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Technology

Bounce-back! Charting the path to revival for IT services

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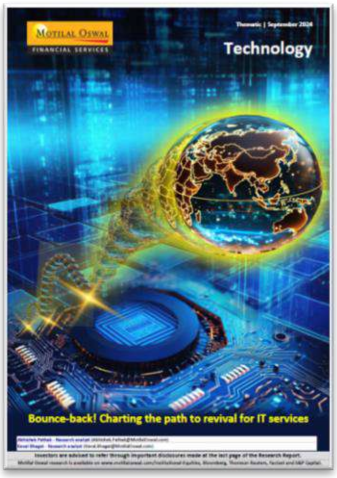
Technology | Bounce-back!

Companies covered in the report

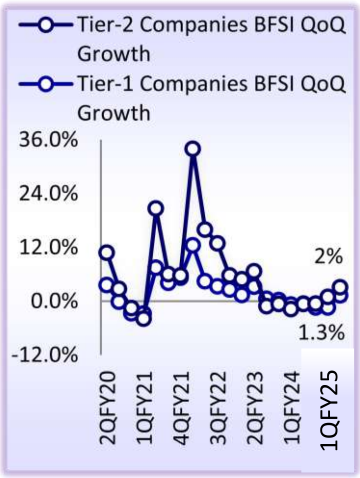
Technology



Technology spending as a % of revenue – Top US banks

Source: Companies, MOFSL

Sequential BFSI revenue trends for Top-tier and Mid-tier



Source: Companies, MOFSL

Bounce-back! Charting the path to revival for IT services

- **The IT services sector could be on the cusp of recovery after enduring a prolonged period of discretionary spending cuts. As we look ahead to the next 2-4 years, the harsh winter appears to be behind us, and the foundations for a sustained revival in the flow of business and smaller deals are being laid. This report seeks to uncover the key drivers of client spending behavior and identify the necessary shifts to spur a new wave of growth.**
- **The report is divided into three sections. First, we assess the current state of affairs by examining various verticals to pinpoint the most affected sectors and comprehend the root causes of the downturn. We separate fact from fiction regarding client behavior and the contributing factors. Second, we develop scenarios for the sector's recovery in both the short and long terms, exploring potential pathways and triggers for renewed growth. Finally, we highlight stocks poised to benefit from the next wave of client spending. We also introduce our IMPACT framework for stock picking, to ride the short-term and long-term technology trends from hereon.**
- **Our top picks in this framework (details on page 8) are HCL Technologies (TP: INR 2,200; 26% upside), LTIMindtree (TP: INR 7,400; 20% upside), and Persistent Systems (TP: INR 6,300; 22% upside). We estimate HCL to lead revenue growth among large caps over the next three years, driven by its resilient portfolio and engineering services. Our positive outlook on LTIMindtree is based on its best-in-class offerings in data and ERP modernization, with a recovery in US banks' discretionary spending expected to further support its growth. Persistent Systems, with its strong product engineering background, remains the fastest-growing IT services company in our coverage and is well-positioned to benefit from long-term GenAI investments.**
- **Additionally, we are upgrading Coforge to a BUY (TP: INR 8,100; 25% upside) in this report. We believe Coforge can leverage synergies from Cigniti, while healthy growth in its executable order book bodes well for its core business.**

Starting from the bottom, where do we go?

At first glance, the dip in growth rates over the past two years seems to be due to: 1) a pause in client transformation spending after a pandemic-induced spending frenzy on cloud adoption and scalable infrastructure; 2) a generational shift in interest rates and inflation dynamics, which has caught clients unaware; and 3) simple mean reversion. However, a closer look reveals a more nuanced scenario, indicating potential pathways to recovery. The US BFSI sector has been one of the hardest hit, despite banks maintaining their technology spending. Capital-intensive sectors like telecom face structural issues in service spending due to high interest rates and the aftermath of a historic capex cycle. However, we believe that in most sectors, the path to recovery lies not in reversing technology spending cuts but in adapting to a structural change in client behavior that will shape the growth dynamics of the next upcycle.

Global Capability Centers (GCCs): From outposts to strategic capitals

We argue that GCCs have evolved from being mere technological outposts for OECD clients into being strategic decision makers as well as scale players when it comes to implementing IT/transformation programs. This could continue to have a significant impact on the allocation of technology dollars to service vendors. As GCC headcounts (especially for Fortune 500 companies) gain critical mass, the ratio of work between these centers and vendors has steadily tilted inward. Whether this trend continues or not depends on how **linear and predictable or how FAST** the next technology scale-up cycle is.

Service vendors: Still relevant, but this time is different

This should not be construed as the death knell for service vendors. Vendors provide significant benefits in several key areas, the most notable being speed and flexibility. They enable faster go-to-market (GTM) strategies by leveraging industry best practices to speed up product and service delivery. Offering flexibility in staffing, service vendors allow clients to scale operations up or down, ensuring optimal resource utilization. Additionally, domain knowledge is crucial in areas where speed to market needs to be accelerated. These advantages are particularly valued by clients during times of **FAST** change.

To conclude, during periods of predictable demand, clients with large GCCs can build capacity and match service vendors on cost. However, in times of FAST technological advancements or massive demand spikes, GCCs often struggle to scale rapidly enough, making service vendors indispensable. In such situations, work overflows from clients to GCCs to service vendors to sub-contractors, starting a virtuous cycle.

In summary:

Predictable demand + stable technology landscape = Insourcing first

Sudden rise in demand + disruptive technologies = Outsourcing first

Which factors determine the course of recovery for the sector?

The course of recovery for the IT services sector will depend on three key factors that shape client-spending behavior and determine the timing and pace of growth:

- **Interest rate regime in the US:** Potential rate cuts could boost recovery in areas like capital markets and mortgage originations within the BFSI sector and reduce the interest burden for capital-intensive industries, allowing more funds to be allocated to technology investments.
- **Division of work between GCCs and service integrators:** The evolving distribution of work between GCCs and service integrators will impact the recovery trajectory. Verticals with a mature GCC presence may experience a flatter recovery curve, while those with emerging GCC capabilities could see a sharper recovery as they increasingly rely on service integrators for rapid scaling and expertise.
- **Inflection point for "Moonshot" or "Low-ROI" investments:** While companies have focused on short-term, high-return projects to manage costs, this has resulted in accumulating technological debt. The sector's recovery will hinge on when and how different verticals cross their inflection points, beyond which delaying investments is not feasible.

Based on these three factors, we identify **Healthcare, Manufacturing, and BFSI** as the three verticals that could lead the recovery charge for the sector.

GenAI: FAST or LINEAR?

How does GenAI impact this new equilibrium between GCCs and IT services companies? GenAI's potential from IT services' perspective can be anticipated through two phases of technological adoption: **Innovation and Inflection**. Currently, GenAI is in its innovation phase, similar to cloud computing from 2014-2019, where the technology existed but the supporting ecosystem was still developing. Cloud was largely a "good-to-have" technology until the pandemic spurred widespread cloud adoption. However, by this time, most hyperscalers already had platforms and apps to support this revolution, with ecosystem partnerships leveling the playing field for small and large players. GenAI is expected to take **18-24 months** to reach a similar point. During this phase, the nature of work will center around GenAI POCs, preparing the **data estate (data engineering, warehousing, lakeshoring),** and GenAI-led consulting (model selection, training, and similar other initial set-up projects). The inflection phase will begin when enterprises are ready for widespread GenAI deployment, depending on how modernized and next-gen ready their data estate is, and how well established the cybersecurity guardrails are. This phase will bring significant revenue opportunities for service vendors, including **training LLMs, reducing compute costs, cloud migration, and maintaining LLMs.** Admittedly, productivity gains in low-level coding as well as automation in BPO could bring some revenue deflation, but the right offerings could lead to revenue growth, in our view.

Stock picks to play the short-term LINEAR and long-term FAST themes

To play the short-term linear and long-term fast themes, we introduce the IMPACT framework. The IMPACT Evaluation Framework assesses and identifies stocks, which can benefit in the short term from the linear nature of GenAI scale up, and assesses future readiness when the technology finally reaches an inflection point. Key tenets of the framework are as follows:

- **Industry exposure (Verticals):** We favor companies with revenue streams from high-growth verticals such as healthcare, manufacturing, and BFSI.
- **Margin expansion levers:** While margins could be largely rangebound, companies with clear levers, such as offshoring potential, interest us more.
- **Platform and ecosystem partnerships:** Top-tier ecosystem partnerships are crucial for competitive advantage, especially in implementing generative AI as well as data modernization projects. While this is largely a hygiene factor for large caps, small and mid-tier could drive significant differentiation with the right partnerships.
- **Automation threat to service lines:** We prefer companies that proactively integrate automation to mitigate risks in service lines like BPO, testing, and low-level application development and maintenance.
- **Client strategies (mining vs. hunting balance):** A healthy balance between deepening existing client relationships and acquiring new clients is highly valued.
- **Technology readiness (NextGen):** Companies with strong next-generation technology readiness, particularly in data engineering, are better positioned for future success.
- Last, we also look at valuations, but believe the right mix of the above factors outweighs valuations.

Exhibit 1: Comparative Valuations

Company	CMP (INR)	M-cap (INR b)	Target Price	Upside/ Downside	Rating	EPS (INR)				EPS CAGR (%)	P/E			
						FY24	FY25E	FY26E	FY27E	FY24-27E	FY24	FY25E	FY26E	FY27E
TCS	4,450	16,109	5,400	21	Buy	126.3	143.5	155.7	170.6	10.5	35	31	29	26
INFO	1,895	7,846	2,200	16	Buy	58.4	64.0	72.0	80.3	11.2	32	30	26	24
HCLT	1,747	4,732	2,200	26	Buy	57.9	62.5	69.4	77.0	10.0	30	28	25	23
WPRO	515	2,691	500	-3	Neutral	20.4	21.9	24.4	25.7	8.0	25	24	21	20
TECHM	1,579	1,545	1,600	1	Neutral	41.1	44.5	63.6	70.8	19.9	38	35	25	22
LTIM	6,147	1,825	7,400	20	Buy	154.8	167.4	194.4	227.0	13.6	40	37	32	27
MPHL	2,994	569	3,000	0	Neutral	81.8	91.8	104.3	112.1	11.1	37	33	29	27
LTTS	5,595	591	6,600	18	Buy	123.0	129.8	152.7	174.8	12.4	45	43	37	32
PSYS	5,169	794	6,300	22	Buy	75.1	89.2	114.7	133.4	21.1	69	58	45	39
COFORGE	6,491	400	8,100	25	Buy	133.2	150.8	192.7	228.1	19.6	49	43	34	28
CYL	1,960	216	2,300	17	Buy	66.9	71.9	86.7	97.7	13.5	29	27	23	20
ZENT	764	173	760	-1	Neutral	29.1	28.1	31.4	35.7	7.1	26	27	24	21

Source: MOFSL

Story in charts

Key highlights of the report

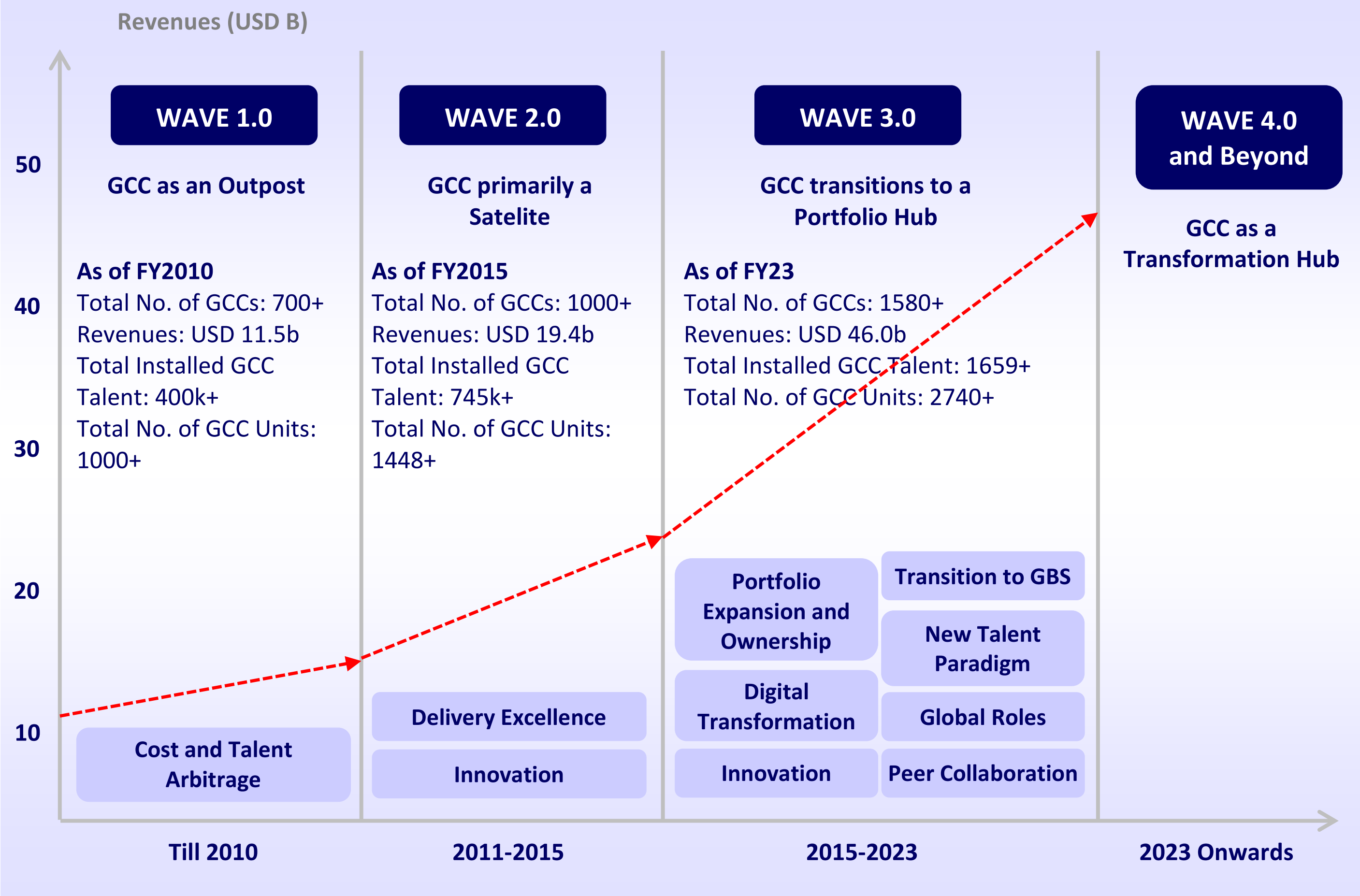
BOUNCE BACK: Charting the path to revival for IT services

We assess the current state of affairs by examining various verticals to pinpoint the most affected sectors and comprehend the root causes of the downturn. We separate fact from fiction regarding client behavior and the contributing factors.

