

# **CREDENCE CAPITAL**

(Investment Club of IIM Lucknow)

## **Indian IT Industry**

Sector Report

(January 2022)

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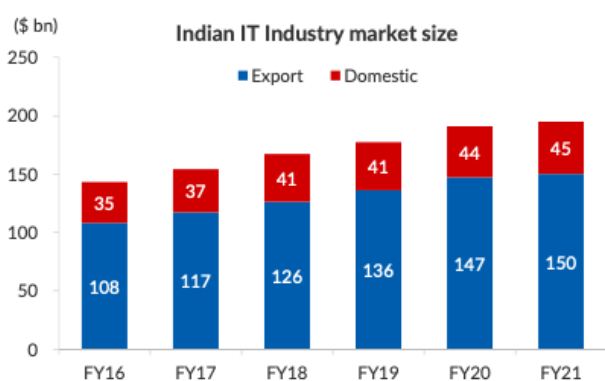
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## Introduction

Today, digital transformation is the topmost priority for corporations around the globe and in a highly connected world, that will remain largely contactless for an extended period, there are shifts in business models, customer experience, operations, and employee experience. And IT sector has come out as an enabler in the digitalization revolution.

Below are few quick facts about our IT sector.

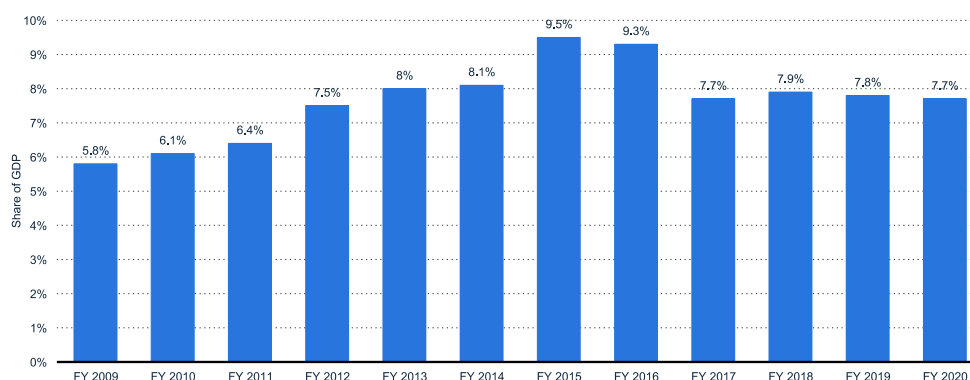
- **Strong growth opportunities**
  - Cloud adoption, digital transformation and analytics to sustain revenue growth.
  - In FY2021, India ranked third worldwide with 608,000 cloud experts across all verticals including technology.
- **Increasing exports**
  - In FY2021, revenue of \$150 bn+ generated from exports and \$45 bn+ from domestic market.
  - Share in Indian services export is 52% (as of FY20).
- **Contribution to GDP**
  - IT industry contributed around 7.7% to GDP and expected to contribute 10% by 2025.
- **Largest employer in private sector**
  - Employs 4.5 million people as of FY2021.
- **Major players**
  - Large cap stocks (Among top 100 listed companies)
  - Mid cap stocks (Among top 100-250 listed companies)
  - Small cap stocks (Listed companies with rank above 250)



Source: Company, YES Sec

Company	MCap (INR '000 Cr.)	Category
TCS	1,435	Large Cap
Infosys	778	Large Cap
Wipro	380	Large Cap
HCL Tech	349	Large Cap
MindTree	75	Mid Cap
Mphasis	60	Mid Cap
Oracle FinServ	35	Mid Cap
Coforge	33	Mid Cap
Happiest Minds	19	Small Cap
Cyient	11	Small Cap
Zensar Tech	11	Small Cap

Contribution of Indian IT-BPM industry in GDP of India FY 2009-2020



Note(s): India, FY 2009 to FY 2020

Further information regarding this statistic can be found on [page 26](#).

Source(s): OEA (India), India Brand Equity Foundation, Various sources (L.B. Associates (Pvt) Ltd), ID 320276.

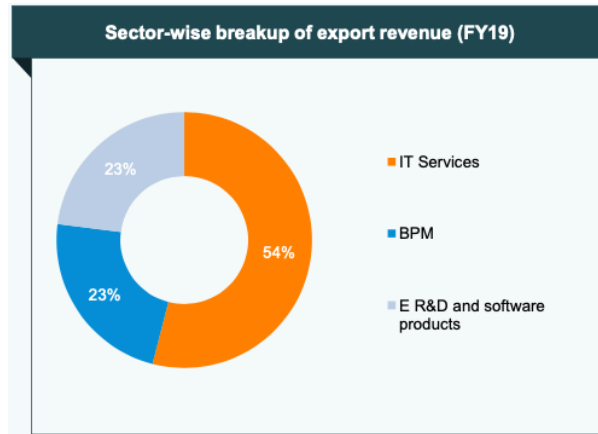
Market overview **statista**

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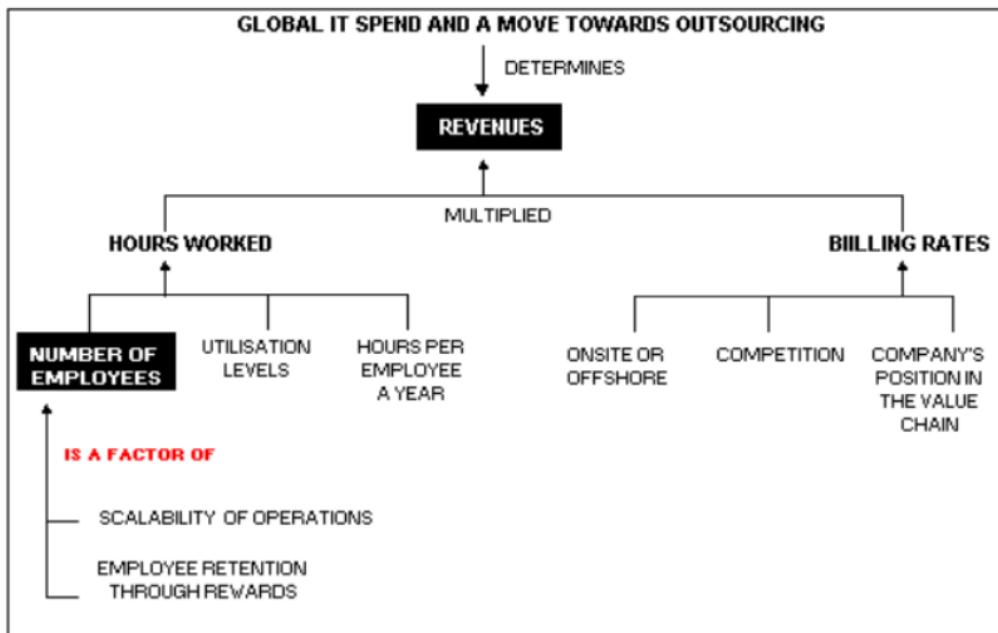
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## Working of IT industry

At a high level, IT firms offer services in the fields of computer software, hardware, data storage/retrieval, and computer support. It is a fast-growing industry that offers many high-paying jobs and career growth opportunities. In terms of sector-wise breakup of export revenue (FY19), IT services contributed more than 50% of the share.



The underlying drivers of an IT firm has been illustrated below. And, along with that, various cost drivers can also be understood. For example, labour costs takes away a huge porportion of the revenues and now that the companies are trying to make a presence in the onsite setup to improve the client-vendor relationship, these costs have further increased. On the other hand, there is not a lot of investment required on the side of infrastructure and is manageable after the one-time setup is completed.



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## Major IT Players of India

In recent years, India has emerged as one of the most prominent countries where technology is flourishing in its prime. India is considered as the global hub for the IT services industry. The major discriminating factor for Indian IT companies as compared to US IT companies is that the former is highly B2B driven, for instance, Wipro providing services to a US client, say Microsoft, while the latter serve B2C markets, for instance Facebook providing services to the public directly.

Major Indian players of IT sector in India are as follows:



### 1. Tata Consultancy Services (MCap – INR 14.3 L. Cr.)

Tata Consultancy Services, popularly named as TCS, is among the top 10 largest IT services provider in the world. A subsidiary of Tata Group, TCS was incorporated in 1968. The company contributed to over 90% of the revenue of Tata Sons in FY20. Not only this, but also the company is the India's biggest Information Technology service provider by market capitalisation. TCS has close to 400,000+ employees over 46 countries and is the largest IT recruiter in India over a decade.

### 2. Infosys (MCap – INR 7.7 L. Cr.)

The second-largest IT company in India is Infosys Limited that is headquartered in Bengaluru and provides consulting, services, and information technology business. The company was founded in 1981 with seven employees and today, it accommodates over 200,00 workers worldwide. It is the first Indian organization that was listed in NASDAQ. Infosys is now highly involved in research of NextGen Technology, AI, Machine Language apart from providing software services to various domains. It

### 3. Wipro (MCap – INR 3.8 L. Cr.)

One of the oldest Indian companies, Wipro was incorporated in 1945. Today, the company has an employee strength of over 160,000 in 6 continents and it is the first Indian IT company to achieve the ISO 4001 certification in 2002. The company provides information technology business, consulting, and services to the IT industry. Wipro has several key focus areas like Machine Learning, Data Science, Analytics. The company has recently largely invested in blockchain technologies.

