.0	18.5	18.5	18.2	17.7	18.3	19.0	18.2	18.3
EBIT	2,688	2,987	3,332	3,466	3,466	3,517	3,775	4,074	12,472	14,833
EBIT margin (%)	14.3	14.6	15.4	15.4	14.9	14.6	15.2	15.9	14.9	15.2
Other income	131	-31	192	-60	90	193	99	103	233	485
ETR (%)	24.9	25.6	24.1	26.2	22.0	25.0	25.0	25.0	25.2	24.3
PAT	2,116	2,200	2,676	2,515	2,774	2,783	2,906	3,133	9,507	11,595
QoQ (%)	5.3	4.0	21.6	-6.0	10.3	0.3	4.4	7.8		
YoY (%)	33.3	36.0	51.7	25.1	31.1	26.5	8.6	24.6	36.2	22.0
EPS (INR)	27.7	28.8	31.1	32.9	29.8	36.2	37.8	40.7	120.5	144.5

TCS**Buy****CMP INR3,531 | TP: INR4,000 (+13%)****EPS CHANGE (%): FY24|25: -0.3|-2.5**

- The growth is expected to stay muted due to weak macro. Expect 1.1% QoQ CC growth for 2QFY24
- The deal pipeline should remain resilient, especially in the UK regions, while the US and Europe continue to stay on a weaker trajectory.
- EBIT margin is expected to improve 90bp QoQ, after the wage hike impact in Q1
- Outlook on near-term demand environment, BFSI, and deal wins are the key monitorables.

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
IT Services Revenue (USD m)	6,780	6,877	7,075	7,195	7,226	7,309	7,370	7,570	27,927	29,475
QoQ (%)	1.3	1.4	2.9	1.7	0.4	1.1	0.8	2.7	8.6	5.5
Overall Revenue (INR b)	528	553	582	592	594	604	612	628	2,255	2,438
QoQ (%)	4.3	4.8	5.3	1.6	0.4	1.7	1.3	2.7		
YoY (%)	16.2	18.0	19.1	16.9	12.6	9.2	5.1	6.2	17.6	8.1
GPM (%)	38.4	39.5	40.1	40.1	39.5	40.1	40.3	40.4	39.6	40.1
SGA (%)	15.3	15.5	15.5	15.7	16.4	16.0	15.9	15.7	15.5	16.0
EBITDA	134	145	156	157	150	158	162	168	591	637
EBITDA margin (%)	25.3	26.2	26.8	26.5	25.2	26.1	26.4	26.7	26.2	26.1
EBIT	122	133	143	145	138	146	149	155	542	588
EBIT margin (%)	23.1	24.0	24.5	24.5	23.2	24.1	24.4	24.7	24.1	24.1
Other income	6	8	4	9	12	10	10	11	27	44
PBT	128	141	146	154	150	156	160	166	569	631
ETR (%)	25.5	25.8	25.7	25.7	25.8	25.5	25.5	25.5	25.7	25.6
Adj. PAT	95	105	109	114	111	116	119	124	423	470
Reported PAT	95	105	109	114	111	116	119	124	423	470
QoQ (%)	-4.4	9.9	4.0	5.1	-2.8	4.4	2.4	3.9		
YoY (%)	5.4	8.4	11.0	14.8	16.8	10.9	9.3	8.1	10.0	11.0
EPS (INR)	26.0	28.5	29.6	31.1	30.3	31.6	32.4	33.6	115.3	127.8

Tech Mahindra**Neutral****CMP INR1223 | TP: INR1150 (-6%)****EPS CHANGE (%): FY24|25: -11.8|-4.8**

- Revenue is expected to decline further following the dip in 1QFY24 as the CME continues to remain under pressure. Expect 1.1% QoQ CC decline in revenues for 2QFY24.
- Hiring is expected to remain muted. Margins to see large one-offs. Adjusted margins should remain stable.
- Similar to 1QFY24, deal wins are expected to remain muted in 2QFY24.
- The outlook on margin and growth in the CME vertical will be the key monitorable.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Revenue (USD m)	1,633	1,638	1,668	1,668	1,601	1,582	1,590	1,628	6,607	6,401
QoQ (%)	1.5	0.3	1.8	0.0	-4.0	-1.1	0.5	2.4	10.1	-3.1
Revenue (INR b)	127	131	137	137	132	131	132	135	533	529
YoY (%)	24.6	20.7	19.9	13.2	3.5	-0.4	-3.9	-1.5	19.4	-0.6
GPM (%)	28.3	27.9	28.7	28.9	25.7	25.5	26.7	27.1	28.5	26.3
SGA (%)	13.5	12.8	13.1	14.2	13.5	13.4	13.4	13.4	13.4	13.4
EBITDA	19	20	21	20	16	16	18	19	80	68
EBITDA margin (%)	14.8	15.1	15.6	14.7	12.2	12.1	13.3	13.7	15.1	12.8
EBIT	14	15	16	15	12	11	13	14	61	50
EBIT margin (%)	11.0	11.4	12.0	11.2	8.8	8.7	9.9	10.2	11.4	9.4
Other income	1	2	1	2	1	1	1	1	6	3
ETR (%)	22.8	21.4	27.3	22.9	21.8	25.0	25.0	25.0	23.7	24.3
Adj. PAT	11	13	13	13	10	9	10	11	51	40
QoQ (%)	-24.9	15.8	-1.0	2.6	-28.2	-5.5	14.1	5.6		
YoY (%)	-16.4	-2.2	-5.3	-11.6	-15.5	-31.1	-20.6	-18.3	-8.9	-21.6
Extra-Ordinary Item	0.0	-0.2	0.0	-2.1	-2.6	-5.8	0.0	0.0	-2.4	-8.4
Reported PAT	11	13	13	11	7	3	10	11	48	31
EPS (INR)	12.8	14.8	14.7	15.0	12.8	13.5	14.7	15.5	57.3	56.5