We develop scenarios for the sector's recovery in both the short and long terms, exploring potential pathways and triggers for renewed growth.

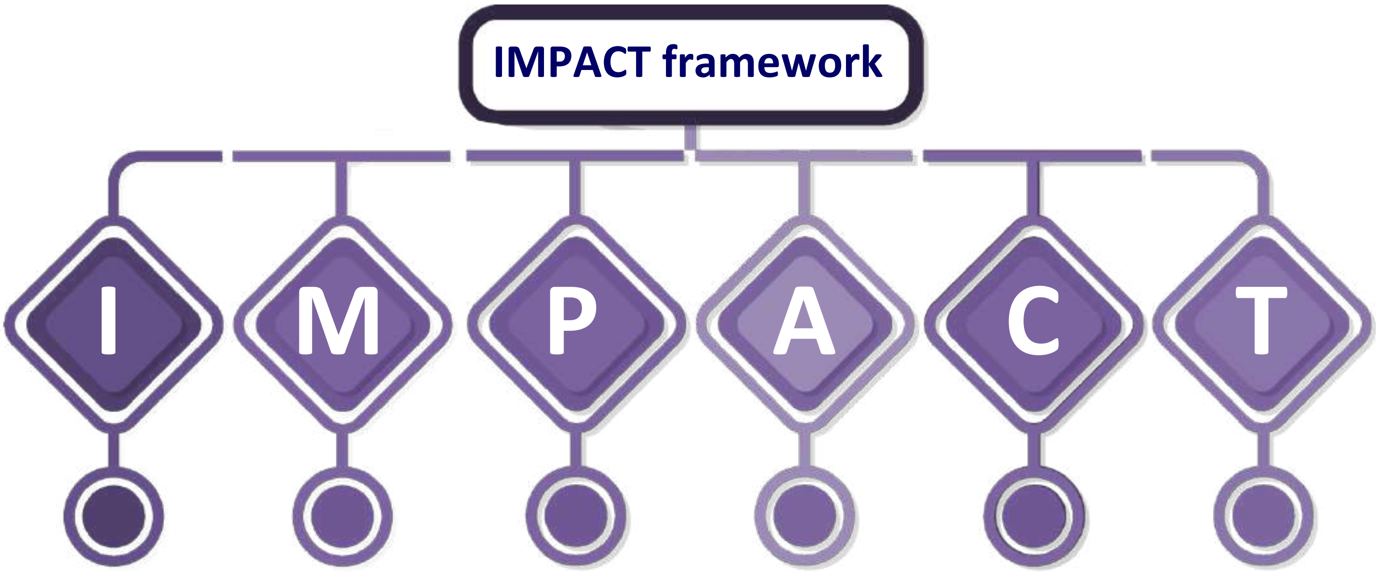
We highlight stocks poised to benefit from the next wave of client spending. We also introduce our IMPACT framework for stock picking, to ride the short-term and long-term technology trends from hereon.

Indian GCC's: From outsourcing outposts to strategically important innovation centers



Story in charts

We introduce our IMPACT evaluation framework to identify stocks that could benefit from the next upcycle



Industry Exposure (verticals)
We favor stocks with revenue streams from high-growth verticals such as healthcare, BFSI, and manufacturing. Conversely, we are less inclined toward sectors like communications, which face structural challenges.

Margin Expansion Levers
We prefer companies with a well-balanced global delivery system and visible levers for margin expansion, such as offshoring.

Platform and Ecosystem Partnerships
Top-tier ecosystem partnerships are crucial, especially as enterprises adopt a guardrails-based approach to implementing generative AI (GenAI). Just as cloud partnerships were pivotal to previous technological advancements, these partnerships will continue to give mid-tier names a competitive edge.

Automation Threat to Service Lines
We carefully assess the vulnerability of companies' service lines to automation and prefer those that are proactively integrating automation to mitigate these risks and enhance productivity.

Client Strategies (Mining vs. Hunting Balance)
We value companies that strike a balance between deepening relationships with existing clients (client mining) and acquiring new clients (client hunting). Mid-tier companies with a healthy mix of anchor clients providing revenue visibility and the ability to secure new logos are particularly attractive.

Technology Readiness (Next-gen Technologies)
Next-generation technology readiness is a key differentiator. We look for companies with advanced partnerships in areas such as data engineering, which will be instrumental in pre-GenAI expenditures.

Story in charts

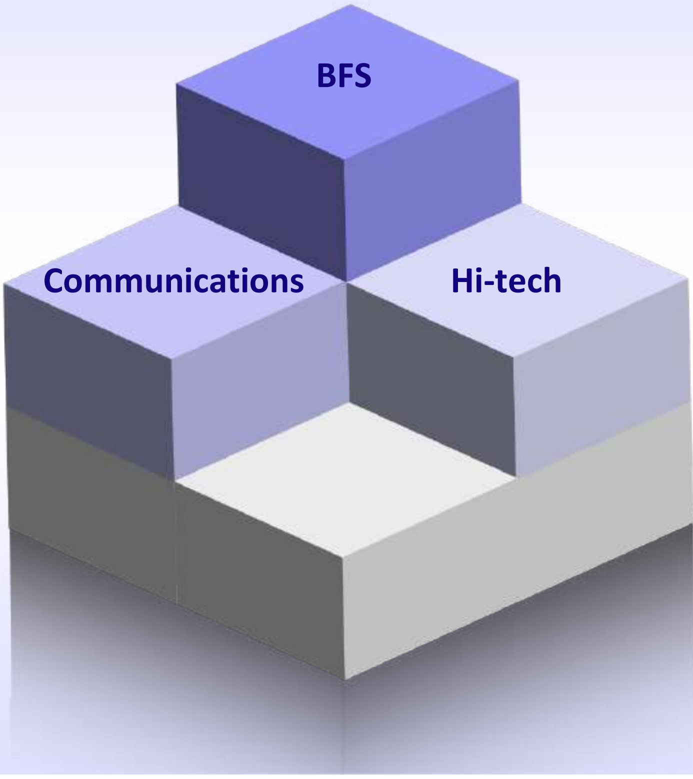
The fragile three: how does revival look like across the three most impacted verticals in the current downturn?

BFSI

BFSI clients in the US are finally coming back for high-priority transformation spends. We read this as the beginning of pre-GenAI spending.

Communications

The communications sector has been hit the hardest. The uncertain macroeconomic environment and a steep rise in interest rates have severely impacted the balance sheets of most wireless communication clients. Despite the extensive rollout of 5G by major carriers in the US, there has not been a corresponding increase in operational expenditure on the technology.

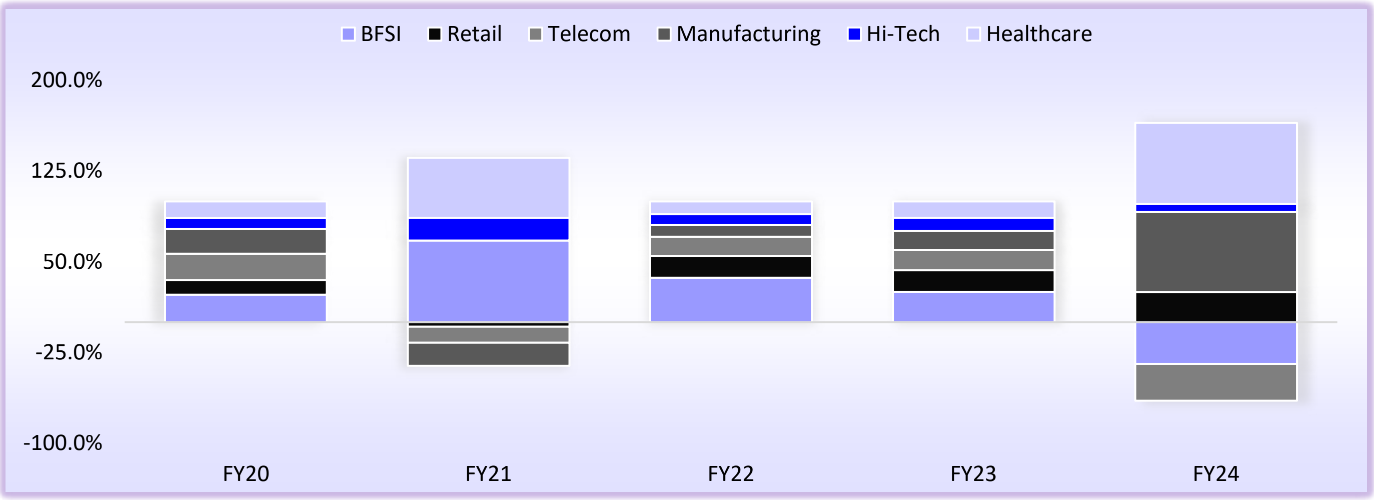


Hi-tech

We believe that the hi-tech industry is currently facing short-term challenges in revenue recovery. Hyperscaler spending has currently shifted to hardware and chips, and we anticipate that it will take some time for this spending to transition from capex to opex. Revenue growth for chip companies has been accelerating, while software vendors are experiencing difficulties. We expect this trend to persist for the next 12-18 months. After that, investments in ecosystems and platforms are likely to accelerate.

Incremental revenue contribution by verticals (%) - top 5 players

BFS, the largest contributor to incremental revenue for top 5 players from FY21 to FY23, has been the largest drag in the past couple of years.



Source: Companies, MOFSL

Story in charts

Healthcare and Manufacturing verticals demonstrate a strong case for growth followed by the BFSI vertical

Ranking Sectors by Recovery	Tailwind from rate cuts	Insourcing threat	Boost from pre-GenAI investments	Overall Rank
Healthcare	●●	●●●	●●●	1
Manufacturing	●●●	●●	●●●	2
BFS	●●●	●	●●	3
Retail	●●●	●●	●●●	4
Hi-tech	●●	●	●●●	5
Communications	●●	●●●	●	6

Source: MOFSL

HCLT and LTIM lead the IMPACT Ranking among Tier-1 companies

IMPACT framework- large caps	Industry exposure (5- best)	Margin expansion (5- best)	Partnerships (5- best)	Automation threat (5: minimum)	Client strategies (5-best)	NextGen readiness (5-best)	Total Score
HCL	●●●●●	●●●	●●●●●	●●●●●	●●●	●●●	24
LTIM	●●●●●	●	●●●●●	●●●●●	●●●	●●●●●	24
Infosys	●●●	●●●	●●●●●	●●●	●●●	●●●●●	22
TCS	●●●	●●●	●●●●●	●●●	●●●	●●●●●	22
Wipro	●●●	●●●	●●●●●	●●●	●●●	●●●	20
TechM	●	●●●	●●●●●	●●●	●●●	●●●	18

Source: MOFSL

PSYS leads the IMPACT ranking among Tier-2 companies

IMPACT framework- mid tier	Industry exposure (5- best)	Margin expansion (5- best)	Partnerships (5- best)	Automation threat (5: minimum)	Client strategies (5-best)	NextGen readiness (5-best)	Total Score
Persistent	●●●●●	●●●	●●●●●	●●●●●	●●●●●	●●●●●	28
Coforge	●●●●●	●●●	●●●●●	●●●	●●●●●	●●●	24
Zensar	●●●	●●●	●●●	●●●●●	●●●●●	●●●	22
LTTS	●●●	●●●	●●●	●●●●●	●●●●●	●●●	22
Mphasis	●●●	●●●	●●●●●	●●●	●●●	●●●	20
Cyient	●●●	●●●	●	●●●●●	●●●●●	●●●	20

Source: MOFSL

As seen in the above exhibits, HCL, LTIMindtree, Persistent, and Coforge score the highest, and are our preferred picks for the sector. We upgrade Coforge to Buy in the report from Neutral.

Understanding the slump, predicting the upswing

What ailed key sectors and where could recovery first take off?

On the whole, there are three key factors, which can explain the dip in growth rates:

- A glut followed by an intense shortage during the pandemic in cloud adoption and scalable infrastructure
- A generational interest rate shift and a labor market (inflation pressures) that caught enterprises (especially capital and debt intensive enterprises) offguard,
- Mean reversion to a steady state rate of technological diffusion.

We take a look at the three weakest verticals to sift fact from fiction:

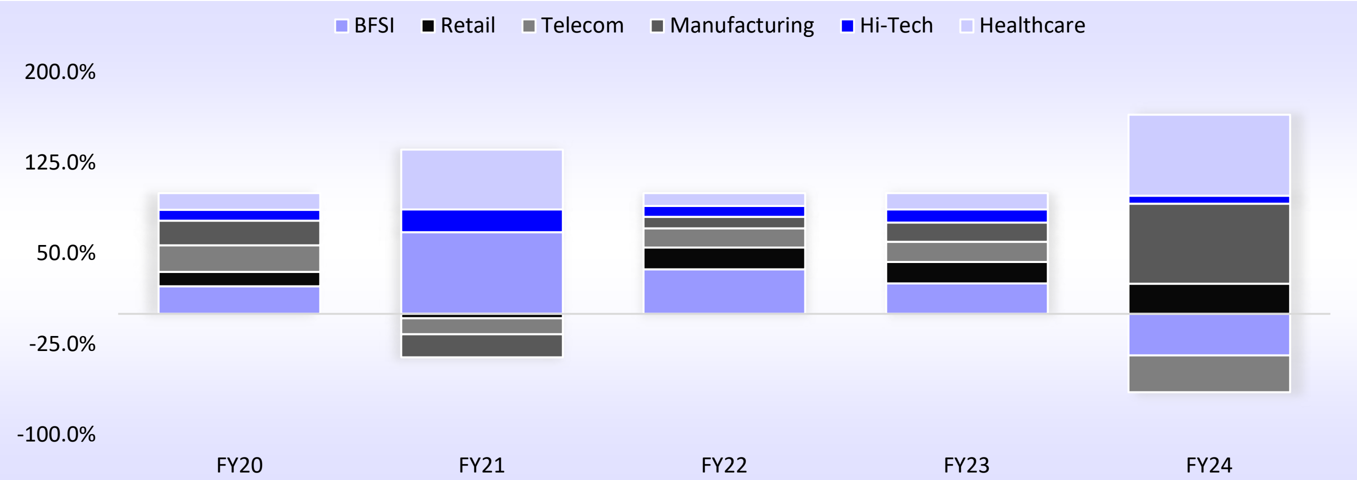
The fragile three: BFS, Communications, and Hi-tech

Multiple service vendors have noted a decline in business from the US banks, despite the fact that most of the large banks have pretty much maintained their technology spending.