### 4. HCL Technologies (MCap – INR 3.5 L. Cr.)

Founded in 1976, HCL Technologies Ltd. is headquartered in Noida, India with a worldwide workforce of 117,000+ people across 30 nations. The organisation is popularly known as the IT giant in manufacturing and supplying computer equipment and servers. Also, HCL provides IT consulting services in different sectors like banking, consumer goods, automotive, and healthcare.

### 5. Tech Mahindra (MCap – INR 1.6 L. Cr.)

The fifth market player in our list is Tech Mahindra which is a subsidiary of the Mahindra Group and was founded in 1986. Tech Mahindra is among the largest providers of Information Technology and offers a range of services including software, maintenance, and engineering design. The company is a proud employer of over 110,000 technologists operating in over 90 countries. Tech Mahindra was ranked among the top in the Fortune India 500 in the Indian IT Industry and globally.

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## Revenue Drivers 1. Global IT spending

The global information technology (IT) spending on devices, including PCs, tablets, mobile phones, as well as data center systems, enterprise software, and communications services.

### Current trend

Global IT spending came to \$3.87 TN in 2020 and is expected to increase by 8.6% to around \$4.2 TN in 2021, due to an increase in demand for technological devices due to COVID-19 pandemic.

In India, the second wave of the pandemic and associated lockdowns have brought a significant sluggishness during most of the second quarter of 2021. However, demand is witnessing a rapid recovery across most of the sectors.

IT & BPM is the second leading sector in receipt of private equity (PE) investments in India. In 2020, PE investments in the sector stood at US\$ 7.5 billion.

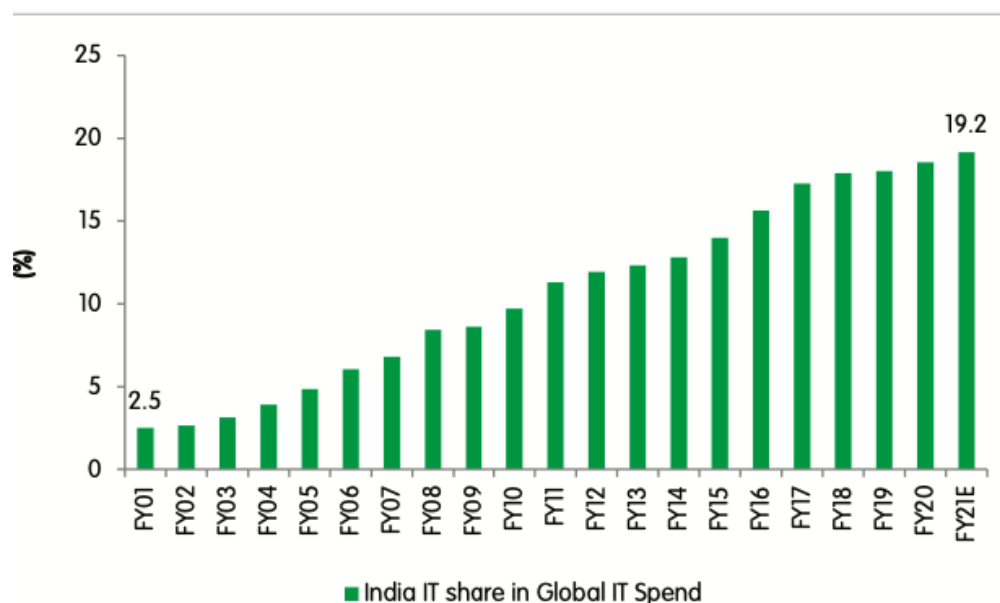
Type of Components	Components	Current Spends Share	Expected CAGR over FY21- FY25E
Traditional	On-premise data center, non DevOP ADMs	52%	-5%
Digital	Cloud migration, Consulting, transformation projects and IoT	48%	15-20%

Digital component is likely to become the core component (67%) of IT services budget in FY25E. The key differentiators for digital solutions are transformation DNA, industry-specific solutions, automation capabilities and availability of digital talent.

### Outlook (positive)

Pharma, healthcare, financial services, education, online retail and government continue to invest in their digital transformation journey. Indian organizations including SMEs will be better positioned to invest more into IT, through the next two quarters.

### Indian IT Industry Contributes 19.2% to Global IT Spend



Source: Rsec Research, Nasscom

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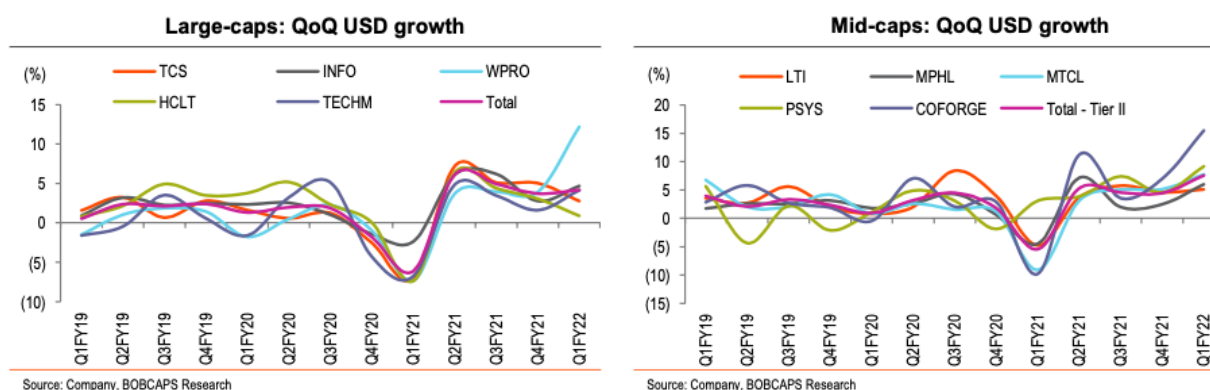
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## 2. CC revenue growth

Since most of the revenue produced from the exported services, the revenue growth is calculated using CC (Constant Currency) method.

### Current trend

According to Nasscom, the IT services industry grew 2.7% to \$99 BN in 2020-21. The wider industry including e-commerce, business process management and global back offices had grown 2.3% to \$194 billion in last fiscal year. The domestic revenue of the IT-BPM industry is around \$44 BN and revenue from exports at \$150 BN in FY21.



### Outlook (positive)

India's digital economy is estimated to reach \$1 TN by 2025. The market size of India's IT sector is expected to grow to \$300 BN by 2025.

The computer software and hardware sector in India attracted cumulative FDI inflows worth \$ 69.29 BN between April 2000 and December 2020, according to the data released by Department for Promotion of Industry and Internal Trade (DPIIT).

The cloud market in India is expected to grow three-fold to \$7.1 BN by 2022 with the help of growing adoption of Big Data, analytics, artificial intelligence, and Internet of Things (IoT) according to Cloud Next Wave of Growth in India report. Artificial Intelligence (AI) is expected to boost India's annual growth rate by 1.3% by 2035 as reported by NITI Aayog.

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## 3. Deal pipeline

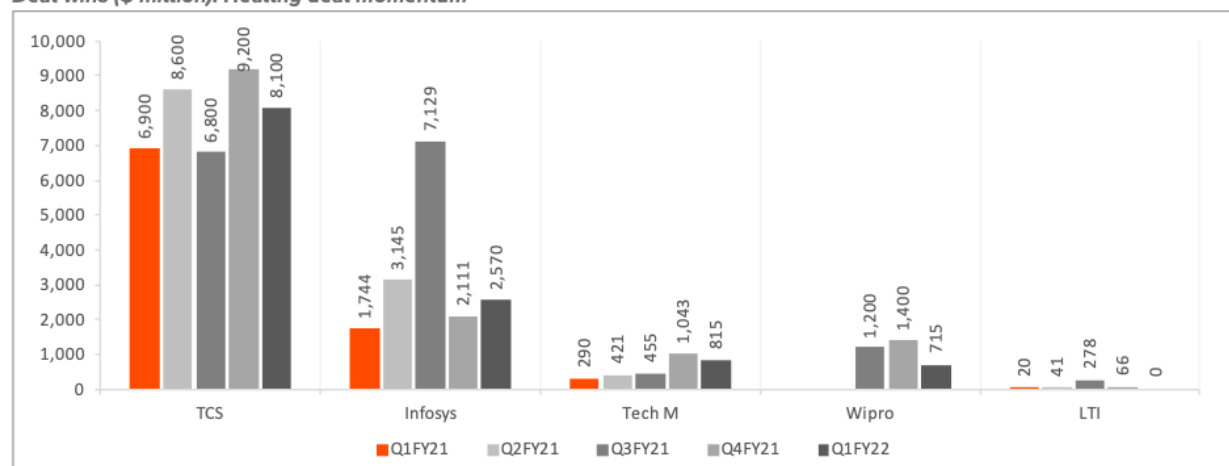
Whether the deal pipeline continues to get refilled (despite strong deal) wins is a key monitorable for the IT sector.

