

October 6, 2021

Topline growth strong, lower utilisation impacts margin

IT companies are expected to continue their revenue growth momentum in Q2, which is a reflection of strong deal signing momentum. We expect BFSI, retail, manufacturing, hi tech and life-science to drive revenues in the quarter. On the currency side, we expect some headwinds from unfavourable cross currency movements. Since demand continued to be strong in IT companies, the supply side crunch is expected to have an impact on margins. Since companies accelerate fresher hirings to cater to increasing demand, utilisation of companies is expected to take some hit while subcontracting costs are expected to accelerate, which will have an impact on margins.

We expect Tier-1 IT companies to see revenue growth in the range of ~3-6% QoQ (on an organic basis) in constant currency terms. However, there would be cross currency headwinds in the range of 30-40 bps, which would impact dollar revenue growth negatively. Among tier 1, TCS, Infosys & Wipro are expected to see dollar revenue growth of 3-4.2% QoQ, respectively. If we add inorganic revenues Wipro will grow at 6.0% QoQ. HCL Technologies (HCLT) is expected to witness dollar revenue growth of 4.2%. Among Tier 2, LTI & Mindtree are expected to see dollar revenue growth of 5.0% and 4.0% QoQ followed by Coforge, which is expected to witness organic revenue growth of 4% QoQ (7% including acquisition). We prefer Infosys, Wipro in tier-1 and Coforge in midcap.

Margins to remain under pressure on high subs costs

HCL Tech, Infosys and Wipro's margins are expected to be impacted by wage hikes. For TCS, we expect margins to be impacted by lower utilisation and higher subcontracting costs. For Wipro, additionally margins would be impacted by the Capco acquisition earlier. For Infosys, we expect a margin decline due to salary hike for the quarter. HCL Tech's margins are expected to be hit by >100 bps QoQ due to wage hikes, supply side issues and higher discretionary cost.

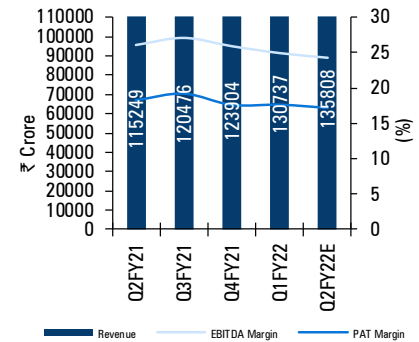
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	YoY	QoQ	
HCL Tech	20,942.0	12.6	4.4	4,858.5	-1.9	-1.0	3,041.9	-3.2	-5.4			
Infosys	29,039.7	18.2	4.1	7,451.1	5.2	0.3	5,321.5	8.5	2.3			
InfoEdge *	348.5	36.1	9.0	109.8	112.9	10.1	116.9	122.1	14.3			
L&T Infotech	3,648.5	21.7	5.4	682.3	-0.5	5.3	484.3	6.0	-2.5			
Mindtree	2,386.4	23.9	4.1	466.5	19.5	0.4	355.2	35.7	0.6			
Coforge	1,579.1	36.9	8.0	249.1	21.6	18.4	162.3	32.8	23.7			
TCS	46,800.0	16.9	3.1	12,870.0	11.8	1.6	9,136.9	5.0	1.4			
Teamlease	1,434.6	27.1	4.2	40.8	77.3	38.2	34.2	56.2	40.5			
Tech Mahindra	10,715.6	14.3	5.1	1,982.4	16.4	5.6	1,398.2	31.3	3.3			
Wipro	18,913.7	25.1	3.6	4,319.3	24.4	0.2	3,162.7	28.3	-2.1			
Total	135,808.1	17.5	5.5	33,029.6	25.4	3.6	23,214.0	26.7	6.4			

Source: Company, ICICI Direct Research.

Revenue, margin guidance outlook key monitorable

In the current quarter, key thing to watch will be improvement in deal pipeline, upgrades in double digit guidance, hiring & attrition trends, margin outlook and revival in developed markets post vaccination. Further, outsourcing trend in Europe, trends in digital technologies, vertical specific commentary, offshoring and long-term IT trends become important from an investor's perspective.

Topline, Profitability (Coverage Universe)



Dollar growth, QoQ

IT Services	Q2FY22E	Q1FY22	Growth (%)
TCS	6,338.6	6,154.0	3.0
Infosys	3,934.9	3,782.0	4.0
Wipro ^	2,559.4	2,414.5	6.0
HCL Tech	2,833.8	2,719.6	4.2
Tech M			
Tech M	1,450.0	1,383.6	4.8
LTI	493.7	470.2	5.0
Mindtree	322.9	310.5	4.0
Coforge	213.7	199.7	7.0
Internet & Staffing (in ₹)			
Info Edge	348.5	319.7	9.0
Teamlease	1,434.6	1,376.8	4.2

^ IT services

Top Picks

Infosys, Wipro & Coforge

Research Analysts

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Exhibit 2: Company Specific view