Delving deeper into what ails the key verticals reveals that the challenges facing the key sectors are far more intricate than they first appear. Multiple service vendors have noted a decline in business from the US banks over the past 5-7 quarters, despite the fact that most of the large banks have pretty much maintained their technology spending throughout the past year. The capital-intensive (and debt-heavy) sectors, such as telecom, have a clear interest rate problem, and issues here may be more structural. We look at three key verticals, which have accounted for the lion's share of the revenue decline for the industry – BFS, Communications, and Hi-tech.

Incremental revenue contribution by verticals (%) - top 5 players

BFS, the largest contributor to incremental revenue for top 5 players from FY21 to FY23, has been the largest drag in the past couple of years.



Source: Companies, MOFSL

The chart above plots the share of five key verticals to incremental revenues. BFS contributed the lion's share to growth from FY21 to FY22, whereas hi-tech's contribution to incremental revenue has been ~10% over the past four odd years. **For FY24, BFS, telecom, and hi-tech have all struggled; healthcare and manufacturing have done the heavy lifting.**

BFSI: What does revival look like?

Growth rates for the BFSI vertical have slowed across all service vendors. As shown below, YoY USD growth rates have seen a steep decline in the past 5-6 quarters.

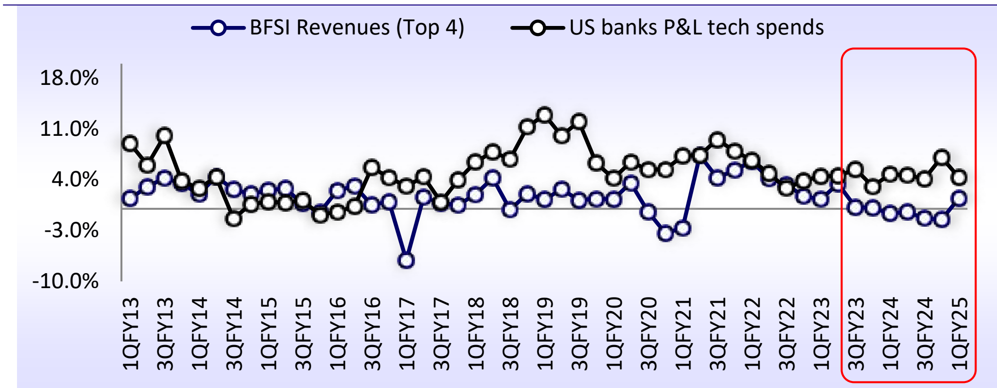
Exhibit 1: Y/Y USD Growth rates for BFSI

BFS	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25
TCS	26.3	18.6	17.3	10.8	8.8	12.6	11.9	10.8	7.9	1.7	-1.4	-2.6	-1.3
Accenture (FY ending Aug)	21.5	24.1	24.4	20.8	18.6	12.6	1.5	4.6	1.9	2.9	2.4	-6.5	-7.7
Infosys	26.9	21.8	15.0	12.4	9.0	7.6	2.0	-1.8	-4.6	-6.6	-5.0	-8.4	-0.1
Cognizant	7.6	5.1	18.5	4.8	2.7	-1.5	-4.3	-3.4	-5.1	-3.4	-3.6	-6.2	-1.1
Wipro	36.7	44.4	47.1	46.8	21.0	10.5	6.0	0.8	-3.5	-8.1	-10.2	-8.3	-5.2
HCL Tech	-1.0	-3.9	-1.6	-0.3	9.2	8.1	3.4	6.2	14.2	14.8	14.5	8.8	-2.0
Capgemini	-3.1	-0.1	10.0	15.7	24.3	22.0	17.5	10.9	3.2	-1.3	-6.9	-7.9	-6.0
Tech M.	19.7	15.7	12.8	28.4	20.1	11.2	12.3	-4.9	-5.5	-6.2	-7.8	-8.6	-4.9
EPAM	80.7	109.5	109.1	54.0	29.4	10.3	2.4	4.1	3.2	-3.3	-7.1	-10.3	-5.4
MphasiS	23.9	19.2	29.5	34.5	26.2	14.1	-0.5	-5.3	-15.5	-21.6	-17.6	-11.6	-0.6
Persistent	23.3	28.9	48.7	53.1	58.4	49.8	34.4	26.0	15.8	12.4	8.8	7.6	7.3
LTIMindtree (previously LTI)	n.a	n.a	n.a	n.a	27.3	23.1	21.8	20.2	12.3	6.1	-1.4	-6.6	-2.8
Coforge	47.7	43.6	54.9	50.0	21.2	19.7	7.5	13.3	16.2	11.2	14.1	12.8	6.2
Globant	69.7	61.0	55.8	25.2	20.0	18.6	5.4	0.2	1.5	11.5	19.6	18.9	n.a

Source: Companies, MOFSL

However, the US banks' technology spends have been surprisingly resilient during this period. Tech spending for the top US banks in FY24 grew ~6% YoY, whereas BFS revenue declined ~1% for the top 4 players.

Exhibit 2: The US banks' tech spending growth vs. top 4 BFSI revenue growth



Source: Companies, MOFSL (Note: US banks includes Citi, JPMC, PNC, Goldman Sachs, Bank of America, Morgan Stanley, Wells Fargo while Top -4 companies include TCS, INFO, HCLT and WPRO)

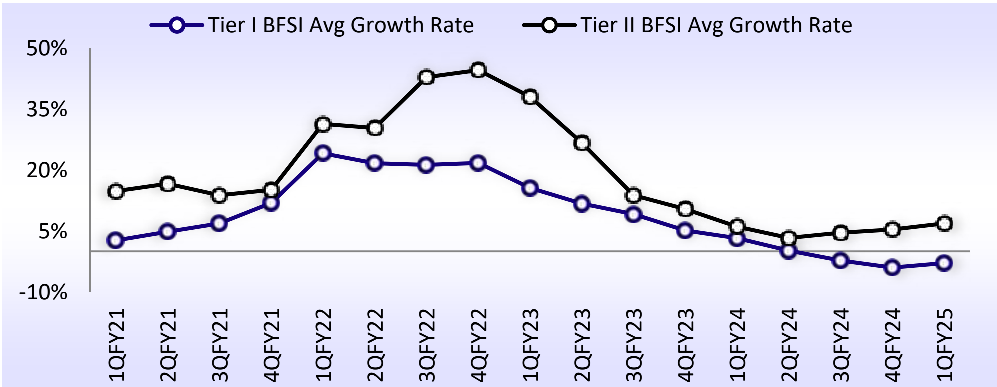
Many large US banks now have substantial headcounts in India, with the cost arbitrage increasingly favoring captives over system integrators.

The BFSI revenue for IT service vendors has reliably mirrored the technology spend trends of US banks in the past (2013-2021). The spike in 2021 is obviously explained by the post-pandemic rush to migrate to the cloud, and tech spending since then has cooled off a bit. That said, in the recent period (2022-23), there appears to be a reduced correlation. While both metrics show a general decline, the fluctuations do not mirror each other as closely as they did in earlier periods. What explains this? We see three key factors worth noting:

- **Spending on compute and hardware:** One reason could be the change in spending mix in favor of compute capacity, GPUs and hardware in preparation for GenAI. In theory, this should eventually trickle down to services spent as clients look for solutions such as FinOps and other platformized services to manage the technology estate.

- **The small vs. large conundrum:** Despite warnings from major players about the challenges in securing small deals, mid-tier IT services companies continue to find opportunities. Exhibit 3 depicts the BFS growth rates for mid-tier names vs. large-tier names. This suggests that the perception of smaller companies as "discount players" is inaccurate. Instead, these mid-tier firms have managed to outcompete larger vendors not by undercutting prices, but by offering superior delivery at comparable costs.
- **Cannibalization by GCCs:** This appears to be the most notable factor. Many large US banks now have substantial headcounts in India, with the cost arbitrage increasingly favoring captives over system integrators. For context, any GCC with around 10,000+ employees can replicate the cost structure and operational efficiency of a tier-1 service vendor, while often delivering superior quality of work.

Exhibit 3: BFSI growth rates comparison – Covid-19 period and now – for large cap vs. mid-cap over 2021-24



Source: Companies, MOFSL (Note: Tier 1 companies includes TCS, INFO, HCLT, WPRO, TECHM and LTIM while Tier 2 companies includes MPHL, COFORGE, PSYS and ZENT)

GCCs: Scale players in the BFSI landscape

We believe as GCCs grow to a size of 10,000+ employees, they start to replicate the cost structure and operational efficiencies seen in tier-1 IT service providers.

We believe one of the key reasons behind the BFSI revenue slump is the rise of GCCs. We argue that GCCs have evolved from being mere technological outposts for OECD clients into being strategic decision makers as well as scale players when it comes to implementing IT/transformation programs. This could continue to have a significant impact on the allocation of technology dollars to service vendors.

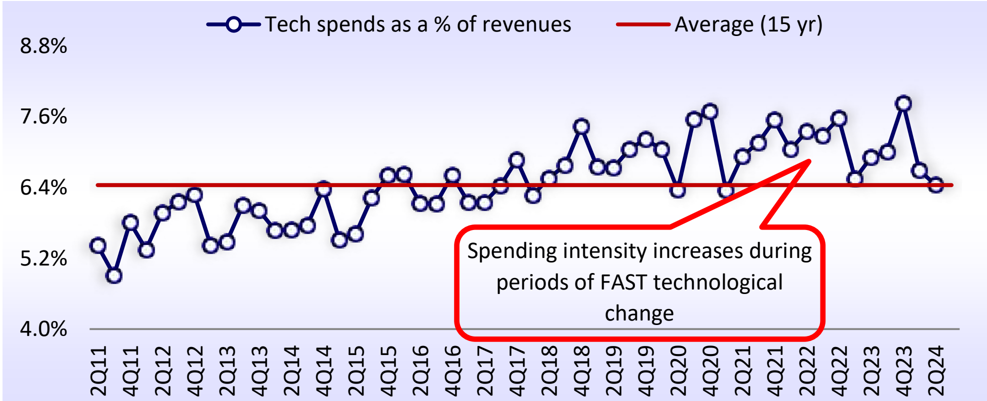
The rise of GCCs is a structural shift in the global IT services landscape. GCCs have grown significantly over the past decade, with many large US banks and Fortune 500 companies establishing substantial operations (more details in the section on GCCs). We believe as GCCs grow to a size of 10,000+ employees, they start to replicate the cost structure and operational efficiencies seen in tier-1 IT service providers. Significantly scaled up GCC players, especially large banks with mature outposts, have already achieved parity on the cost pyramid vs. service vendors, in our view. Additionally, GCCs provide greater control over intellectual property and data security, which are critical concerns for industries like banking and finance.

Technology spends essential, but expect BFS clients to implement change gradually

Banks are burdened with a substantial amount of technological debt, which suggests that technology expenditures will continue to rise in the future.

As depicted in Exhibit 4, the ratio of technology spends to revenues for top US banks is above the long term average, but has been declining over the past one year. During periods of rapid technological change, the intensity of technology spending tends to increase significantly. This was evident during the pandemic, where technology investments surged dramatically. However, we are currently witnessing a reversion to the mean. Despite this, banks are burdened with a substantial amount of technological debt, which suggests that technology expenditures will continue to rise in the future.

Exhibit 4: Technology spending as a % of revenue – Top US banks



Source: Companies, MOFSL (Note: Top US banks include Citibank, JP Morgan, Morgan Stanley, Bank of America and Goldman Sachs)

A significant portion of banks' technology infrastructure remains on-premise. The full potential of next-generation technologies, such as Generative AI (GenAI), can only be realized once the migration to cloud-based solutions is complete. This transition is crucial for harnessing the large-scale benefits that these advanced technologies promise. However, we anticipate that this progress will be gradual and steady moving forward.

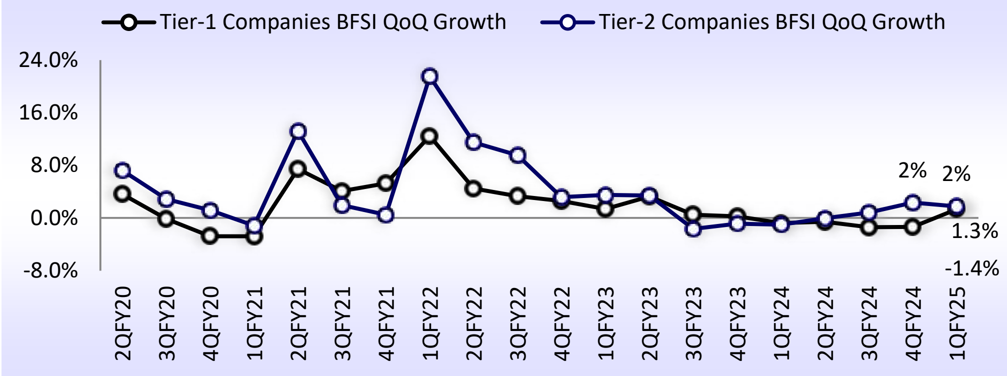
Coming back to Cloud: Data modernization projects resuming

BFSI clients in the US are finally coming back for high-priority transformation spends.

The 1QFY25 commentary from most companies gave a clear indication of the change in trends: BFSI clients in the US are finally coming back for high-priority transformation spends. We read this as the beginning of pre-GenAI spending. We could see GenAI meaningfully scale up over the next 24-36 months at major enterprises and banks, and modernizing the data estate is the first step towards that.

To summarize, we are at the beginning of a cycle in BFSI spend recovery. However, we believe the next cycle could be different as **incremental dollars spent will be skewed towards GCCs.** Captive centers, especially large ones, will continue to have the right of first refusal even for transformational programs, and will secure a higher proportion of incremental dollars from the clients. This is important as it takes away the benefits of scale from large enterprises. Small- and mid-cap companies with top tier partnerships will benefit the most due to their low base.

Exhibit 5: BFSI rebounded to growth in 1QFY25



Source: Companies, MOFSL (Note: Tier 1 companies includes TCS, INFO, HCLT, WPRO, TECHM and LTIM, while Tier- 2 companies includes MPHL, COFORGE, PSYS and ZENT)

Communications:

Despite the extensive rollout of 5G by major carriers in the US, there has not been a corresponding increase in operational expenditure on technology.