Wipro**Neutral****CMP INR406 | TP: INR440 (+8%)****EPS CHANGE (%): FY24|25: 1.0|-0.3**

- We expect WPRO to report a revenue decline of 1.2% QoQ CC, due to growing intensity of adverse macroeconomic conditions, leading to demand softness in verticals beyond BFS and Consumer
- Consulting business is expected to be weak owing to cut down in discretionary spends and reprioritize projects
- Margin should see a recovery of 50 bps QoQ on account of deferring wage hike, while implementing cost-controlling measures in a weak demand environment
- Commentary on revenue conversion, consulting, and deal pipeline will be the key monitorables.

Quarterly performance (IFRS)

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
IT Services Revenue (USD m)	2,756	2,817	2,821	2,840	2,779	2,745	2,761	2,821	11,234	11,105
QoQ (%)	1.3	2.2	0.1	0.6	-2.1	-1.2	0.6	2.2	8.5	-1.2
Overall Revenue (INR b)	215	225	232	232	228	228	230	235	905	921
QoQ (%)	3.2	4.7	3.1	-0.2	-1.5	-0.2	0.9	2.2		
YoY (%)	17.9	14.6	14.4	11.2	6.0	1.1	-1.0	1.4	14.4	1.7
GPM (%)	27.7	27.3	29.7	29.8	29.4	29.5	29.6	30.6	28.7	29.8
SGA (%)	13.4	13.4	14.1	14.0	14.2	13.9	13.8	13.8	13.7	13.9
EBITDA	40	41	46	46	43	44	45	48	173	180
EBITDA margin (%)	18.5	18.1	19.9	19.9	18.8	19.3	19.5	20.4	19.1	19.5
IT Services EBIT (%)	14.9	15.1	16.3	16.3	16.0	15.9	16.1	17.1	15.7	16.3
EBIT margin (%)	14.8	14.4	16.2	16.2	15.1	15.6	15.8	16.7	15.4	15.8
Other income	2	2	2	3	3	2	2	2	8	11
ETR (%)	23.6	22.5	22.9	23.0	24.0	24.0	24.0	24.0	23.0	24.0
PAT	26	27	31	31	29	29	29	32	114	118
QoQ (%)	-17.0	3.7	14.8	0.7	-6.6	-0.1	2.1	8.0		
YoY (%)	-20.7	-9.3	2.9	-0.4	12.0	7.8	-4.1	2.9	-7.1	4.1
EPS (INR)	4.7	4.9	5.6	5.6	5.1	5.1	5.2	5.6	20.7	21.3

Zensar Technologies**Neutral****CMP INR518 | TP: INR495 (-4%)****EPS CHANGE (%): FY24|25: 1.2|0.1**

- Hi-Tech, Consumer, and Manufacturing will remain under pressure. We expect revenues to grow by 0.4% QoQ CC in 2QFY24, supported by BFS vertical
- We expect a sharp decline in margins, ~260bp QoQ, primarily due to the wage hike. However, we expect that cost-control measures will partially offset this impact in Q2
- The order book should look better than that of last year
- The demand environment within its critical sectors and the progression of the deal pipeline are the key monitorables.

Quarterly performance

Y/E March	FY23				FY24E				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue (USD m)	156	155	146	148	149	150	152	157	604	608
QoQ (%)	1.8	-0.6	-5.9	1.1	1.2	0.6	1.1	3.1	6.1	0.6
Revenue (INR m)	12,034	12,346	11,976	12,127	12,272	12,415	12,602	12,995	48,483	50,285
YoY (%)	28.5	17.5	8.6	5.1	2.0	0.6	5.2	7.2	14.2	3.7
GPM (%)	26.6	25.3	27.4	31.9	33.6	32.7	33.2	34.2	27.8	33.4
SGA (%)	15.3	16.8	16.1	17.4	14.9	16.5	16.8	16.8	16.4	16.3
EBITDA	1,361	1,054	1,349	1,759	2,301	2,011	2,067	2,260	5,523	8,639
EBITDA margin (%)	11.3	8.5	11.3	14.5	18.8	16.2	16.4	17.4	11.4	17.2
EBIT	871	562	852	1,408	1,878	1,577	1,626	1,805	3,693	6,886
EBIT margin (%)	7.2	4.6	7.1	11.6	15.3	12.7	12.9	13.9	7.6	13.7
Other income	149	209	183	209	224	137	139	143	750	642
ETR (%)	26.4	26.3	26.1	26.2	25.7	26.0	26.0	26.0	26.2	25.9
Adj. PAT	751	568	765	1,193	1,562	1,268	1,306	1,442	3,277	5,577
QoQ (%)	-42.1	-24.4	34.7	55.9	30.9	-18.8	3.0	10.4		
YoY (%)	-25.6	-39.8	-15.8	-8.0	108.0	123.2	70.7	20.8	-21.2	70.2
EPS (INR)	3.3	2.5	3.4	5.2	6.8	5.6	5.7	6.3	14.4	24.4

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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