Company	Remarks
TCS	TCS is expected to continue its strong revenue traction for the quarter but margins are expected to be impacted due to lower utilisation and higher subcontracting costs. It is expected to register 3.5% QoQ growth in constant currency led by improvement in demand from BFSI, healthcare and retail, acceleration in digital technologies and ramp up of deals and also recovery from India market, which declined 14% QoQ in Q1. Further, cross currency headwind is expected to lead to revenue growth of 3.0% QoQ in dollar terms. In rupee terms, revenue is expected to increase 3.1% QoQ. EBIT margins are expected decline 30 bps QoQ to 25.2% led by higher subcontracting costs and lower utilisation. PAT is expected to improve by 1.4% QoQ mainly led by higher other income. Investor Interest : Outlook on sustainability of double digit revenues, trends in digital, margin outlook, talent management, offshoring trends, deal pipeline and other long term trends
Infosys	Ramp up of deals and traction in cloud is expected to drive Infosys' topline (up 4.0% QoQ in dollar terms). It is also witnessing a healthy deal pipeline led by cost take out deals. We expect rupee revenues to increase 4.1% QoQ. Due to salary hikes given by the company in July as well as increase in subcontracting costs & lower utilisation, we expect EBIT margins to decline 90 bps QoQ. PAT is expected to increase 1.4% QoQ. Investor interest: Upward revision in FY22E revenue & margin guidance, vertical wise commentary, second wage hike impact, ramp up of Daimler deal, traction in digital technologies and pricing environment
Wipro	Wipro is expected to report 6.0% QoQ growth in revenues mainly led by organic growth of 4% QoQ and rest due to acquisition of Capco. EBIT margins in global IT services are expected to decline 90 bps QoQ, mainly due to subcontracting costs and due to Capco acquisition. In rupee terms, overall revenues are expected to increase 4.0% QoQ. Overall EBIT margins are expected to decline 70 bps QoQ 9.2%. Consequently, PAT is expected to decline 2.1% QoQ. Investor interest: Deal wins, second wage hike, vertical commentary, commentary of client's IT budget and revenue guidance
HCL Tech	HCL Technologies is expected to report 4.5% QoQ revenue growth in CC terms mainly led by broad based growth across verticals, improvement in product revenues and easing of stress in ER&D segment. Revenues are expected to be partially offset by cross currency impact of 30 bps for the quarter. Dollar revenues are expected to be up 4.2% QoQ. EBIT margins for the quarter is expected to be impacted by salary hikes (spread over two to three quarters) and supply side issues. PAT is expected to decline 5.4% QoQ. Investor interest: FY22E revenue & margin guidance, commentary on deal pipeline, especially multi-year as well as pricing
Tech Mahindra	Tech Mahindra is expected to witness 4.8% QoQ growth in CC revenues. In addition, due to rupee depreciation, rupee revenues are expected to grow 5.1% QoQ. We expect EBIT margin to be flattish QoQ to 15.2% despite higher employee cost due to operational efficiencies. PAT is expected to improve 3.3% QoQ due to lower tax and higher other income. Investor interest: Outlook on margin, large deals and incremental order flow from 5G services

Source: Company, ICICI Direct Research

EBIT/EBITDA margin impact

EBIT margins	Q2FY22E	Q1FY22	Change (bps)
TCS	25.2	25.5	(30)
Infosys	22.8	23.7	(87)
Wipro ^	16.9	17.8	(93)
HCL Tech	18.5	19.6	(104)

EBITDA margins

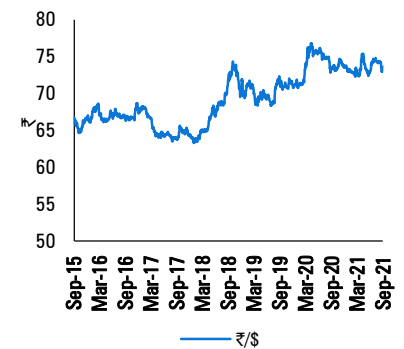
Tech M	18.5	18.4	10
LTI	18.7	18.7	(1)
Mindtree	19.5	20.3	(72)
Coforge	15.8	14.4	138

Internet & Staffing (in %)

Info Edge	31.5	31.2	32
Teamlease	2.2	1.5	73

^ IT services

₹/ (done)



\$ vs. global currencies (done)