The communications sector has been hit the hardest. The uncertain macroeconomic environment and a steep rise in interest rates have severely impacted the balance sheets of most wireless communication clients. What's surprising, however, is that despite the extensive rollout of 5G by major carriers in the US, there has not been a corresponding increase in operational expenditure on technology.

Moreover, all carriers have indicated a reduction in their capex going forward as they absorb the heavy 5G-related investments made over the past two years.

Specific areas of technology spending in the telecom vertical have come under pressure too. For instance, network infrastructure spending has slowed down. This trend is highlighted by a profit warning by telco test and measurement supplier Spirent, which cited a telecommunications market that is "extremely challenged at this time," with major customers delaying their expenditure and technology investments. Similarly, Spirent's competitor VIAVI reported a "slowdown in overall service provider spend".

In theory, a slowdown in capex would not be as much of a hindrance if the lifecycle of these investments transitioned to operational expenditure on services from clients. However, we have seen little evidence of this panning out, and this has trickled down to a pullback of technology-related spending.

Exhibit 6: Y/Y USD growth rates for communications vertical

Telecom	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25
TCS	9.7	16.8	12.6	15.2	17.1	22.0	20.2	13.9	9.7	-0.9	-4.2	-4.9	-8.0
Accenture (FY ending Aug)	23.0	25.7	32.2	28.7	26.7	11.3	-3.4	-9.7	-16.0	-12.1	-10.4	-8.0	-4.1
Infosys	10.3	18.8	21.9	26.4	25.2	13.0	7.9	-1.9	-6.5	-4.0	-7.2	4.5	5.6
Cognizant	21.2	20.0	12.6	18.1	16.1	6.0	5.4	1.2	-1.2	3.5	4.7	5.2	1.2
Wipro	25.7	22.2	22.6	21.4	11.9	7.0	-1.7	-2.2	-7.3	-15.5	-15.6	-21.0	-21.9
HCL Tech	4.3	8.5	-0.4	10.8	33.3	22.7	24.5	5.8	-11.9	-9.0	8.4	39.5	62.9
Capgemini	30.1	13.6	10.7	11.7	14.8	12.6	8.5	1.6	-5.4	-9.5	-10.5	-3.5	-1.5
Tech M.	12.6	18.8	20.7	21.6	19.1	10.1	5.8	2.4	-8.2	-11.5	-13.5	-21.3	-14.8
EPAM	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
MphasiS	18.5	23.8	27.9	14.6	14.1	18.7	0.8	-8.4	2.9	20.6	13.6	25.3	9.6
Persistent	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
LTIMindtree (previously LTI)	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Coforge	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Globant	42.6	70.7	98.2	89.1	87.6	61.7	26.1	9.2	-4.2	0.7	8.8	0.0	n.a

Source: Companies, MOFSL

We believe that spending on communication technology could recover in the event of a rate-cut cycle. However, a significant boost depends on network infrastructure spending transitioning to IT services spending, which in turn relies on the widespread adoption of enterprise 5G.

Hi-tech

Revenue growth for chip companies has been accelerating, while software vendors are experiencing difficulties. We expect this trend to persist for the next 12-18 months.

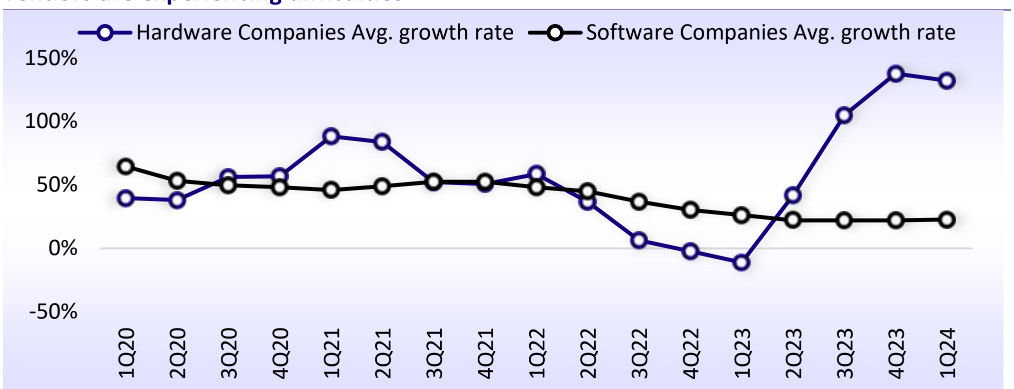
We believe that the hi-tech industry is currently facing short-term challenges in revenue recovery. Hyperscaler spending has currently shifted to hardware and chips, and we anticipate that it will take some time for this spending to transition from capex to opex. As illustrated in Exhibit 8, revenue growth for chip companies has been accelerating, while software vendors are experiencing difficulties. We expect this trend to persist for the next 12-18 months. Subsequently, investments in ecosystems and platforms are likely to accelerate. That said engineering services providers with VLSI & chip design capabilities could see a swift recovery.

Exhibit 7: Y/Y USD growth rates for hi-tech vertical

Hi-tech	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25
TCS	15.0	15.4	15.7	15.8	12.7	12.3	12.3	9.9	5.4	-0.9	-3.9	-5.7	-3.3
Accenture (FY ending Aug)	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Infosys	15.6	12.8	19.4	19.9	16.1	9.9	9.6	3.8	2.6	-1.5	-4.9	9.0	0.8
Cognizant	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Wipro	13.6	26.4	20.4	12.3	10.4	3.8	1.5	-3.6	-3.5	0.5	3.5	-3.0	-3.8
HCL Tech	10.9	8.5	-0.4	10.8	25.3	22.6	24.5	5.8	-11.9	-9.0	8.3	39.5	69.3
Capgemini	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Tech M.	23.0	6.9	4.7	32.4	30.0	24.8	33.4	14.4	8.2	3.4	-3.7	24.9	25.6
EPAM	33.2	46.7	34.7	28.8	22.7	17.8	10.3	-0.2	-10.3	-15.1	-16.7	-8.3	-3.5
MphasiS	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Persistent	27.8	32.0	24.9	31.8	37.9	38.5	34.8	29.3	21.4	16.3	11.8	6.4	2.5
LTIMindtree (previously LTI)	n.a	n.a	n.a	n.a	27.5	21.0	8.9	3.0	0.9	-1.0	0.5	6.8	11.8
Coforge	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Globant	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

Source: Companies, MOFSL

Exhibit 8: Revenue growth for chip companies has been accelerating, while software vendors are experiencing difficulties



Calendar year; Source: Companies, MOFSL (Note: Hardware Companies includes Nvidia & AMD and Software Companies Includes Salesforce, Snowflake, Service Now, Workday, DataDog)

Factors that determine the course of the recovery

What factors determine the course of a recovery from here on? The answer to this question rests on three key aspects:

The interest rate regime in the US

The US Federal Reserve's interest rate policy is a crucial determinant of spending revival on technology. The rate cuts could fuel a recovery in areas such as capital markets and mortgage originations in BFSI, as well as help reduce the interest rate burden for capital-intensive sectors, freeing up funds for technology investments.

The division of work between GCCs and service integrators

The evolving relationship between GCCs and service integrators is another key factor. Clients in verticals with a mature GCC participation will have a flatter recovery curve than clients in verticals, which are just starting out on their GCC journey.

The inflection point for "Moonshot" or "Low-ROI" investments

Companies have continued to prioritize short-term, high-return projects to conserve capital and take out costs. However, this has led to mounting technological debt.

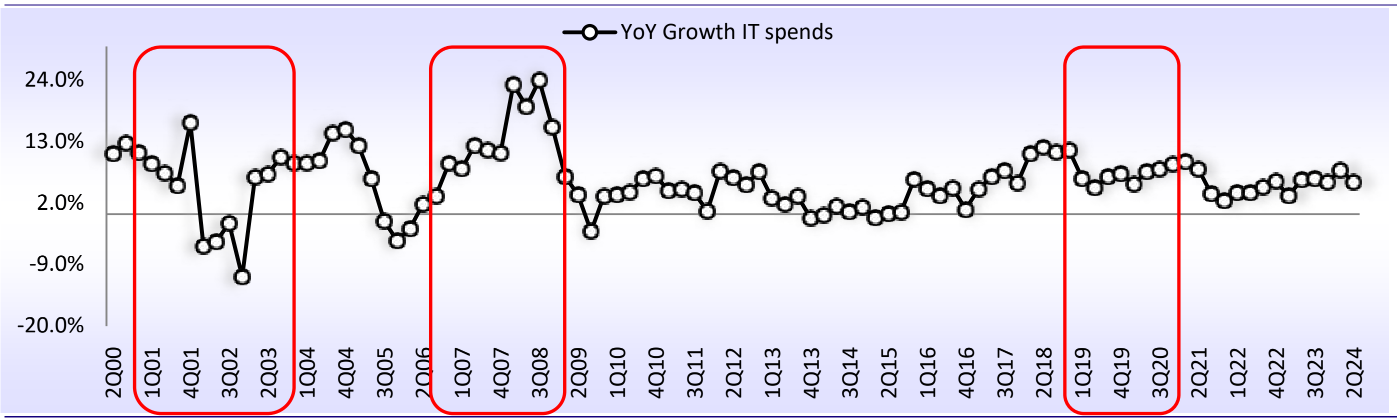
A critical inflection point arises when businesses can no longer delay investments in "moonshot" or "low-ROI" projects, such as those involving Generative AI (GenAI) and other emerging technologies. Companies have continued to prioritize short-term, high-return projects to conserve capital and take out costs. However, this has led to mounting technological debt, and different verticals will have different inflection points beyond which delaying investments are detrimental to business. The timing and scale of these investments will play a significant role in determining which companies emerge as leaders in the next phase of economic growth.

Interest rate regime: What stocks will benefit from this pivot?

As illustrated in exhibit 10, the NSE IT index outperformed the broader NIFTY after the first announcement of the Fed pivot (Dec ’23). However, the rally retreated again mid-Mar’24, once demand commentary disappointed. We are now at the cusp of a mild but possibly sustained recovery in client spending, and the impending rate cut cycle should add to the sector tailwinds.

Further, we tried to plot the recovery in technology spends during earlier rate cut cycles to gauge whether a definite benefit could be seen accruing. We admit such an analysis is fraught with data bias; technological needs were very different during each of the past three rate cut cycles, but spending increased when there was an urgency to spend, in our opinion.

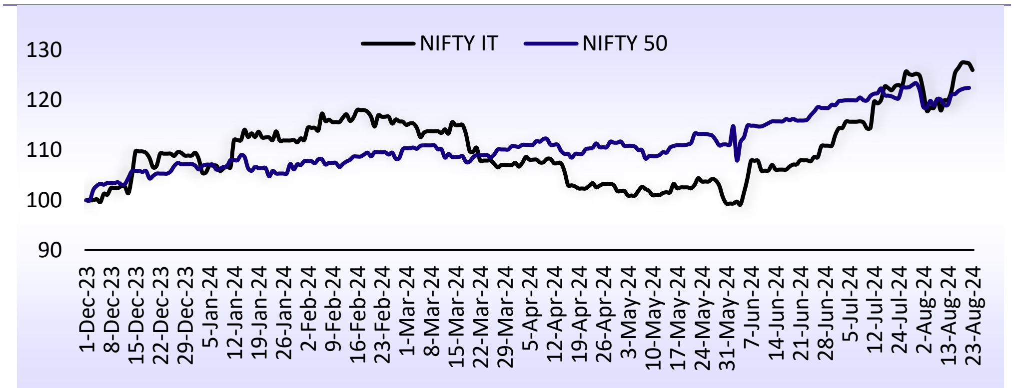
Exhibit 9: YoY growth in the US banks’ technology P&L spending vs. Fed rate cut cycles



Source: Companies, MOFSL, Bloomberg
Red indicates rate cut cycle

During 2000-03, FED cut interest rate by 5.5% while in 2007-08, the Federal Reserve's rate cut cycle lasted for 18 months, with a total reduction of 5.1% in interest rate. Moreover, the 2019-20 cycle experienced the 2.4% cut in Federal Reserve's interest rates.

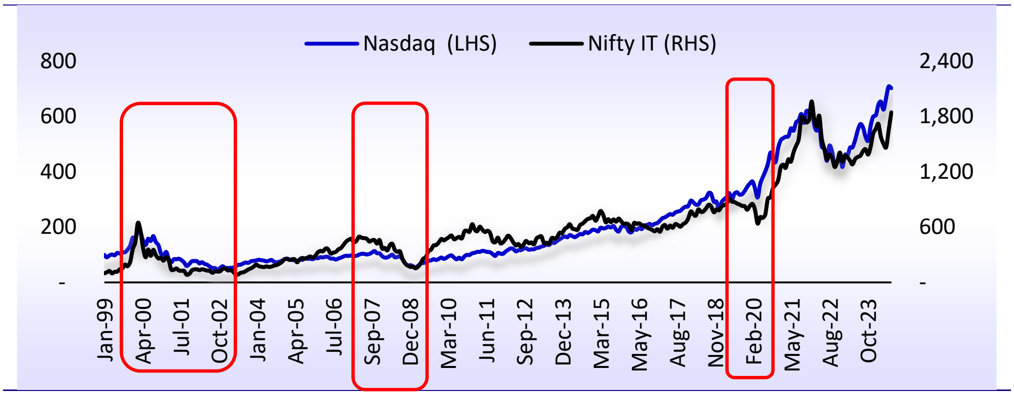
Exhibit 10: Nifty IT vs. Nifty 50 index performance (1 Dec 2023=100)



Source: NSE Database, MOFSL

Historically, both the Nasdaq and Nifty IT indices have faced declines during rate cut cycles, particularly during economic shocks such as the dotcom crash (2000-03) and the Global Financial Crisis (2007-08). The impending rate cut cycle, however, assumes a soft landing, and with many clients having already pulled back on tech investments in anticipation of a slowdown, the outcome could differ this time. While a soft landing might mitigate declines, a significant macroeconomic downturn remains a substantial risk to consider.

Exhibit 11: Nifty IT vs. Nasdaq index performance (1 Jan 1999=100)



Source: Bloomberg, MOFSL; Note: Nifty IT data in $ terms

GCCs: A force to reckon with

Understanding the rise of GCCs:

Mature industries such as BFSI, where most large banks already have significant GCC outposts, could route a higher chunk of their technology spends through GCCs.