### Current trend

After 2-3 quarters of scorching QoQ growth in FY21, Q1FY22 was quite strong, reflecting the strong order inflow seen in FY21, quick revenue conversion and seasonality.

Tier-I companies have shown a noticeable increase in TCV (Total Contract Value). TCS's order pipeline increased 17% YoY in Q1, pointing to a robust start to the year. WPRO had guided for 5-7% QoQ CC revenue growth in Q2FY22 (including 2-3% growth from Capco) on a strong base of Q1. Its recent US\$ 1bn investment in cloud solutions is a step in the right direction and will help fuel growth. TECHM's outlook is buoyed by increased activity around 5G and pre-5G projects.

Deal wins (\$ million): Healthy deal momentum



Source: Company, Sharekhan Research

### Outlook (positive)

Demand climate of Q2FY22 looks much stronger than that in Q4FY21. Deal pricing also appears stable. Most client enterprises are raising their technology spends, especially in the areas of BFSI, health, life sciences, travel and ER&D.

Increased hiring and attrition at IT players also signal robust demand and deal pipelines for FY22-FY23. The deal pipeline for most companies is a mix of midsized as well as large projects.

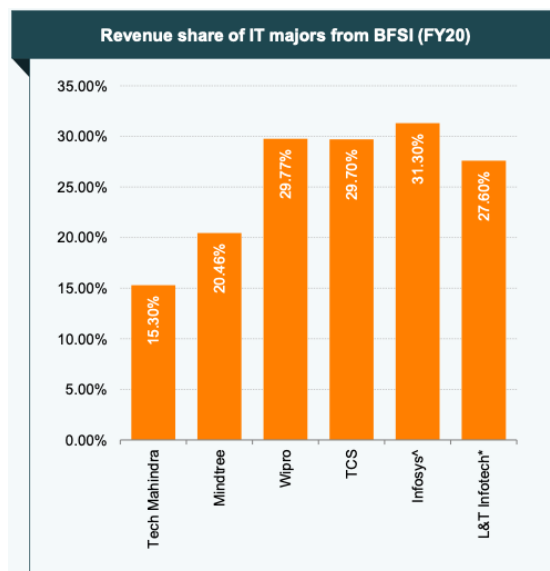


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## 4. Sector Wise Contribution

BFSI is a key business vertical for the IT & BPM industry. A major share of revenue of IT majors comes from the BFSI business vertical. However, adoption of new technologies is expected to accelerate growth of other sectors as well.



### Current trend

The need for undertaking investment in IT will also be required for gaining competitive advantage instead of solely reducing operational costs. And this is true for other sectors also. Few deals which show the potential of IT sector contribution in other sectors can be demonstrated by below deals.

TCS

• In February 2020, TCS bagged a contract worth \$1.5 BN from pharma company, Walgreens Boots Alliance.

Infosys

• In July 2020, Infosys won a multiyear deal worth \$1.5 BN from investment management company—Vanguard.

HCLT

• In July 2020, HCL Technologies signed a five-year deal worth \$600 MN with telecom equipment maker—Ericsson.

### Outlook (positive)

Technologies, such as telemedicine, health, remote monitoring solutions and clinical information systems, would continue to boost demand for IT service across the globe. IT sophistication in the utilities segment and the need for standardisation of the process are expected to drive demand. Digitisation of content and increased connectivity is leading to a rise in IT adoption by media. RBI is executing a plan to reduce online transaction costs to encourage digital banking in India. The rollout of fifth generation (5G) wireless technology by telecommunication companies is expected to bring at least US\$ 10 billion global business to Indian IT firms by 2019-25.

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## Vertical-wise revenue: Broad-based traction across verticals

Jun-2021	Revenue	Contribution	\$ Growth (%)	
	(\$ mn)	(%)	q-o-q	y-o-y
<b>Infosys</b>				
Financial services	1,248	33.0	4.7	26.9
Retail	567	15	6.1	27.1
Communication	461	12.2	6.4	10.3
Energy, utilities & resources	458	12.1	3.0	14.6
Manufacturing	367	9.7	5.8	23.7
Hi tech	314	8.3	7.3	15.6
Life sciences	257	6.8	4.7	23.0
Others	110	2.9	-10.7	13.4
<b>Total</b>	<b>3,782</b>	<b>100</b>	<b>4.7</b>	<b>21.2</b>
<b>TCS</b>				
BFSI	2,000	32.5	3.7	26.3
Retail & CPG	911	14.8	4.9	28.6
Communication & media	394	6.4	1.2	9.7
Manufacturing	603	9.8	4.9	22.9
Life Science and healthcare	628	10.2	8.1	29.2
Technology & services	529	8.6	5.2	15.0
Regional markets and others	1,089	17.7	-4.8	12.1
<b>Total</b>	<b>6,154</b>	<b>100</b>	<b>2.8</b>	<b>21.6</b>
<b>Wipro</b>				
BFSI	806	33.4	22.8	36.7
Consumer	418	17.3	14.2	36.8
Technology	295	12.2	2.1	13.6
Healthcare	287	11.9	2.7	10.8
Energy & utilities	316	13.1	11.3	24.7
Manufacturing	169	7	-0.6	8.6
Communications	123	5.1	14.4	25.7
<b>Total</b>	<b>2,415</b>	<b>100</b>	<b>12.2</b>	<b>25.7</b>
<b>HCL Tech</b>				
Financial services	601	22.1	3.2	13.9
Manufacturing	468	17.2	-2.0	9.7
Technology & services	470	17.3	1.5	16.1
Retail & CPG	272	10	-0.1	15.5
Telecom, media, publishing	236	10	-9.2	4.9
Lifesciences & Healthcare	215	7.9	-1.6	20.0
Public services	400	14.7	5.2	23.9
Public services	294	10.8	-2.7	13.4
<b>Total</b>	<b>2,720</b>	<b>100</b>	<b>0.9</b>	<b>15.5</b>
<b>Tech M</b>				
Communication	554	40.0	3.2	12.6
Manufacturing	229	16.5	4.5	12.2
Technology, media & entertainment	122	8.8	8.1	22.7
BFSI	227	16.4	3.7	19.7
Retail, transport and logistics	106	7.7	3.2	16.4
Others	147	10.6	4.3	11.1
<b>Total</b>	<b>1,384</b>	<b>100</b>	<b>4.1</b>	<b>14.6</b>

Source: Company, Sharekhan Research

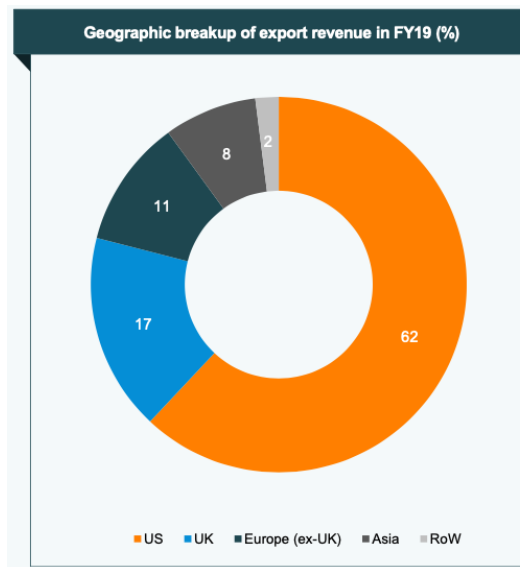
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## 5. Geography Wise Contribution

### Current trend

US has traditionally been the biggest importer of Indian IT exports as it absorbed over 62% of Indian IT & BPM export during FY19 whereas non-US-UK countries accounted for just 21% of the total Indian IT & BPM export. As of FY19, US and UK were the leading customer markets with a combined share of nearly 80%.