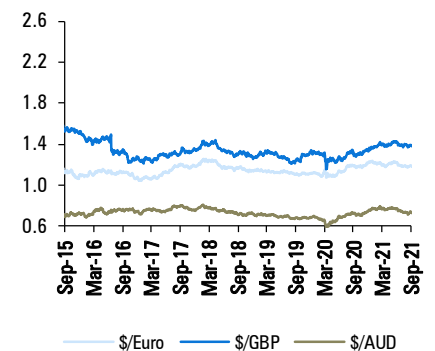


Exhibit 3: Company Specific views

Company	Remarks
Larsen & Toubro Infotech	L&T Infotech is expected to report strong numbers but supply side pressures would restrict margin expansion. It is expected to report 5% QoQ CC growth. Growth is anticipated to be broad based and led by ramp up of deals & improvement in discretionary spend. In rupee terms, we expect revenues to increase 5.4% QoQ. However, we expect EBITDA margins to be flattish QoQ at 16.4% due to higher subcontracting costs amid supply side crunch and lower utilisation. Hence, PAT is expected to decline 2.5% QoQ. Investor Interest: Outlook on 14-15% net profit margin for FY22, deal pipeline
Info Edge	We expect Info Edge's revenues for the quarter to be driven by recruitment business. We expect revenues to improve 9% QoQ to ₹ 348 crore, mainly led by 8% QoQ growth in recruitment revenues and 9% growth in 99 Acres while other businesses are expected to grow 5% QoQ (mainly led by Jeevansaathi). We expect margins to improve QoQ by 50 bps . PAT is expected to improve 14.1% QoQ. Investor interest: Recovery of key verticals post second wave, acquisition via fund raising, update on venture fund and update on PolicyBazaar & other new investments
Mindtree	Mindtree is expected to report a strong quarter but elevated subcontracting costs are expected to impact margins. The company is expected to register 4.0% QoQ growth in dollar revenues, mainly led by ramp up of deals in BFSI, improvement in travel vertical and healthy growth in top client. In rupee terms, revenues are expected to increase 4.1% QoQ. However, EBITDA margins are expected to decline 60 bps QoQ, mainly led by impact of transition as well as elevated subcontractor expenses due to talent crunch. Investor interest: Traction in Europe, multi-year annuity deals, progress of health vertical, mining of strategic accounts, revenue & margin outlook for FY22E, travel vertical outlook, growth in top client and merger with LTI
Coforge	Coforge is expected to register 7% QoQ growth in revenues of which 4% is organic and rest is led by acquisition of SKS Global. In terms of rupee revenues, the company is expected to grow 8% QoQ (higher than dollar growth due to rupee depreciation). EBIT margins are expected to increase 170 bps QoQ on i) Visa costs for the whole year are booked in Q1, ii) there was license deferral for advantageGo in Q1. PAT is expected to grow 29% QoQ. Investor interest: Outlook on travel vertical, large deal pipeline in BFSI, insurance & healthcare, margin and demand outlook
Teamlease Services	We expect revenues to recover from the impact of the second wave in Q1. Hence, we expect overall revenues to improve 4.2% QoQ, mainly led by 3.5% QoQ in general staffing while specialised staffing (mainly led by traction in IT staffing) is expected to maintain its healthy momentum and is expected to grow 12% QoQ. We expect margins to improve 70 bps QoQ to 2.2%, mainly led by strong revenues. Hence, we expect PAT to increase 24% QoQ. Investor interest: Post second wave demand outlook on general staffing, outlook on other HR services profitability and long term margin trajectory

Source: Company, ICICI Direct Research

Exhibit 4: ICICI Direct Coverage universe (IT)

Company	Cmp (₹)	TP (₹)	Rating	Mcap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
HCL Tech (HCLTEC)	1,305	1,475	Buy	354,133	45.8	50.6	60.9	28	26	24	23.5	24.1	25.7	20.8	20.5	21.4
Infosys (INFTEC)	1,693	1,930	Buy	720,715	45.4	54.7	64.1	37	31	30	31.7	34.0	37.0	25.2	27.8	30.3
TCS (TCS)	3,833	4,341	Buy	1,417,846	87.7	108.4	127.3	44	35	34	45.9	50.9	54.0	37.5	43.0	45.3
Tech M (TECMAH)	1,411	1,611	Buy	136,724	45.7	59.0	68.0	31	24	24	19.8	22.8	23.7	17.8	20.4	20.8
Wipro (WIPRO)	646	743	Buy	344,715	19.7	21.8	26.5	33	30	28	21.3	23.0	27.3	19.5	21.8	26.1
Mindtree (MINCON)	4,295	4,314	HOLD	70,754	67.4	81.2	95.9	64	53	45	32.5	33.1	33.1	25.7	25.9	25.7
LTI (LTINFC)	5,772	6,559	Buy	100,890	110.9	126.1	146.3	52	46	45	31.9	30.9	30.6	26.5	25.7	25.4
Coforge (NIITEC)	5,390	6,139	Buy	32,663	75.2	109.1	142.8	72	49	43	23.3	26.8	29.8	18.5	23.4	26.2
Infoedge (INFEDG)	6,500	6,270	Buy	83,710	21.0	37.3	51.2	309	174	122	7.7	13.1	16.7	6.0	9.9	12.6
Teamlease (TEASER)	4,725	4,550	Buy	8,078	45.3	69.0	100.3	104	69	45	14.2	16.8	19.7	11.6	16.2	18.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Sameer Pardikar, MBA (Finance), authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Disclaimer in retail research report:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock broking and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.