It is no secret that GCCs have amassed significant scale over the last decade in India. The revenue of GCCs clocked a CAGR of ~11% over FY15-FY23, while the revenue of the top 5 IT services companies reported an 8% CAGR during the same period (albeit on a much higher base). The increase in scale is also visible from the total headcount addition: the headcount for GCCs posted a CAGR of 12% over 2010-2023 vs. 8% CAGR for the top 5 companies. This trend is structural rather than cyclical in nature, in our view, and we believe this has far-reaching implications for the next recovery cycle in technology spending. We take stock of new as well as expanding GCCs, and analyze which verticals are witnessing the most interest from enterprises. Mature industries such as BFSI, where most large banks already have significant GCC outposts, could route a higher chunk of their technology spends through GCCs, impeding a J curve recovery in some sectors for service vendors. Software and hi-tech companies value control over data and IP, and they have been the most active in terms of expanding and opening new GCCs. On the other hand, there are many clients just setting up GCC outposts, and service vendors can add value by hand holding clients and helping them set up shop.

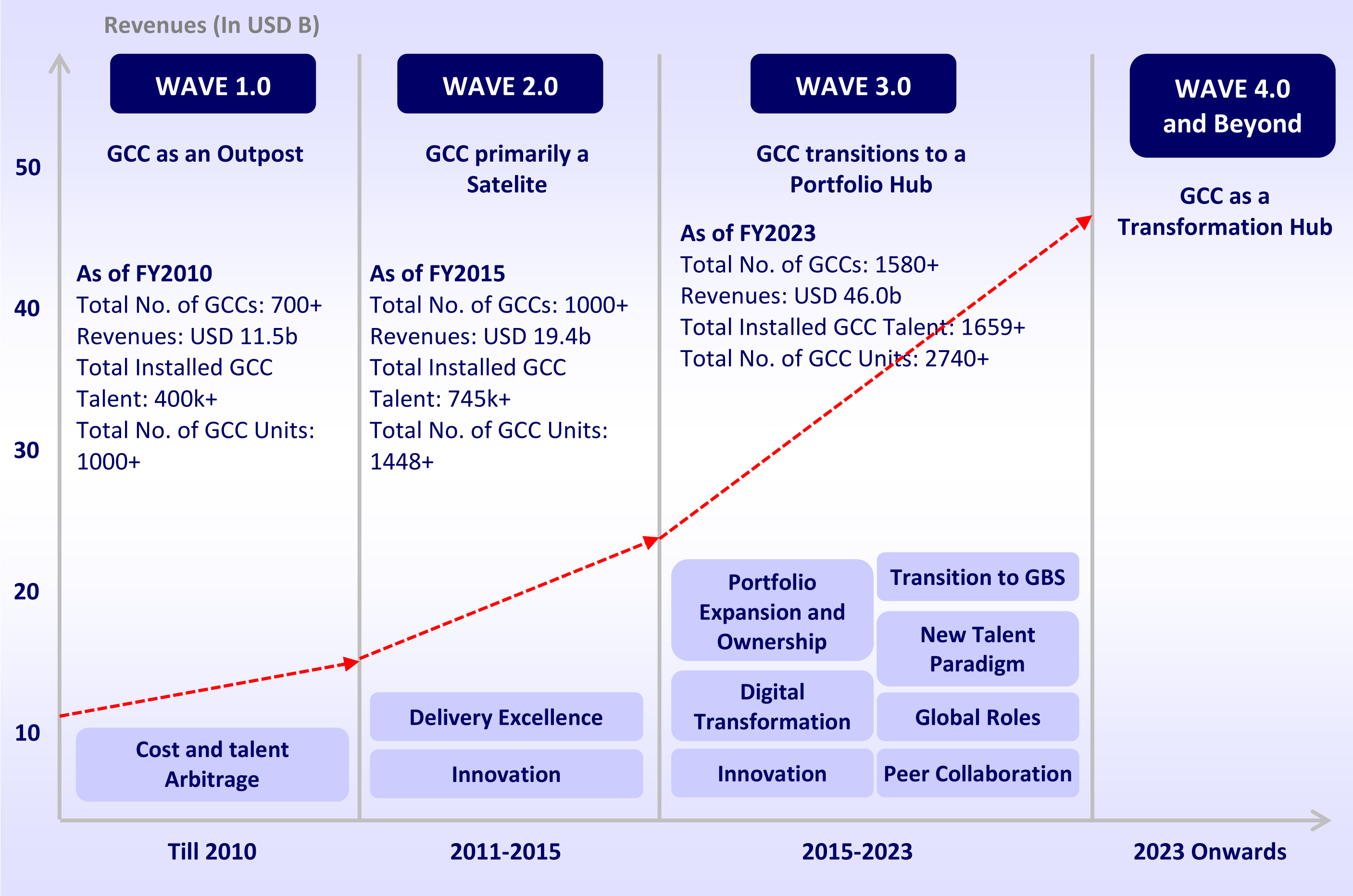
GCCs at an inflection point in India

The evolution of GCCs in India can be explained in three waves.

- **Wave 1 (700+ GCCs and 400K+ talent base):** Until the 2010s, GCCs established in India primarily aimed for cost arbitrage and an efficient scale-up in operations.
- **Wave 2 (2010-15; 1000+ GCCs and 750K+ talent base):** During this wave, GCCs in India began to specialize in specific areas, evolving into delivery excellence centers and functioning as satellite offices for their parent organizations.
- **Wave 3 (2015-now; 1580+ GCCs and 1,600k+ talent base):** During this wave, GCCs possess notable domain knowledge and are of strategic importance to their parent organizations.

The Indian GCC landscape is now at an inflection point and evolving into a transformation hub beyond traditional roles of cost arbitrage and delivery centers for parent organizations.

Indian GCC's: From outsourcing outposts to strategically important innovation centers



Source: NASSCOM, MOFSL

For mature clients in verticals such as BFSI, the equation could be tricky, and vendors may have to share the plate with GCCs when it comes to transformation projects as well.

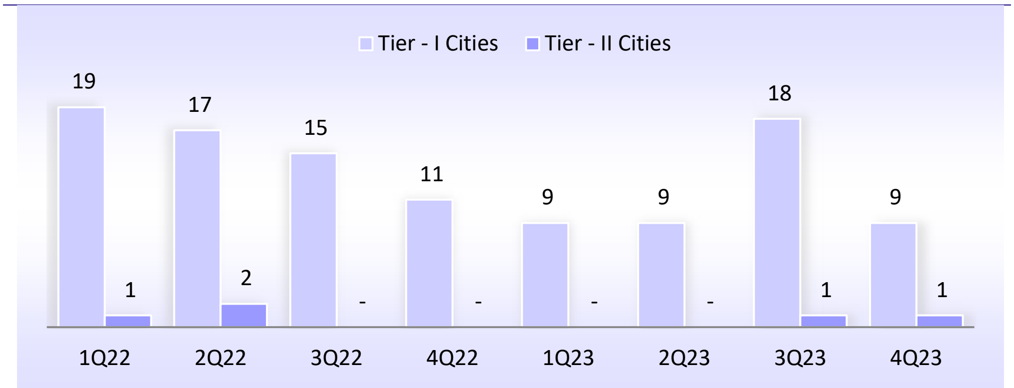
Co-existence with GCCs will be the new reality for technology vendors, and we believe service vendors are an attractive proposition for clients who are just beginning and looking to set up GCC outposts in India. For mature clients in verticals such as BFSI, the equation could be tricky, and vendors may have to share the plate with GCCs when it comes to transformation projects as well. **This could imply diminishing scale benefits, as project sizes and headcount requirements from vendors may be lower compared to earlier years.** We believe this benefits small and mid-players, who could play an instrumental role in the next recovery cycle as well. **We retain Persistent and LTIMindtree as our top picks within the medium-to-large tier space, and prefer HCLT as our top pick in the large cap space.**

GCCs' expansion and new set-ups: A Primer

New GCCs set up in India

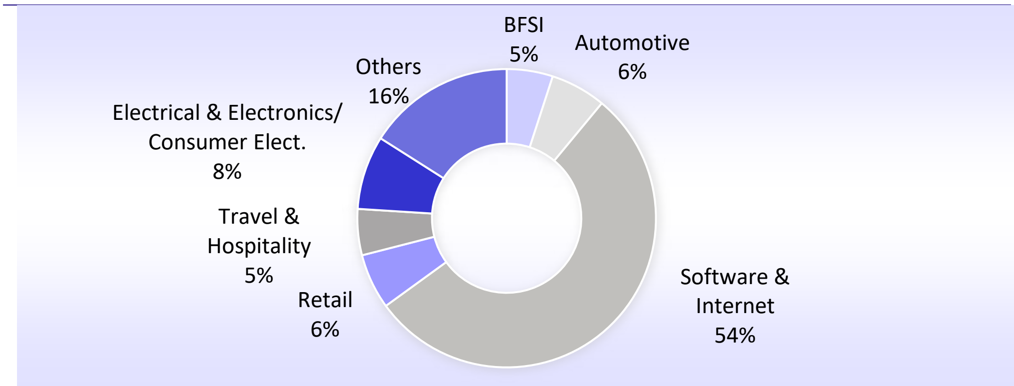
- India saw the establishment of 47 new GCCs (45 in Tier-I cities) in CY23, a reduction from 65 new GCCs (62 in Tier-I cities) in CY22. In both years, Software & Internet vertical established the most GCCs – 35/17 GCCs in CY22/23.
- In CY23, the Semiconductor sector accounted for ~9% of GCCs. India has over 55+ Semiconductor GCCs in India, as per NASSCOM. Moreover, the BFSI vertical also consistently contributed ~5% to the newly set-up GCCs in CY22/23.

Exhibit 12: Tier-I cities attract more GCCs



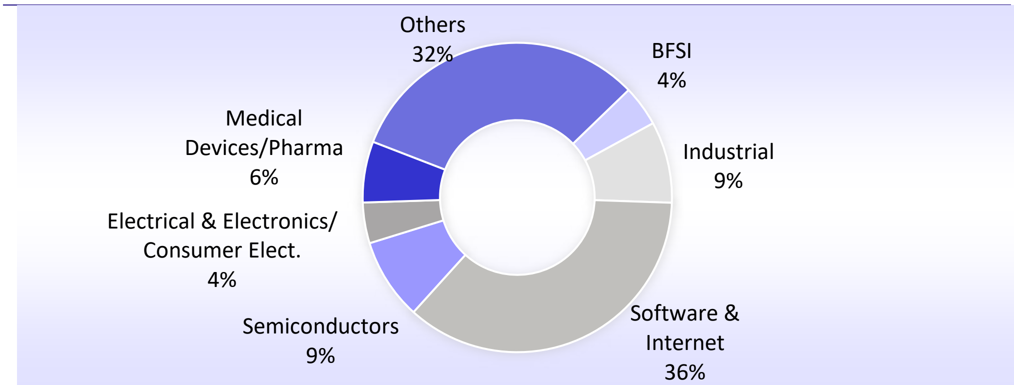
Source: NASSCOM, MOFSL

Exhibit 13: New GCCs set up across verticals in CY22



Source: NASSCOM, MOFSL

Exhibit 14: New GCCs set up across verticals in CY23



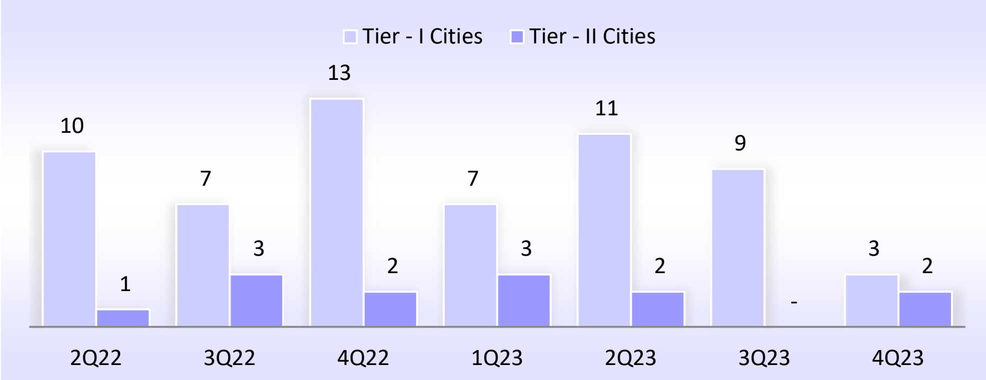
Source: NASSCOM, MOFSL

In CY23, clients from the BFSI vertical were among the most active in expanding GCCs, accounting for 14% of the total GCC expansions.

Expansion of centers for the established GCCs

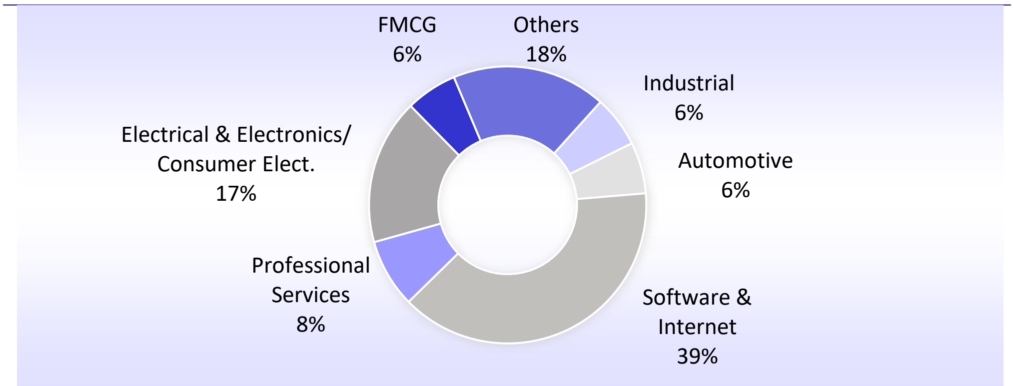
- In CY22, established GCCs expanded into 36 new centers, with the Software & Internet vertical accounting for the largest share at 39%, followed by the Electrical & Electronics/Consumer Electronics sector at 17%.
- The expansion of GCCs continued to follow the trend of opening in Tier-I cities. In CY22, 30 out of 36 expansions occurred in Tier-I cities, and in CY23, 30 out of 37 expansions were in Tier-I cities.
- In CY23, clients from the BFSI vertical were among the most active in expanding GCCs, accounting for 14% of the total GCC expansions.