### Geography-wise revenue: Strong growth in key markets

Jun-2021	Revenue	Contribution	\$ Growth (%)	
	(\$ mn)	(%)	q-o-q	y-o-y
<b>Infosys</b>				
North America	2,333	61.7	4.8	21.6
Europe	915	24.2	3.8	22.2
India	110	2.9	1.2	21.2
Rest of world	424	11.2	6.6	17.0
<b>Total</b>	<b>3,782</b>	<b>100</b>	<b>4.7</b>	<b>21.2</b>
<b>TCS</b>				
North America	3,040	49.4	4.4	16.9
Latin America	98	1.6	2.8	8.1
UK	1,003	16.3	4.7	25.5
Continental Europe	1,028	16.7	2.1	42.1
India	283	4.6	-15.6	-6.7
APAC	572	9.3	1.7	20.4
MEA	129	2.1	7.9	21.6
<b>Total</b>	<b>6,154</b>	<b>100</b>	<b>2.8</b>	<b>21.6</b>
<b>Wipro</b>				
Americas 1	666	27.6	6.0	18.8
Americas 2	736	30.5	16.8	26.5
Europe	729	30.2	19.3	42.2
RoW	282	11.7	0.2	6.6
<b>Total</b>	<b>2,415</b>	<b>100</b>	<b>12.2</b>	<b>25.7</b>
<b>HCL Tech</b>				
Americas	1,716	63.1	2.7	14.4
Europe	759	27.9	-3.3	13.8
RoW	245	9.0	2.0	29.9
<b>Total</b>	<b>2,720</b>	<b>100</b>	<b>0.9</b>	<b>15.5</b>
<b>Tech M</b>				
America	646	46.7	6.8	8.5
Europe	376	27.2	6.6	20.6
RoW	362	26.2	-3.1	20.0
<b>Total</b>	<b>1,384</b>	<b>100</b>	<b>4.1</b>	<b>14.6</b>

Source: Company, Sharekhan Research

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## Outlook (positive)

However, there is a growing demand from APAC, Latin America and Middle East Asia regions. Being the low-cost exporter of IT services, India is going to attract more markets in other regions in the same manner it tapped the US market.

### Countries offering growth potential to IT firms

Country	IT spend	India's penetration	Key segments
Canada	US\$ 63 billion	~1.5%	Enterprise applications, cyber security, healthcare IT
Europe	US\$ 230 billion	<1.5%	IT sourcing, BPM, IS outsourcing, CAD
Japan	US\$ 235 billion	<1%	CRM, ERP, Salesforce automation, SI
Spain	US\$ 26 billion	<1.5%	IT sourcing, SI
Mexico	US\$ 29 billion	~4%	IT sourcing, BPM
Brazil	US\$ 47 billion	~2%	Low level application management, artificial intelligence, R D
China	US\$ 105 billion	<1%	Software outsourcing, R&D
Australia	US\$ 48 billion	~4%	Procurement outsourcing, infrastructure software and CAD

Source: Nasscom

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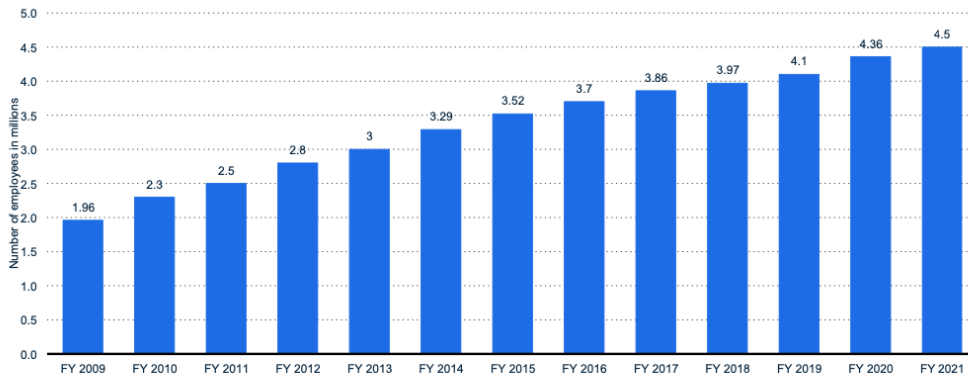
## Cost Drivers

### 1. Growth of Workforce & Utilization

As discussed earlier, IT sector is the largest employer in the private sector with almost 4.5 MN employees as of FY2021. Moreover, the number of employees has been increasing by almost 3% YoY.

#### Employment of the IT-BPM industry in India from financial year 2009 to 2021 (in millions)

IT-BPM industry employment in India FY 2009-2021

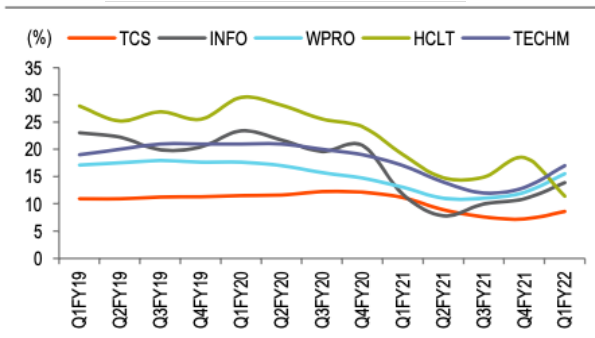


Note(s): India, FY 2009 to FY 2021  
Further information regarding this statistic can be found on [page 59](#).  
Source(s): NASSCOM (India); ID: 320722

Employment **statista**

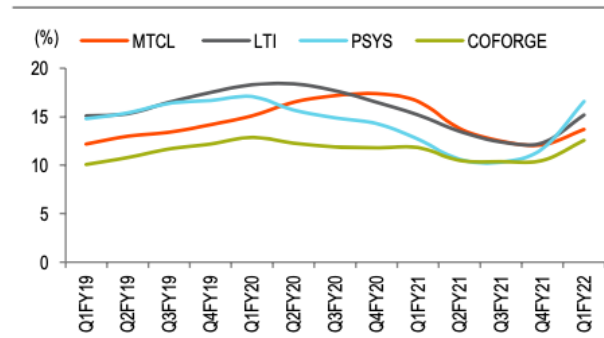
At the same time, however, attrition is a critical issue faced by this sector. The attrition rate in IT sector was found to be the highest as compared to all industries in India at 8.03% in the Apr-Jun'21. The sectors that follow it are educational services at 7.45% and knowledge process outsourcing at 7.38%, according to the employment outlook report of TeamLease Services. For example, IT majors—Infosys, Wipro, and HCL Tech reported high attrition rates at 13.9%, 15.5%, and 11.8%, respectively, in the June quarter.

#### Large-caps: Attrition inching up



Source: Company, BOBCAPS Research

#### Mid-caps: Attrition inching up



Source: Company, BOBCAPS Research

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## 2. Hyper-scalers

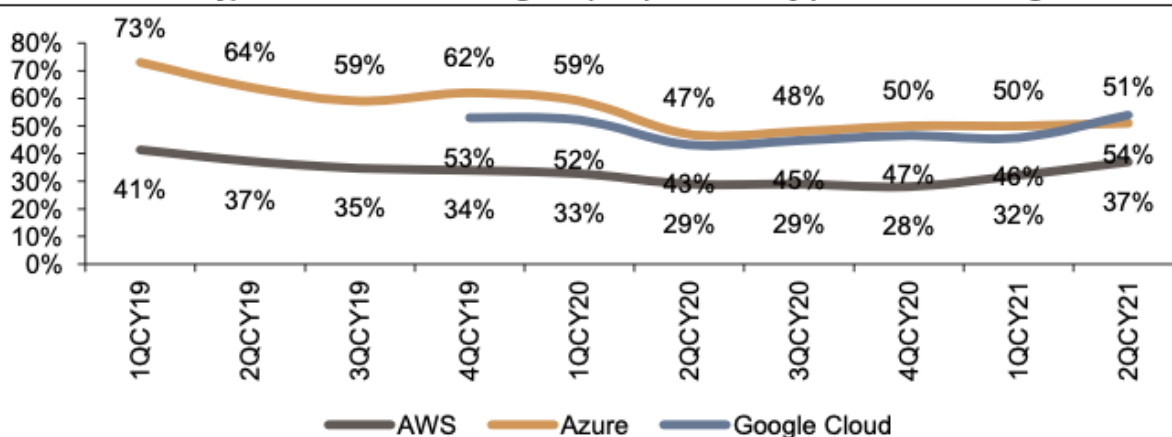
Massive companies like Google, Facebook, and Amazon that are making efforts to not only dominate the public cloud and cloud services industries, but to expand their business into numerous related verticals, as well are called hyper-scalers.

### Current trend

For the moment, cloud infrastructure and services remain the most in-demand of the services that hyper-scalers provide. With larger enterprises ramping up their storage and compute needs and small- and medium-sized businesses taking the plunge for the first time, the race for cloud market share is very much on.

There is a significant push towards cloud services which has boosted hyper-scale data center investments, with global investments estimated to exceed ~US\$ 200 billion annually by 2025. India is expected to gain a significant share in the global market, with the country's investment expected to hit ~US\$ 5 billion annually by 2025.

**Exhibit 3: Cloud hyperscalers continue to grow (YoY) at a healthy pace even on a higher base**



Source: Company, Emkay Research

### Outlook

In May 2021, IBM collaborated with 11 top-tier academic institutions, including IIT Kharagpur and the Indian Institute of Science (IISc), Bangalore, to enable 'over-the-cloud' access to its quantum systems to boost advanced training and research in the area of quantum computing. In April 2021, Tata Consultancy Services announced that Wavin, a Netherlands-based global innovative solutions provider for the building and infrastructure industries, has successfully implemented the TCS ERP on cloud platform to achieve expansion in new growth markets in Indonesia and India. In April 2021, TCS partnered with Ericsson to assist the company in the establishment and growth of its cloud-based R&D digital workplace. HCL Tech has created separate business units for each cloud hyper-scaler and recently formed a single global digital business by combining digital consulting, application services, and data analytics services. This would help the company to capture the higher increased demand for digital transformation initiatives and to participate a \$300 billion services opportunity in the cloud space.