Exhibit 15: Tier-I cities attract more GCCs and accounted for ~80% in CY23



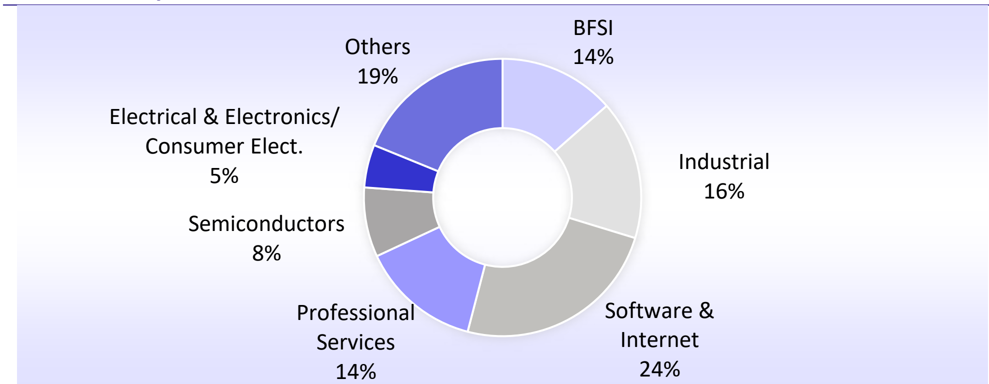
Source: NASSCOM, MOFSL

Exhibit 16: Expansion of established GCCs across verticals in CY22



Source: NASSCOM, MOFSL

Exhibit 17: Expansion of established GCCs across verticals in CY23



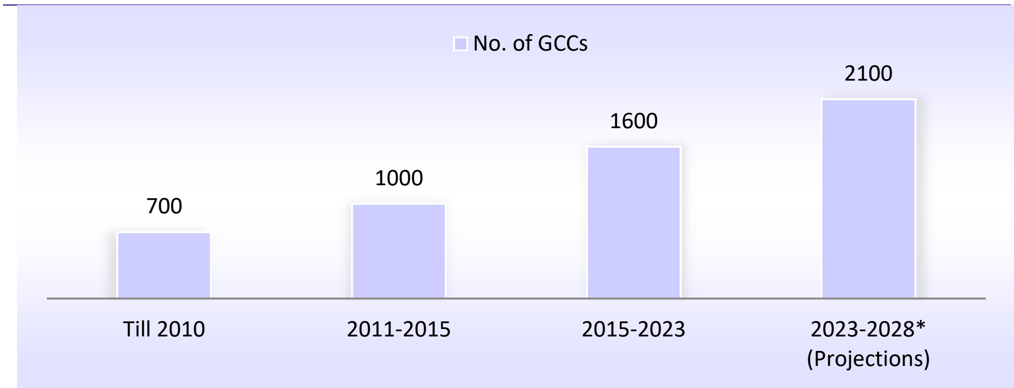
Source: NASSCOM, MOFSL

Growth of GCCs in India: A closer look

- In 2012, there were ~760 GCCs operating in India. By 2016, this number went over 1,000, and as of Mar'23, India hosted over 1,600 GCCs. According to various reports (EY, NASSCOM) and economic surveys, this number is likely to reach 2,100 by 2028.
- GCCs have gained market share over the years. As illustrated in Exhibit 24, other business services (a proxy for GCCs) increased to 25% of total service exports by Mar'24, up from 19% in Mar'19.

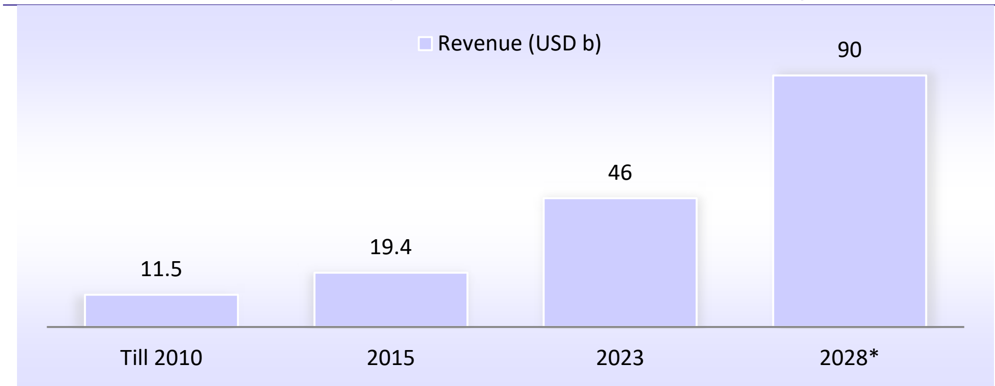
- GCCs' revenue is expected to reach USD90b by 2028, growing from USD46b in 2023 at a 14% CAGR. As per NASSCOM, ~50% of the new GCCS established in India were set up by the US-headquartered MNCs.

Exhibit 18: No. of GCCs is anticipated to grow to 2,100 over 2023-28



Source: Economic Survey (2023-24), PwC, MOFSL

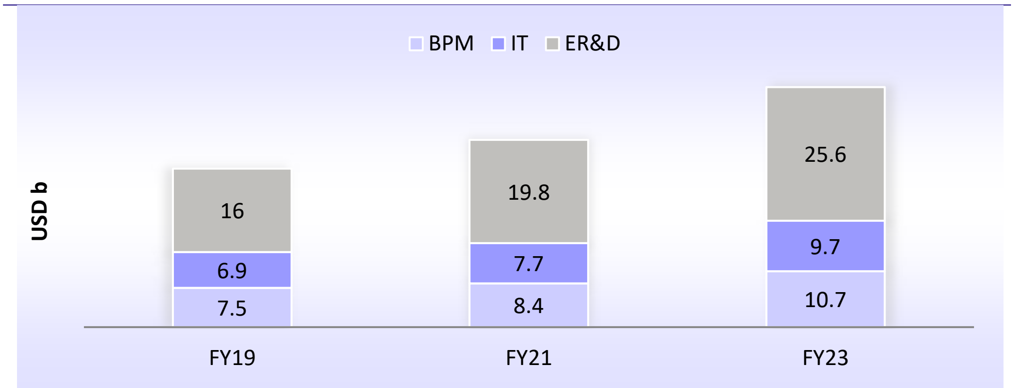
Exhibit 19: GCCs' revenue is likely to reach USD90b at 14% CAGR by 2028



Source: Economic Survey (2023-24), PwC, MOFSL

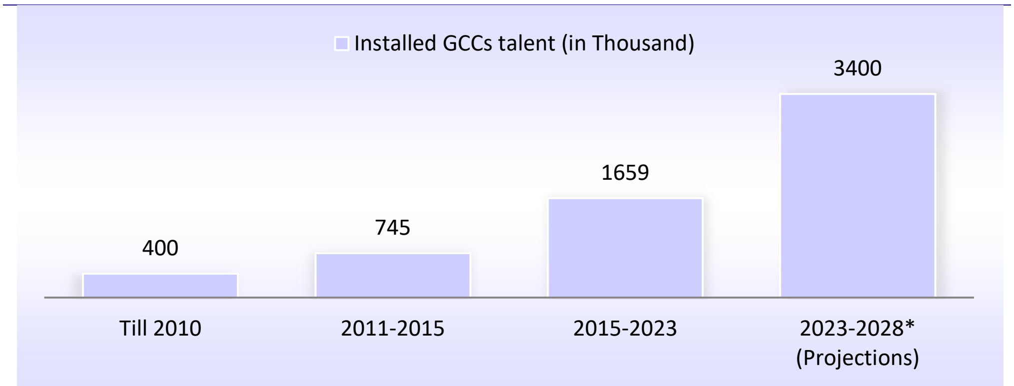
- Revenue from India's GCCs has increased to USD46b in FY23 from USD19b in FY15, at a CAGR of 11.4%. ER&D constituted 56% of total GCC revenue in FY23, up from 35% in FY19. The key drivers for the growth of ER&D in India include strategic long-term partnerships, extensive digitalization, and the adoption of cloud technologies.
- GCCs in India have experienced substantial growth, increasing from over 1,000 centers in FY15 to 2,740 units by FY23. These centers provide high-quality employment opportunities.
- The software, internet, and BFSI sectors collectively account for about 58% of India's IT GCC talent. Of this workforce, over 42% are engaged in ER&D, 34.5% in BPM, and 23.4% in IT services.

Exhibit 20: Breakup of revenue of GCCs by functions (in USD b)



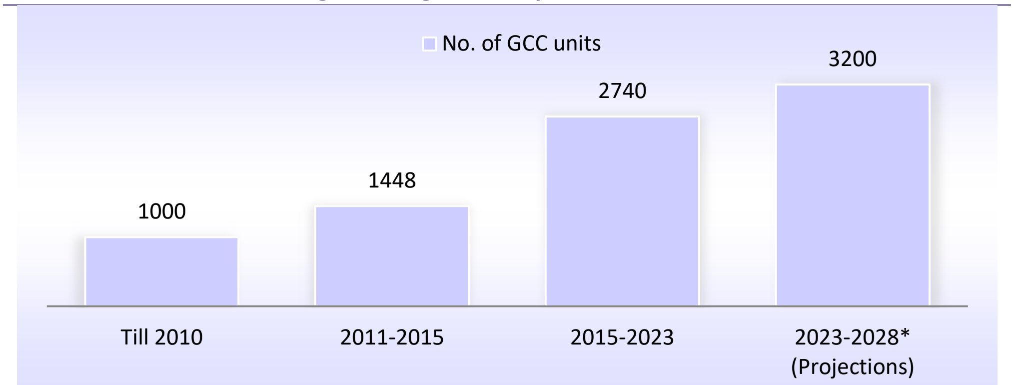
Source: Economic Survey (2023-24), NASSCOM, MOFSL

Exhibit 21: Talent employed in Indian GCCs exceeded 1.6m in FY23



Source: Economic Survey (2023-24), PwC, MOFSL

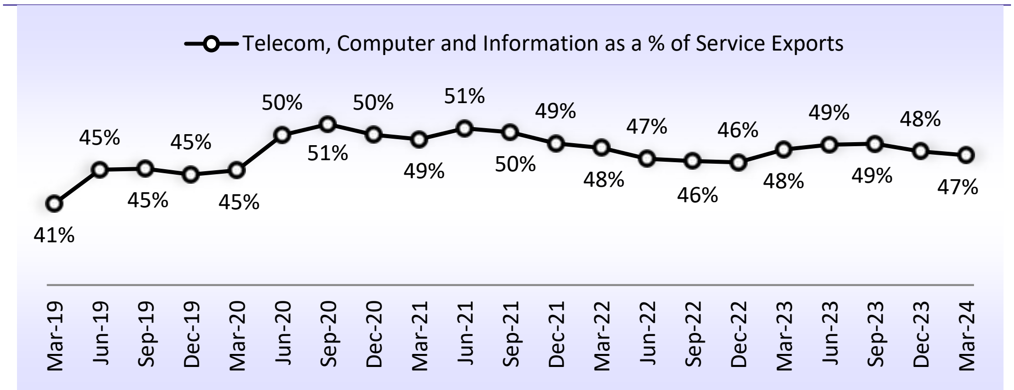
Exhibit 22: GCC units have grown significantly to 2,740



Source: Economic Survey (2023-24), PwC, MOFSL

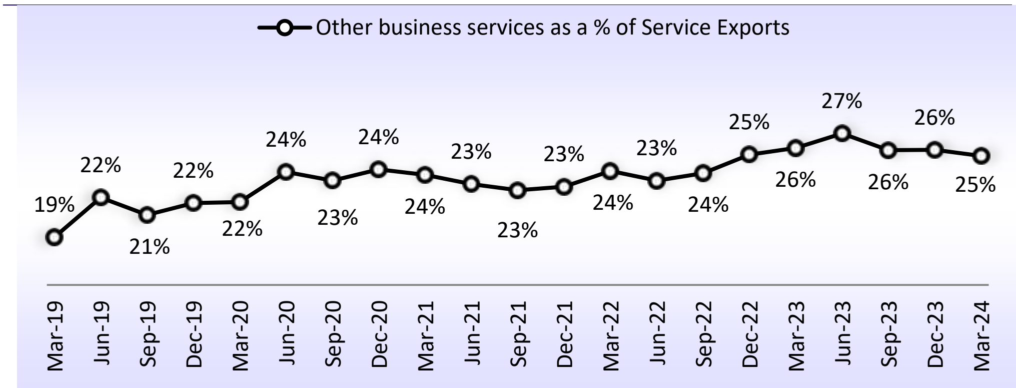
- Telecom, Computer, and Information exports as a % of total service exports have grown consistently, increasing by ~8% over the last five years to reach 47%. As of Mar'24, these exports totaled USD42.1b.
- GCCs have gained market share over the years. Other business services (a proxy for GCCs) rose 6% over the same period, reaching 25% of total service exports.

Exhibit 23: IT & Telecom services constitute nearly half of the service exports



Source: Exports Data, MOFSL

Exhibit 24: Other business services contributed 25% of service exports and reached USD89b in Mar'24



Source: Exports Data, MOFSL

Whether this trend continues or not depends on how **linear and predictable** the next technology scale-up cycle is.

As depicted above, GCCs have evolved from being mere technological outposts for OECD clients into being strategic decision makers as well as scale players when it comes to implementing IT/transformation programs. This could continue to have a significant impact on the allocation of technology dollars to service vendors. As GCC headcounts (especially for Fortune 500 companies) gain critical mass, the ratio of work between these centers and vendors has steadily tilted inward.

The expansion of established GCCs reveals significant transitions across various verticals from CY22 to CY23. In CY22, Software & Internet dominated with 39% of the expansion, followed by Electrical & Electronics/Consumer Electronics at 17%, and Professional Services at 8%. This indicates a strong focus on tech-driven sectors and essential services. However, in CY23, the distribution became more diversified. Software & Internet reduced to 24%, while Industrial (16%) and BFSI (14%) saw notable increases.

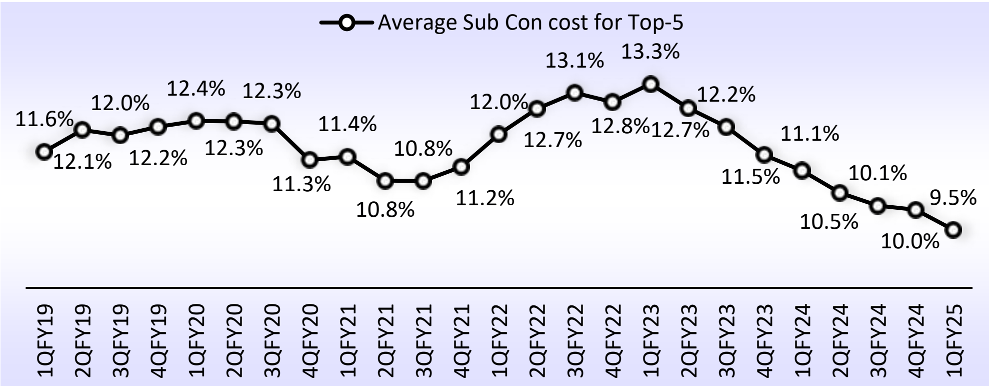
Whether this trend continues or not depends on how **linear and predictable** the next technology scale-up cycle is. In times of predictable demand, GCCs at scale offer significant benefits such as an opportunity to hire and train talent, build a sustainable pyramid, tight control over delivery quality, & control over IP, among other things.

In periods of predictable demand, clients with large GCCs can build capacity and match service vendors on cost.

What next? The role of IT services companies

This should not be construed as the death knell for service vendors, who provide significant benefits in several key areas: They enable faster go-to-market (GTM) strategies by leveraging industry best practices to speed up product and service delivery. Another benefit historically has been to offer end-to-end solutions. These advantages are particularly valued by clients during times of **rapid change**. In periods of **predictable demand, clients with large GCCs can build capacity and match service vendors on cost.** However, during times of fast technological change or massive demand surges, GCCs often cannot scale quickly enough, making service vendors indispensable. **Work in this case flows from GCCs to service vendors to subcontractors, starting a virtuous cycle**.

Exhibit 25: Sub-con costs is hovering near its historical lows and is expected to bottom out



Source: Companies, MOFSL

GCC and service vendors: Pace of recovery remains the key monitorable

The transition of work from GCCs to service vendors presents an intriguing aspect. As this report argues, there is a structural trend towards insourcing, especially for clients with large GCC operations with significant headcount. This trend has persisted beyond the hyper-growth phase of 2021-23 and continues today. A common theme during both periods (2018-21 and 2023-24) is the increasingly predictable nature of demand for IT services.

Organizations are more inclined to insource work in two primary scenarios:

- **Stable and predictable demand:** When demand for IT services is steady and foreseeable, organizations find it more efficient to manage work internally.
- **Absence of disruptive technology:** When there are no imminent disruptive technologies on the horizon, companies are comfortable handling tasks in-house.

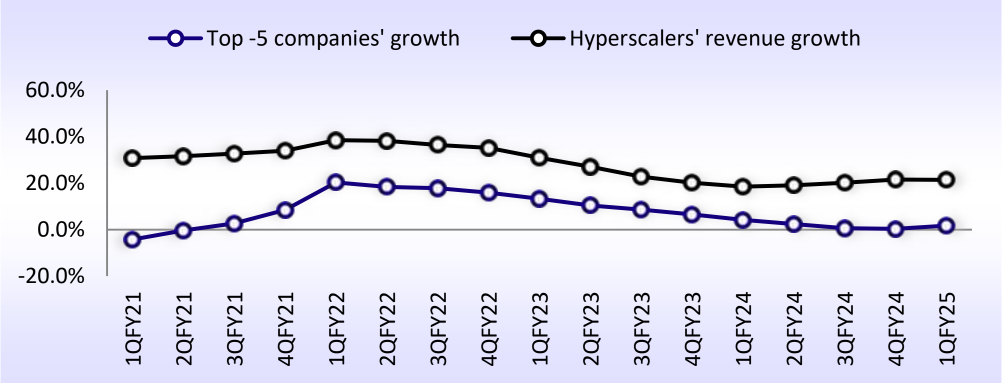
In summary:

Predictable demand + stable technology landscape = Insourcing first

Sudden rise in demand + disruptive technologies = Outsourcing first

Understanding these dynamics helps clarify when and why organizations might shift work from GCCs to service vendors, highlighting the potential triggers for increased outsourcing in the future.

Exhibit 26: Top- 5 companies' revenue growth closely aligns with the growth of Hyperscalers



Source: Companies, MOFSL; Hyperscalers' revenues consists of MSFT Cloud, AMZN AWS and GOOG Cloud.

What does FAST technological change look like

The FAST technological change occurs when rapid advancements require businesses to quickly adapt to new technologies and processes. The COVID-19 pandemic is a prime example, where companies had to exponentially scale up workloads to support remote work and digital services. We also experienced similar growth rates during 2010-15. These could be attributable to: the low base of several large companies during that time, and the fact that this period marked the early stages of the technology adoption curve in the US, largely for technologies such as infrastructure management, ERP rollouts, etc., which became fairly mainstream in the decade after that.

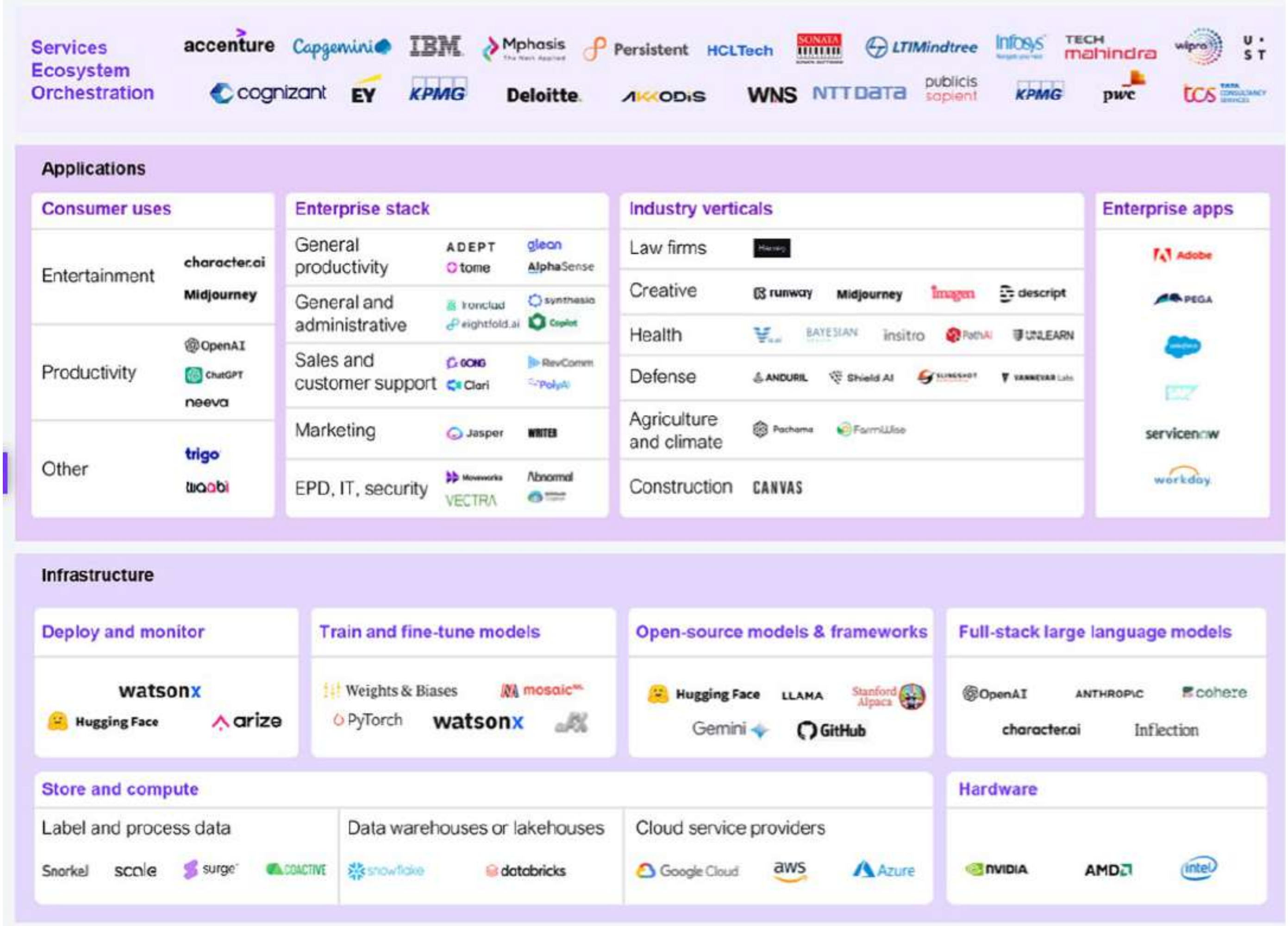
GenAI: Massively disruptive; will be gradual in the short term and FAST in the long term

We believe the primary barrier is the current lack of a clear business case. There are two key use cases for GenAI: cost-saving and revenue-accretive applications.

GenAI represents a significant large-scale disruption, though it is not necessarily a sudden one, especially at the enterprise level. Multiple factors inhibit large-scale GenAI adoption, with data engineering needs and cybersecurity risks being among the top concerns. However, we believe the primary barrier is the current lack of a clear business case. There are two key use cases for GenAI: cost-saving and revenue-accretive applications. Without deploying GenAI at scale, cost reduction deals are the most straightforward way to lower expenses for clients. On the other hand, revenue-accretive GenAI requires both a demand recovery and a pressing business need to catch up.

That said, the GenAI ecosystem (once the hardware and the computing components are in place) will be built, invariably, on top of the cloud ecosystem, and clients with a modernized data estate could adapt fast to this new ecosystem, in our opinion.

Exhibit 27: The GenAI ecosystem stack will be built on top of the cloud ecosystem stack; thus companies with strong hyperscaler partnerships will have an upper hand



Source: HFS Research

How will GenAI scale up?

The Indian IT sector's relevance to GenAI can be anticipated through two phases of technological adoption: Innovation and Inflection.

Innovation Phase: GenAI

We believe service vendors with a first-mover advantage in creating platformized solutions, which can be used off the shelf, will benefit in this phase.

Currently, GenAI is in its innovation phase, akin to cloud computing during 2014-2019. During this period, cloud technology existed, but the supporting ecosystem for cloud migration was still developing. The pandemic spurred an inflection point for cloud, but major hyperscalers already had robust ecosystems of domain-specific tools and platforms in place, facilitating the migration.

For GenAI, the ecosystem is just beginning to form, suggesting that it may not yet be a significant growth contributor to IT services companies. However, potential revenue streams during this phase include:

- **Streamlining the data estate:** Preparing enterprise data for GenAI by moving data to the cloud or creating data warehouses and data lakes.

- **Proof of Concept (PoC) GenAI experiments:** Enterprises may run several pilots/PoCs to implement GenAI, but the revenue potential for IT services companies might be limited by the scope of these projects.
- **GenAI readiness consulting and strategic inputs:** Primarily the domain of large enterprises, this involves providing expertise on how to prepare for and integrate GenAI.

We believe service vendors with a first-mover advantage in creating platformized solutions, which can be used off the shelf, will benefit in this phase. **We also prefer companies with data engineering capabilities, as a significant chunk of the pre-GenAI spending will revolve around data.**

Inflection Phase: GenAI

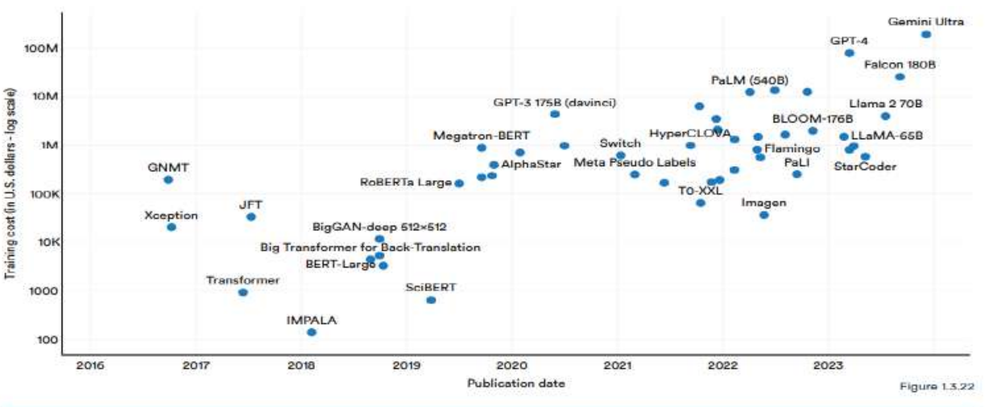
The inflection phase begins when organizations are ready to deploy GenAI enterprise-wide. Enterprises will move to this phase when

- **Data estate is in place:** Enterprises with scattered legacy data systems may find it challenging to implement GenAI due to its high compute demands.
- **Cybersecurity measures are in place:** Particularly relevant in highly regulated sectors like banking, where strict cybersecurity measures are required.
- **GenAI's ecosystem makes platformized solutions possible:** Top tier ecosystem partnerships with hyperscalers allowed IT services companies (both large and small) to participate in the cloud journey. We believe there will be ample opportunities to implement the enterprise-wide adoption of GenAI once the ecosystem is in place.

During this phase, while certain business lines like low-level coding and BPO may face existential threats, there are significant revenue opportunities for the right players, including:

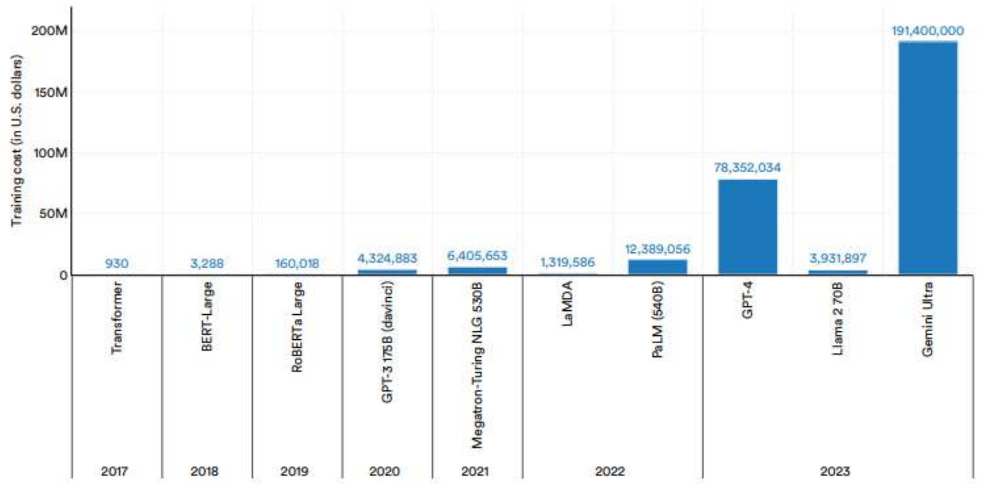
- **Training LLMs:** Providing services to train large language models (LLMs).
- **Reducing the cost of compute:** Offering solutions to make computing more cost-efficient. Frontier models currently are in a race to the top, and this is leading to burgeoning costs of compute. We believe reducing the cost of implementing LLMs will be a massive revenue growth driver over the medium to long term.