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## Market View (During Pandemic)

Most of the organizations, interviewed by Deloitte for analysis of impact of Covid on various sectors, reported an increase in workload of technology teams, which are already under pressure. After the COVID-19 crisis, IT capacity planning, along with building new IT capabilities, became key to optimize technology services and eliminate bottlenecks.

Organisation interviewed	Typical IT use across value chain	Technology dependency – Before COVID-19				Technology incremental impact – After COVID-19			
		IT apps	DC and DR	Collaboration tools	Cloud adoption	Overall technology dependency	Key technology areas affected	After COVID-19: Long-term priorities	Incremental impact on IT provisioning
<b>BFSI organisation</b>	<ul style="list-style-type: none"> <li>Banking apps</li> <li>Insurance apps</li> <li>Trading apps</li> </ul>	High	Self managed DC and DR	Medium	Low	High	<ul style="list-style-type: none"> <li>Provision of remote IT infrastructure</li> <li>Provision of laptops</li> <li>Increased use of collaboration tool</li> </ul>	<ul style="list-style-type: none"> <li>Moving large set ups to cloud</li> <li>Moving to third-party DC</li> </ul>	High
<b>Pharma distribution company</b>	<ul style="list-style-type: none"> <li>Order management</li> <li>Warehouse management</li> <li>Collection management</li> <li>Payment acceptance</li> </ul>	High	Cloud-based DC and DR	Medium	High	High	<ul style="list-style-type: none"> <li>Setting up WFH culture</li> </ul>	<ul style="list-style-type: none"> <li>Tech First Digital First mentality</li> </ul>	Low
<b>IT services company</b>	<ul style="list-style-type: none"> <li>IT app maintenance and development</li> <li>Azure app development</li> </ul>	High	Self managed DC and DR	High	Low	Medium	<ul style="list-style-type: none"> <li>Connectivity</li> <li>Provision of end points</li> <li>IT security</li> </ul>	<ul style="list-style-type: none"> <li>Adopting to be an agile IT team</li> <li>IT BCP revamp</li> </ul>	High
<b>Digital media service provider</b>	<ul style="list-style-type: none"> <li>Transactional communication provision such as SMS, emails, voice, OTP, and chatbots</li> </ul>	High	Cloud-based DC and DR	Medium	High	High	<ul style="list-style-type: none"> <li>Security and compliance issues</li> </ul>	<ul style="list-style-type: none"> <li>More IT security emphasis</li> </ul>	Medium
<b>Real estate consulting</b>	<ul style="list-style-type: none"> <li>Internal apps</li> </ul>	High	Self managed DC and DR	High	Low	Medium	<ul style="list-style-type: none"> <li>Setting up WFH culture</li> </ul>	<ul style="list-style-type: none"> <li>Cloud adoption</li> </ul>	Medium
<b>Cyber Security Service Provider</b>	<ul style="list-style-type: none"> <li>Cyber Security Solutions</li> </ul>	High	Self managed DC and DR	Medium	Low	High	<ul style="list-style-type: none"> <li>Provision of remote IT infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Provision of smart IT solution</li> </ul>	Medium
<b>Flexible Packaging Organisation</b>	<ul style="list-style-type: none"> <li>Graphic Design systems working on high end Mac OS</li> </ul>	High	Self managed DC and managed service DR	Medium	Low	Medium	<ul style="list-style-type: none"> <li>Increased use of collaboration tools</li> <li>Provision of remote IT infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Improvements in data loss protection</li> </ul>	High

On 23 March 2020, Sensex lost 3,934.72 points (13.15%) and Nifty plunged 1,135 points (12.98%) at 7610.25 as coronavirus-led lockdowns across the world triggered fears of a recession. However, since then the markets have recovered and is reaching all time highs near Sep'21 with IT and FMCG sectors have been the main drivers. According to Nasscom, the IT services industry grew 2.7% to \$99 billion in 2020-21. The wider industry including e-commerce, business process management and global back offices had grown 2.3% to \$194 billion in last fiscal year.



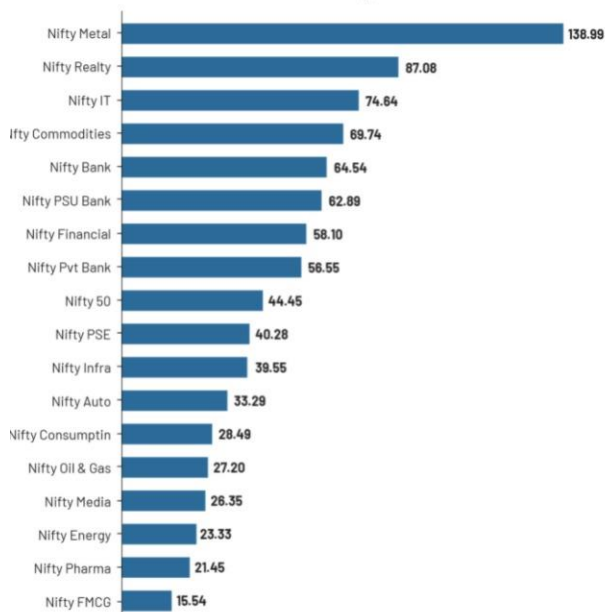
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## Post-pandemic Trend Expectations

The Indian IT industry will stage a 'strong recovery' in 2021-22 with a revenue growth of up to 11%, ratings agency Crisil reported. The below chart captures YoY returns of Nifty indices from Mar 2021 (pre-lockdown). And it shows that Nifty IT has shown the third highest returns, after Nifty Metal and Nifty Realty, reflecting positive sentiment in the market for the industry.

**Sectoral indices: one-year returns**



Demand environment remains strong and is led by –

(1) acceleration in the digital transformation program including cloud and business

(2) transformation, which leads to availability of digital deals of all sizes

(3) greater focus on higher outsourcing by global clients and an increase in offshoring after the pandemic

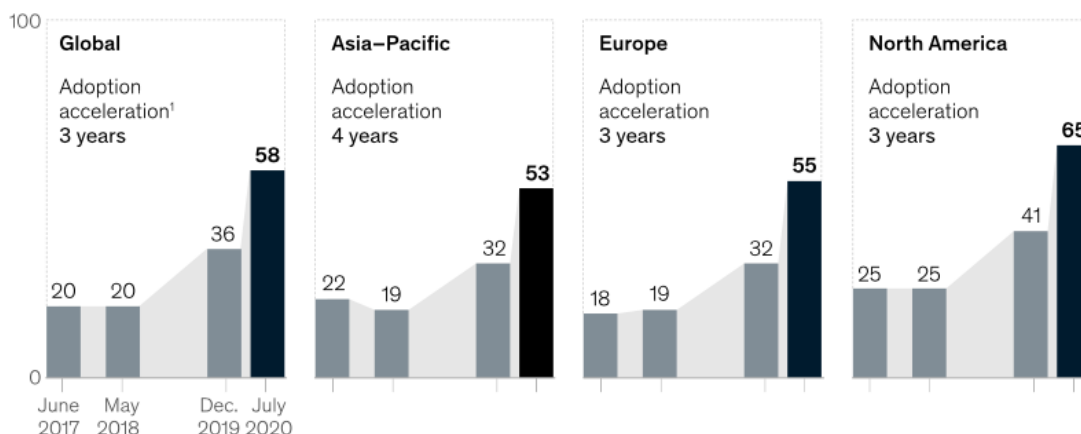
(4) rising spends on core transformation. Large digitization deals and growth in core markets such as Europe are expected to drive growth in the next 2-3 years.

Cloud and advanced analytics remain the prime focus areas among enterprises. It is estimated that 60-70% of workloads would be shifted to public cloud in the next 3-4 years from 15-20% currently. However, margins could be impacted in the medium term by supply-side challenges, discretionary cost normalization, unsustainable utilization rates and measures to retain talent.

## The COVID-19 crisis has accelerated the digitization of customer interactions by several years.

Average share of customer interactions that are digital, %

■ Precrisis ■ COVID-19 crisis



<sup>1</sup>Years ahead of the average rate of adoption from 2017 to 2019.



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## Peer Group Financials

### IT Services: valuation metrics

Company	MCAp (INR bn)	CMP (INR)	TP (INR)	EPS (INR)				P/E (x)				RoE (%)				\$ Rev CAGR% FY21-24	EPS CAGR% FY21-24
				FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E		
TCS	13,143	3,553	3,775	90.2	103.4	118.6	132.8	39.4	34.4	29.9	26.7	39.1	43.4	47.2	49.2	11.8	13.8
Infosys	7,403	1,742	1,780	46.2	50.8	59.9	67.2	37.7	34.3	29.1	25.9	27.3	28.8	33.6	34.6	13.5	13.3
Wipro	3,477	635	665	19.7	22.7	25.5	29.7	32.2	27.9	24.9	21.4	19.4	21.3	21.4	22.3	15.4	14.7
HCL Tech	3,102	1,143	1,230	45.9	49.5	57.8	65.4	24.9	23.1	19.8	17.5	22.4	21.1	22.0	22.2	11.0	12.5
TechM	1,365	1,414	1,530	51.1	61.7	71.8	80.8	27.7	22.9	19.7	17.5	19.3	20.9	22.3	22.8	12.2	16.5
<b>Tier-1 IT Median</b>								<b>32.2</b>	<b>27.9</b>	<b>24.9</b>	<b>21.4</b>	<b>22.4</b>	<b>21.3</b>	<b>22.3</b>	<b>22.8</b>	<b>12.2</b>	<b>13.8</b>
LTI	863	4,959	5,020	111.3	125.4	152.6	181.8	44.6	39.6	32.5	27.3	29.8	27.5	28.3	28.2	18.7	17.8
Mindtree	497	3,017	3,035	70.3	76.5	92.8	109.4	42.9	39.4	32.5	27.6	29.7	26.8	27.5	27.3	17.8	15.9
Mphasis	530	2,842	3,300	65.3	76.7	97.6	122.7	43.5	37.1	29.1	23.2	19.7	20.8	23.6	25.9	17.1	23.4
L&T Tech	399	3,825	3,035	60.1	83.7	97.4	119.3	63.7	45.7	39.3	32.1	20.1	23.1	22.9	23.9	15.6	25.7
Tata Elxsi	294	4,715	4,400	59.1	80.5	101.2	118.7	79.8	58.6	46.6	39.7	30.1	35.2	37.5	35.3	24.3	26.2
Persistent	245	3,212	3,420	59.0	86.3	104.4	123.6	54.5	37.2	30.8	26.0	17.4	21.8	22.5	22.8	22.1	28.0
Cyient	105	953	1,100	33.8	42.6	52.3	57.9	28.2	22.4	18.2	16.5	13.5	15.2	17.3	17.5	13.0	19.7
Zensar	104	457	525	15.3	18.2	21.6	26.2	29.8	25.0	21.2	17.5	15.7	16.3	17.5	19.1	12.4	19.6
Sonata	93	890	950	23.5	33.1	41.4	49.1	37.9	26.9	21.5	18.1	31.0	35.3	38.1	38.7	20.1	27.9
Mastek	63	2,499	2,930	73.5	94.7	122.0	144.8	34.0	26.4	20.5	17.3	25.4	28.1	29.2	27.9	18.4	25.4
<b>Mid-Tier IT AVG</b>								<b>45.9</b>	<b>35.8</b>	<b>29.2</b>	<b>24.5</b>	<b>23.2</b>	<b>25.0</b>	<b>26.4</b>	<b>26.7</b>	<b>17.9</b>	<b>22.9</b>
<b>Mid-Tier IT Median</b>								<b>43.2</b>	<b>37.1</b>	<b>29.9</b>	<b>24.6</b>	<b>22.7</b>	<b>25.0</b>	<b>25.6</b>	<b>26.6</b>	<b>18.1</b>	<b>24.4</b>

Source: HSE Research, CMP as on 17<sup>th</sup> Aug 2021

### Global IT Peers: valuation metrics

Company	MCAp (USD bn)	CMP USD	TP	EPS (USD)				P/E (x)				RoE (%)				\$ Rev CAGR% FY21-24	EPS CAGR% FY21-24
				FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E		
Accenture	218.3	328	NA	8.8	9.8	10.8	12.8	37.1	33.3	30.4	25.5	31.3	30.5	29.3	32.3	8.5	9.3
Cognizant	40.2	76	NA	3.4	4.0	4.5	4.8	22.4	18.9	17.2	15.9	12.7	18.4	18.3	17.2	12.1	9.0
Capgemini^	32.1	190	NA	7.3	8.1	9.3	10.5	26.1	23.5	20.4	18.2	13.2	19.7	19.8	19.2	12.0	13.7
EPAM	34.8	614	NA	6.3	8.4	10.5	13.0	96.8	72.9	58.3	47.3	18.3	21.0	22.5	22.1	46.5	24.2
Globant	11.5	275	NA	2.5	3.4	4.1	4.9	112.2	81.1	66.4	56.4	8.2	13.0	12.4	12.0	46.0	19.9
TietoEVRY^	3.5	29	NA	2.2	2.3	2.5	2.7	13.6	12.6	11.7	11.1	5.7	16.1	13.9	14.6	3.3	6.9
<b>Global IT AVG</b>								<b>51.4</b>	<b>40.4</b>	<b>34.1</b>	<b>29.1</b>	<b>14.9</b>	<b>19.8</b>	<b>19.4</b>	<b>19.5</b>	<b>21.4</b>	<b>13.8</b>
<b>Global IT Median</b>								<b>31.6</b>	<b>28.4</b>	<b>25.4</b>	<b>21.9</b>	<b>13.0</b>	<b>19.1</b>	<b>19.0</b>	<b>18.2</b>	<b>12.0</b>	<b>11.5</b>

Source: HSE Research, CMP as on 17<sup>th</sup> Aug 2021, ^ in EUR

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## Peer Group Financials

Exhibit 3: Constant-currency and organic constant-currency growth for companies under coverage

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21E
<b>C/C revenue growth (qoq, %)</b>								
TCS	(1.2)	(6.9)	4.8	4.1	4.2	2.4	4.0	2.6
Wipro IT	0.4	(7.5)	2.2	3.4	3.0	12.0	8.1	4.4
Infosys	(0.8)	(2.0)	4.0	5.3	2.0	4.8	6.3	3.7
HCL Technologies	0.8	(7.2)	4.5	3.5	2.5	0.7	3.5	4.5
Tech Mahindra	(3.3)	(6.3)	2.9	2.8	0.7	3.9	7.2	4.6
L&T Infotech	4.7	(4.7)	2.3	5.3	4.4	4.8	8.9	6.3
Mindtree	1.9	(9.1)	2.4	4.6	4.8	7.6	13.4	5.2
Mphasis	1.5	(4.6)	6.0	1.6	2.0	5.9	6.6	5.4
LTTS	(1.1)	(12.7)	2.9	6.6	3.8	4.3	6.0	5.0
<b>C/C revenue growth (yoy, %)</b>								
TCS	3.0	(6.3)	(3.2)	0.4	5.9	16.4	15.5	13.8
Wipro IT	2.6	(4.4)	2.0	(2.0)	0.5	21.3	28.1	29.8
Infosys	6.4	1.5	2.2	6.6	9.6	16.9	19.4	17.9
HCL Technologies	13.5	1.0	(0.4)	1.1	2.6	11.7	10.5	11.3
Tech Mahindra	4.1	(1.8)	(3.0)	(4.6)	(1.3)	10.1	15.5	16.6
L&T Infotech	17.4	10.6	10.5	7.4	7.1	17.8	25.5	26.5
Mindtree	7.8	(4.6)	(4.0)	(1.0)	2.3	20.1	33.7	34.2
Mphasis	11.1	3.8	6.7	4.3	4.9	16.3	17.7	20.6
LTTS	3.4	(10.9)	(10.6)	(5.2)	(0.6)	18.6	22.3	19.9

Exhibit 4: EBIT margin trends for companies under coverage

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21E
TCS	25.1	23.6	26.2	26.6	26.8	25.5	25.6	25.4
Wipro IT	17.3	19.0	19.3	21.7	21.0	17.8	17.7	17.5
Infosys	21.2	22.7	25.3	25.4	24.5	23.7	23.6	22.9
HCL Technologies	20.9	20.5	21.6	22.9	20.4	19.6	19.0	19.5
Tech Mahindra	10.0	10.1	14.2	15.9	16.5	15.2	15.2	15.2
L&T Infotech	16.7	17.4	19.9	20.6	19.4	16.4	17.2	17.4
Mindtree	13.8	15.1	16.7	19.6	18.6	17.7	18.2	18.5
Mphasis	16.3	15.7	16.1	16.4	16.1	15.9	15.1	15.3
LTTS	15.2	12.1	13.7	15.2	16.6	17.3	18.4	17.5

Source: Companies, Kotak Institutional Equities estimates

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## Key Deals

- Wipro Ltd acquired LeanSwift Solutions Inc for USD 21.00 M. The transaction was announced on 15/12/21 and completed on 31/12/21.
- In May 2021, Infosys entered a partnership with Majesco, a New Jersey-based cloud insurance software solutions provider, to enable insurance companies to aid in digital adoption and transformation across the insurance value chain.
- In May 2021, HCL Technologies (HCL) announced a multi-year contract with Hitachi ABB Power Grids to build a new greenfield digital foundation as part of a global transformation programme. Through this engagement, HCL will help Hitachi ABB Power Grids establish a new, efficient and modern independent IT organisation.
- In May 2021, Tata Consultancy Services (TCS) joined forces with VIAVI Solutions, a network test, measurement and assurance solutions company, to launch new test solutions that address the industry's need for comprehensive testing of next-generation disaggregated 5G radio access network (RAN) products.
- In May 2021, Tata Consultancy Services (TCS) partnered with LACChain, an initiative led by IDB Lab, the innovation laboratory of the Inter-American Development Bank Group, to boost adoption of a blockchain ecosystem across Latin America and the Caribbean.
- In May 2021, Tata Consultancy Services (TCS) launched TCS Pace Port, a co-innovation and advanced research centre, in Amsterdam, the capital of the Netherlands.
- In May 2021, IT services providers—Infosys, HCL Technologies, Wipro and Mphasis announced their plans to create 3,500 jobs in the UK over the next few years to support the country's economic recovery and growth.
- On January 13, 2021, TCS introduced a customised version of 'TCS Cloud Exponence' on Microsoft Azure, its flagship cloud management and orchestration platform, to offer smart managed services in hybrid cloud environments.
- In November 2020, Wipro partnered with Cisco to deliver managed software-defined wide area network (SD-WAN) transformation services to Olympus, a medical devices and systems company in headquartered in Tokyo, Japan.
- In November 2020, Tata Consultancy Services (TCS) announced that it is developing an investment insights solution, leveraging SAP's Business Technology Platform, for the capital markets industry.
- In July 2020, Infosys won a multiyear deal worth \$1.5 BN from investment management company—Vanguard.
- In July 2020, HCL Technologies signed a five-year deal worth \$ 600MN with telecom equipment maker—Ericsson.
- In February 2020, TCS bagged a contract worth \$1.5 BN from pharma company, Walgreens Boots Alliance.
- More liberal system for raising capital, seed money and ease of doing business.

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## Company Wise Comments

Overall demand commentary was positive with all companies expecting accelerated growth over the next 3-5 years. Deal pipelines remain near all-time highs led by mid-sized deals, Mega deals are more likely in 2022/23. Most companies expect supply pressures to continue over next 2-3 quarters driving volatility in margins. We raise our PTs by 11-18% on higher multiples. Infosys/HCLT remain top picks.

### Tata Consultancy Services

#### Deal Momentum

- TCS' deal win momentum has been strong, even without mega deals. The company's growth is based on winning a meaningful share of US\$50-300m deals.
- TCS is seeing increasing number of transformative deals which are smaller in tenure, as they comprise a series of multiple contracts of 12-15 months tenure.

#### Demand/Revenue growth

- Strong demand environment is sustainable and double-digit revenue growth is possible over the next 3-5 years
- Cloud migration is the first step which would unlock Growth and Transformation (G&T) opportunities as enterprises look to leverage the native capabilities of Cloud

#### Margin outlook

- Expect margins to sustain at current levels driven by robust demand and strong pricing environment and sustain industry leading margins of 26-27%
- Margin headwinds: 1) Normalization of travel costs; 2) Higher employee costs; 3) Elevated subcontracting costs
- Margin Tailwinds: 1) Revenue growth; 2) Operational efficiencies

#### Supply Pressures:

- Attrition should go up over the next 3 quarters. 11-12% is an average level of attrition which peaks at ~14-15%.
- Company does not see any shortage of talent; has re-imagined the hiring process through its nation-wide test and plans to hire 40k freshers in FY22

#### Other Comments

- Pricing: TCS has been able to maintain stable pricing, resulting in stable margins. While TCS leverages automation and other technologies in outsourcing deals, pricing is not a key issue in G&T deals.
- Investments: 1) Investment of US\$2bn over the next 3 years on new technologies, mainly related to cloud; 2) Employee re-skilling; 3) Research and Innovation; 4) Intellectual property.

### Infosys

#### Demand/Revenue growth

- Client spends have increased both on digital and traditional areas. Tech spends on Cloud have increased significantly and total addressable market has increased.
- Cloud adoption, Data analytics, Cost takeout are some key themes for IT spending.
- Europe is seeing good traction and some markets are showing increased acceptance to offshoring to Indian IT services companies.
- Expect revenue growth in 2QFY22 to be the strongest while 3QFY22 would be weaker on account of furloughs.

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## Deal Momentum

- While FY21 deal TCV was an aberration, and it is difficult to win mega deal every year, deal pipeline remains strong
- Bulk of the business continues to be from existing clients. In FY21, 2/3rd of the business was new business and the balance was from existing clients
- There has not been any client hesitation on deal activity/conversion due to lack of travel

## Margin outlook

- FY22 guided range of 22-24% EBIT margin is also higher compared to pre-covid levels, and Infosys remains comfortable with the guidance
- Most large deals are cost takeout which have lower margins near term but are not margin dilutive medium term.
- Digital deals have higher margins on account of higher billing rates, with similar onsite-offshore mix compared to other projects
- Employee pyramid has become richer and is an area of cost optimization, and the company will continue to hire freshers. Utilization of ~85% is sustainable Employee reskilling has helped control subcontracting costs

## Supply Pressures:

- Infosys acknowledged that supply side pressures have intensified. This has resulted in a pickup in attrition, hiring/retention costs and subcontracting costs Increased fresher intake, reskilling employees in digital technologies, identifying and incentivising employees through digital skill tags and providing better growth opportunities based on skill sets are some of the steps that have been taken by the company to manage supply side pressures

## Other Comments

- Pricing: Price increases are taking place in a few instances. Difficult to get a price increase in ~45% of the business (Core business), but looking at price increases in the remaining 55%
- Pressure from Captives has reduced. Captives haven't made investments in new skill sets and have limited ability to hire high quality talent. Hiring has also reduced compared to 3 years ago.

## HCL Technologies

### Demand/Revenue growth

- HCL Tech expects to achieve higher growth than the 2.8% CQGR implied by its double-digit revenue growth guidance in FY22, with growth acceleration in FY23 Company expects growth outperformance vs peers over the next five years.
- Revenue growth is broad-based, but manufacturing and Public services verticals still lagging.
- Company continues to see growth in ERS, but expects low-mid single digit growth in Products near term and high-single digit medium term

## Deal Momentum

- Deal momentum continues to be strong. Public cloud continues to be a strong driver of deal wins.
- Mega deals likely to be bunched up in 2022/23, so not many mega deals to take place in FY22
- Ramp-up kind of deals, which HCL Tech has been winning, take 3-4 months to convert to revenues. Deals won in 4QFY21, should start showing in revenue in 2QFY22

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## Other Comments

- Pricing: Pricing has not gone up materially, as the company is looking to maintain a harmonious balance between the various stakeholders
- Products and Platforms: Company continues to invest in R&D and many products are doing well. HCL Tech took a conscious decision to not sell services with products within the first two years of IBM acquisition, but starting to do that with a slow and cautious approach now
- Investments: 1) Investment in new markets which include 5 focused markets and 7 frontier markets; 2) P&P sales and 3) Cloud. Acquisitions would be limited to a size of US\$50-100m

## Tech Mahindra

### Demand/Revenue growth

- Company expects strong growth momentum to continue and expects double-digit revenue growth across all verticals in FY22
- TechM believes that Cloud migration is going to be a very big opportunity and thinks that Cloud will evolve in networks in the same way as cloud evolved in IT. 5G spends are largely driven by network side which includes modernization and transformation spends. Cloud migration, Cx, OSS/BSS spends have started to come significantly.
- Seeing pickup in activity levels in 5G for ecosystem, which is expected to increase with network ramp up. 5G for Enterprise is still some time away. 5G is still in wait and watch mode across most telcos.
- Offshoring and lower TCO for clients remains a competitive advantage for Indian IT firms and would drive market share gains

### Deal Momentum

- Company is witnessing broad-based deal booking across verticals and expects deal wins to be above the average levels of US\$400-500m in 2QFY22 as well.
- Specific Deals: TechM won the larger portion in the Telefonica deal. The BPS deal in healthcare vertical was from a client of HCI (portfolio company of TechM) and TechM was able to expand the array of services to them.

### Margin

- Supply side pressures are associated more with timing rather than availability of talent, especially on the digital front. This is driving cost escalation. Attrition has picked up and there is a need to backfill the talent.
- Attrition is likely to remain elevated for the next 12-15 months and subcontracting costs would also remain elevated for a few quarters.
- While competition among IT peers is for 3-8 years experienced employees, competition for employees with up to 1 year experience is from startups.
- The company believes that another 10-15% wage hike would be futile given employees leaving the firm for 30-40% higher salaries
- Company expects profitability to improve and is comfortable with 15% EBIT margin guidance for FY22. BPS margins are expected to be in 20-25% range While older portfolio companies have undergone restructuring, those acquired post 2018 are witnessing healthy growth and margins. The company expects portfolio companies to do well and see them as a margin lever as well

## Other Comments

- Pricing: Looking for price increases in a few accounts, where the company has some pricing power and where the skill-sets needed are niche
- Investments: 1) Investing in sales in US and Europe; 2) BFSI, Hi-Tech and Healthcare verticals and across all competencies; 3) Small tuck-in acquisitions of US\$ 30-100m size, most around strengthening digital capabilities

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## **Mindtree**

### Demand/Revenue growth

- Mindtree is confident on multi-year growth outlook, with digitalisation gaining prominence.
- FY23 is likely to be strong as Travel, Transportation and Hospitality (TTH) vertical is a key differentiator for Mindtree and the company is seeing some green shoots here.
- Furthermore, investments in healthcare, IoT and other technologies will add to revenue momentum in FY23.
- Europe is a big opportunity in implementation services and the company is now focussing on tapping materiality into the European market.

### Deal Momentum

- Deal pipeline is at an all-time high. Order book reflects a good mix of renewals and new deals. 1H order book to be strong.
- Closure of deals has accelerated as clients look to kickstart projects faster. Most of the deals are now 2-3 year duration vs 1-year duration earlier.
- There is an increase in outcome based deals.

### Margin

- Company acknowledges supply side pressures. Attrition has picked up but may settle in 2-3 quarters.
- Mindtree has taken several initiatives to manage supply side pressures: 1) Step up fresher hiring; 2) Provide a strong career path to employees; 3) Facilitate pull driven (Employee driven) re-skilling approach; 4) Work from home is also helping retention
- Comfortable with 20% EBITDA margin target for FY22.
- Margin Tailwinds: 1) Revenue Growth; 2) Campus hiring leading to pyramid rationalization; 3) Offshoring;
- Margin Headwinds: 1) Near term margin dilutive deals; 2) Investments in gaining market share; 3) Higher employee costs
- Travel expenses won't rise substantially. Mindtree plans on operating on a remote delivery model till at least mid of next calendar year. Clients have become lot more comfortable through virtual mode.

### Other Comments

- Pricing: There was no increase in renewal rates. However, pricing was at a premium for niche talent.

Investment - 1) Investing in Eastern Europe; 2) Incubated healthcare vertical recently and would invest in that; 3) Tuck-in M&A for strengthening capabilities, contributing to 1-2% of revenue and would not go for large acquisitions.

## **Persistent Systems**

### Demand/Revenue growth

- Expects demand to remain healthy for the next 2-3 years. The company aims to achieve industry-leading growth.
- Persistent expects an increase in revenue run-rate from ~US\$668m at present to US\$1bn over the next 2-3 years.
- Higher offshoring as a result of the pandemic bodes well for Indian IT services players and would lead to market share gains

### Deal Momentum

- Company has won a few longer tenure deals of 3-5 years horizon, driven by deeper engagement with clients and proactively approaching clients for longer tenure deals.
- The company has been more proactive and has not relied on RFP process alone to win deals and also maintains a list of prospective clients.

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- Persistent has been a beneficiary of vendor consolidation, which has also resulted in a few large deals

## Margin

- Persistent has hired ~4,000 employees over the last nine months. While attrition for Persistent is higher than the IT services peers, it is in line with like- to-like peers.
- The company also hires 1000-1500 freshers each year, who are trained for a period of 3 months, before becoming billable in 6-9 months.
- The company has taken several steps to manage supply side pressures: 1) Doubling the headcount in the recruitment team; 2) looking at long term employee incentives; 3) Approaching clients to negotiate on price increases.
- The company expects a 16-17% EBITDA margin range in the short to medium term and expand beyond that with scale benefits.
- Company believes that Margin is a function of revenue growth, opex efficiencies and some pricing power, while travel will still take time to come back.

## Other Comments

- Pricing: The company has realised better pricing power in some accounts, but believes overall has higher pricing power given the non-commoditised nature of work.
- Investments: 1) Investing in Europe to increase revenue contribution to 15% from 10% at present; 2) US\$10-50m string of pearl acquisitions to strengthen BFSI and Healthcare verticals and capabilities in Cloud, security and data Work from Home: Expected to result in work from more locations but would probably not evolve into a permanent work from anywhere scenario.

## Cyient

### Demand/Revenue growth

- External drivers suggest that growth in FY23 will be better than FY22. Also driving internal efforts with reorganization and focus on sales.
- Design Led manufacturing (DLM) is expected to grow at 15-20%, but the share of DLM would not change in the medium term.
- Services business is expected to witness double-digit growth in FY22, with non- aero divisions expected to grow ~15% YoY
- Communication and Utilities vertical expected to grow at double-digits, driven by growth in North America and Australia. The vertical still depends on conventional telecom rather than 5G.
- Aerospace vertical is stabilizing and the company expects flat to 5% growth in this vertical.

### Deal Momentum

- Cyient is seeing good demand revival in each segment and strong traction on deal wins.
- There hasn't been any material change in deal size and duration

### Margin

- The entire industry has seen a pickup in attrition to above 20% levels. The company expects supply side challenges to stabilize in the next 12-24 months, as balance between supply and demand is restored. Cyient expects its steady state attrition to be 15-20%
- Cyient highlighted a shortage of 100-200 employees on the digital front. The company has stepped up on recruitment significantly, but acceptance ratio in digital remains as low as 50%.
- The company is taking several steps to counter supply side pressures: 1) Enhance recruitment engine to step-up hiring; 2) Tie-up with third-party partners; 3) Utilise retention measures with better salary structures to employees and ESOPs/RSUs to middle and senior management.
- DLM: Improve margin from 6-8% at present to 8-10% medium term. Higher contribution from Non-Indian and Israel business should help achieve 10% margin.
- Services: Expect 14-15% margin in short term and 16-17% longer term as the company moves into higher margin business.



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## Other Comments

- Pricing: Cyient notes that customers are sensitive around price increases but there are some green shoots. The company has seen some price increases taking place around renewals.
- Investments: 1) Verticals - Automotive, Communication equipment, Software; 2) Capabilities - Network technology, clean technology, Digital transformation; 3) Growth opportunities in Medical, semiconductor and mining sectors; 4) Would be fairly aggressive on M&A

## Happiest Minds Technologies

### Demand/Revenue growth

- Management expects 20% organic revenue growth in the medium to long term basis
- The company expects 300+ net adds in each of the next 3-4 quarters which is a good reflection of the strong demand environment.

### Deal Momentum

- The company has 180 customers but sees possible improvement in US\$10m+ accounts through effective client mining.

### Margin

- Management acknowledged that there is a war for talent particularly for employees with 2-6 years of experience, which has led to higher attrition and increased hiring and retention costs
- The company expects medium-long term EBITDA margin of 22-24% (26% at present) as it would need to invest to capture new opportunities. Also, there are margin headwinds like higher employee costs and normalisation of travel expenses.

## Other Comments

- Pricing: Billing rates for Happiest Minds are higher than Indian IT services companies and in-line with European peers adjusted for purchasing power parity. The company does see ~5% price increase across all contracts on renewal. Management would cautiously try to exercise pricing power or pass on some costs.
- M&A: The company is open to acquisitions, but will only acquire if the acquisitions is EPS accretive and meets the profitability requirements.

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## Government Initiatives for IT

- In Budget 2021, the government has allocated Rs. 53,108 crore (US\$ 7.31 billion) to the IT and telecom sector.
- In order to establish an enabling environment for the IT industry, in April 2021, the Centre for Development of Advanced Computing (C-DAC) launched three innovative technologies Automatic Parallelizing Compiler (CAPC), Cyber Security Operation Centre (CSoC) as a Service, and C-DAC's indigenous High-performance Computing software solutions—Parallel Development Environment (ParaDE).
- In May 2021, MyGov, the citizen engagement platform of the Government of India, in partnership with the Department of Higher Education launched an innovation challenge to create an Indian language learning app.
- In January 2021, India and Japan signed a MoU to enhance cooperation in the field of information and communications technologies, aiming to increase engagement in areas of 5G, AI and submarine fibre cable network.
- India's Ministry of Home Affairs and the National Critical Information Infrastructure Protection Centre are working on a new national strategy to strengthen the country's cybersecurity amid allegations that Chinese intrusions may have affected operations at a key stock exchange and supply of electricity in Mumbai.
- Tax holidays for STPI and SEZs.

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## Summary

- India has a low-cost advantage by being 5-6 times inexpensive than the US.
- Indian IT firms are more focused on B2B business as compared to US where B2C business is more prevalent.
- A preferred destination for IT & BPM in the world, IT continues to be a leader in the global sourcing industry with 52% market share (as of FY20) in services exports from the country.
- Strong growth in demand for export from new verticals.
- India's IT-BPM sector market is projected to reach US\$ 300 billion by 2025.
- According to Gartner estimates, IT spending in India is estimated to reach US\$ 93 billion in 2021 (7.3% YoY growth) and further increase to US\$ 98.5 billion in 2022.
- IT & BPM industry is well diversified across verticals such as BFSI, telecom and retail, with BFSI as the biggest contributor.
- Companies highly focus on increasing strategic alliance between domestic and international players to deliver solutions across the globe.
- In Union Budget 2021, the allocation for IT and telecom sector stood at Rs. 53,108 crore (US\$ 7.31 billion).
- India's Ministry of Home Affairs and the National Critical Information Infrastructure Protection Centre are working on a new national strategy to Indian IT firms have delivery centers across the world.
- There is a significant push towards cloud services which has boosted hyper-scale data center investments and India is expected to gain a significant share in the global market, with the country's investment expected to hit ~US\$ 5 billion annually by 2025.

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