Exhibit 28: Estimated training cost of select AI models, 2016-23



Source: Stanford AI index report

Exhibit 29: Estimated training cost of select AI models, 2017-23



Source: Stanford AI index report

- **Cloud Migration:** Assisting enterprises in moving their operations to the cloud.
- **Maintaining LLMs:** Ongoing maintenance and updates for LLMs.

The comparison with the cloud adoption timeline indicates that while the current focus is on building the GenAI ecosystem, the inflection phase will bring substantial opportunities for growth and revenue generation in the IT services sector.

Which verticals to benefit the most?

Based on our analysis of these three key factors, we have ranked the sectors according to their chances of recovery:

Healthcare and Manufacturing verticals demonstrate a strong case for growth followed by the BFSI vertical

Ranking Sectors by Recovery	Tailwind from rate cuts	Insourcing threat	Boost from pre-GenAI investments	Overall Rank
Healthcare	●●	●●●	●●●	1
Manufacturing	●●●	●●	●●●	2
BFS	●●●	●	●●	3
Retail	●●●	●●	●●●	4
Hi-tech	●●	●	●●●	5
Communications	●●	●●●	●	6

Source: MOFSL

Healthcare (Rank: 1)

- Tailwind from rate cuts: Neutral
- Insourcing threat: Low
- Boost from pre-GenAI investments: Positive

Summary: Healthcare will be the fastest growing vertical over the next 12-18 months. The sector is largely agnostic to rate cut tailwinds and has a minimal threat of insourcing, and the need for drug discovery, clinical trials, and investments in technology will ensure technology spending momentum sustains.

Manufacturing (Rank: 2)

- Tailwind from rate cuts: Positive
- Insourcing threat: Moderate
- Boost from pre-GenAI investments: Positive

Summary: Manufacturing also shows a strong case for recovery; a rate cut cycle to spur investments in technology, and the threat of insourcing here remains fairly low, as the IT services market is not very well penetrated, especially in Europe. GenAI has definitive use cases beyond productivity gains here as well (digital twins, IoT, connected factories, etc.).

BFSI (Banking and Financial Services- Rank: 3)

- Tailwind from rate cuts: Positive
- Insourcing threat: Severe
- Boost from pre-GenAI investments: Positive

Summary: BFS enjoys positive effects from rate cuts but faces significant challenges due to a severe insourcing threat, limiting its recovery potential. We see a tailwind from pre-GenAI spending on BFS, while the enterprise-wide GenAI adoption could be slow, data modernization and core transformation projects could resume.

Retail (Rank: 4)

- Tailwind from rate cuts: Positive
- Insourcing threat: Moderate
- Boost from pre-GenAI investments: Positive

Summary: We believe retail will have a positive impact as rate cuts could spur consumption in client markets (US largely); this should give retail more head room to move out of cost takeout decisions and focus on revenue-accretive initiatives. It should also gradually ramp up investments in GenAI, even for core tasks such as marketing and pricing decisions, where GenAI could contribute meaningfully.

Hi-tech (Rank: 5)

- Tailwind from rate cuts: Moderate
- Insourcing threat: Severe
- Boost from pre-GenAI investments: Positive

Summary: Hi-tech ranks fifth in our list. Rate cuts will have a moderately positive impact on the sector; however, the threat of insourcing is high. We believe most of the software product companies would want to play GenAI pretty close to their chest to have greater control over IP. This could lead to an extremely selective approach to vendors. On pre-GenAI, we believe hi-tech will benefit as technology spending shifts from hardware (servers, graphic chips and other infra) to platforms and services. However, companies with chip design and VLSI capabilities could continue to experience healthy growth.

Communications (Rank: 6)

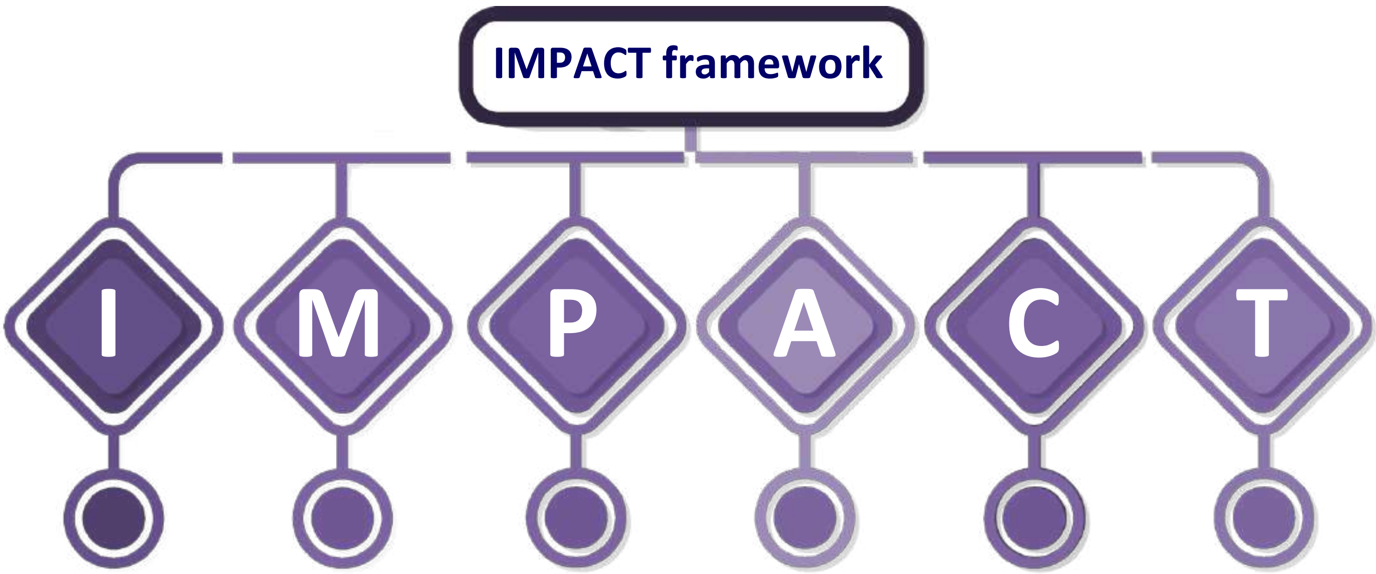
- Tailwind from rate cuts: Moderate
- Insourcing threat: Positive
- Boost from pre-GenAI investments: Moderate

Summary: Plotting a recovery in communications would be the trickiest. Rate cuts will provide some respite to major telecom operators and their balance sheets, freeing up some capital to allocate to technology. That said cost would still dominate most discussions over the medium term, limiting potential for breakthrough technologies like GenAI to contribute meaningfully.

How to play the recovery theme through stocks

We introduce the IMPACT framework as a way to gauge investment opportunities in the mid-tier space.

We introduce our IMPACT evaluation framework to identify stocks that could benefit from the next upcycle



Industry Exposure (Verticals)
We favor stocks with revenue streams from high-growth verticals such as healthcare, BFSI, and manufacturing. Conversely, we are less inclined toward sectors like communications, which face structural challenges.

Margin Expansion Levers
We prefer companies with a well-balanced global delivery system and visible levers for margin expansion, such as offshoring.

Platform and Ecosystem Partnerships
Top-tier ecosystem partnerships are crucial, especially as enterprises adopt a guardrails-based approach to implementing generative AI (GenAI). Just as cloud partnerships were pivotal in previous technological advancements, these partnerships will continue to give mid-tier names a competitive edge.

Automation Threat to Service Lines
We carefully assess the vulnerability of companies' service lines to automation and prefer those that are proactively integrating automation to mitigate these risks and enhance productivity.

Client Strategies (Mining vs. Hunting Balance)
We value companies that strike a balance between deepening relationships with existing clients (client mining) and acquiring new clients (client hunting). Mid-tier companies with a healthy mix of anchor clients providing revenue visibility and the ability to secure new logos are particularly attractive.

Technology Readiness (Next-gen Technologies)
Next-generation technology readiness is a key differentiator. We look for companies with advanced partnerships in areas such as data engineering, which will be instrumental in pre-GenAI expenditures..

Last but not the least, we also look at valuations to see which companies from here can give the maximum bang for the buck.

HCLT and LTIM lead the IMPACT Ranking among Tier-1 companies

IMPACT framework- large caps	Industry exposure (5- best)	Margin expansion (5- best)	Partnerships (5- best)	Automation threat (5: minimum)	Client strategies (5-best)	NextGen readiness (5-best)	Total Score
HCL	●●●●●	●●●	●●●●●	●●●●●	●●●	●●●	24
LTIM	●●●●●	●	●●●●●	●●●●●	●●●	●●●●●	24
Infosys	●●●	●●●	●●●●●	●●●	●●●	●●●●●	22
TCS	●●●	●●●	●●●●●	●●●	●●●	●●●●●	22
Wipro	●●●	●●●	●●●●●	●●●	●●●	●●●	20
TechM	●	●●●	●●●●●	●●●	●●●	●●●	18

Source: MOFSL

PSYS leads the IMPACT ranking among Tier-2 companies

IMPACT framework- mid tier	Industry exposure (5- best)	Margin expansion (5- best)	Partnerships (5- best)	Automation threat (5: minimum)	Client strategies (5-best)	NextGen readiness (5-best)	Total Score
Persistent	●●●●●	●●●	●●●●●	●●●●●	●●●●●	●●●●●	28
Coforge	●●●●●	●●●	●●●●●	●●●	●●●●●	●●●	24
Zensar	●●●	●●●	●●●	●●●●●	●●●●●	●●●	22
LTTS	●●●	●●●	●●●	●●●●●	●●●●●	●●●	22
Mphasis	●●●	●●●	●●●●●	●●●	●●●	●●●	20
Cyient	●●●	●●●	●	●●●●●	●●●●●	●●●	20

Source: MOFSL

The framework has some deficiencies when applied to large cap companies, as there is little that separates large-cap players when it comes to ecosystem partnerships; further, vertical exposures for most are well-diversified and client concentration risks are low. That said, the framework give some direction as to which companies are at risk from outsized exposures to structurally weak verticals, and we can make educated guesses when it comes to next-gen readiness as well as automation threats.

Exhibit 30: Partnership ecosystem

Hyperscaler/OEM	Level of partnerships				TCS	CTSH	Infosys	HCLT	Wipro	TechM	LTIMindtree	Mphasis	Coforge	Persistent	Mastek	Zensar	Birlasoft
AWS	N/A	Registered	Advanced	Premier	Premier	Premier	Premier	Premier	Premier	Premier	Advanced	Premier	Advanced	Premier	Advanced	Advanced	Advanced
Oracle	N/A	Silver	Gold	Platinum	Platinum	Platinum	Platinum	Platinum	Platinum	Platinum	Platinum	Platinum	N/A	N/A	Platinum	Platinum	Platinum
SAP	N/A	Silver	Gold	GSP(2)	GSP	GSP	GSP	GSP	GSP	GSP	GSP	Silver	N/A	N/A	N/A	Gold	GSP
IBM	N/A	Silver	Gold	Platinum	Platinum	Platinum	Platinum	Platinum	Platinum	Platinum	Platinum	N/A	Silver	Platinum	N/A	Platinum	N/A
Microsoft/ Azure	N/A	Member	Silver	Gold/MSP	Gold/MSP	Gold	Gold/MSP	Gold	Gold/ MSP	Gold	Gold	Gold-Solution Partner	Gold	Gold	Gold/MSP	Gold	Gold
Google Cloud (GCP)	N/A	Member	Partner	Premier/ MSP (4)	Premier/ MSP	Premier/ MSP	Premier/ MSP	Premier/MSP	Premier/ MSP	Premier	Premier	Partner	Partner	Premier/ MSP	N/A	Partner	Partner
Salesforce .com	N/A	Gold	Platinum	GSP (6)	Platinum	GSP	GSP	GSP	GSP	N/A	Platinum	Platinum	N/A	Platinum	GSP	Platinum	Platinum
Cisco	N/A	Member	Premier	Gold	Gold	Premier	Premier	Gold	Gold	Gold	Premier	N/A	N/A	N/A	N/A	Premier	N/A
Snowflake	Registered	Select	Premier	Elite	Elite	Elite	Elite	Elite	Elite	Premier	Elite	Select	Premier	Premier	Premier	Select	Select
Data bricks	Registered	Select	Elite	Global Elite	Global Elite	Global Elite	Global Elite	Elite	Global Elite	Registered	Elite	Select	Registered	Registered	Registered	Registered	N/A
GitHUB Copilot	N/A	No	N/A	Yes	Yes	Yes	Yes	Yes	No	No	No	N/A	No	No	Yes	No	No
Duck Creek	N/A	Select	Premier	Elite	N/A	Premier	N/A	Select	Select	N/A	Premier	N/A	Premier	N/A	N/A	N/A	N/A
ServiceNow	Registered	Specialist	Premier	Elite	Elite	Elite	Elite	N/A	Elite	Elite	Elite	Registered	Elite	Registered	Premier	Premier	Premier
Guidewire	N/A	Select	Advantage	Global Premier	Advantage	Global Premier	Select	N/A	Select	Advantage	Select	Select	N/A	N/A	N/A	Advantage	N/A
Iongo DB	N/A	Services and Solution Partner			Services and Solution Partner	N/A	N/A	N/A	Services and Solution Partner	Services and Solution Partner	N/A	Services and Solution Partner	N/A	N/A	N/A	N/A	N/A

Technology | Bounce-back!

HCL Technologies

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	HCLT IN
Equity Shares (m)	2714
M.Cap.(INRb)/(USDb)	4740.1 / 56.5
52-Week Range (INR)	1817 / 1209
1, 6, 12 Rel. Per (%)	8/-4/13
12M Avg Val (INR M)	4646

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	1,161	1,269	1,392
EBIT Margin (%)	18.3	18.9	18.9
PAT	172	191	212
EPS (INR)	62.5	69.4	77.0
EPS Gr. (%)	7.9	11.2	10.8
BV/Sh. (INR)	245	241	237
Ratios			
RoE (%)	25.4	28.6	32.2
RoCE (%)	22.5	25.7	28.6
Payout (%)	90.0	90.0	90.0
Valuations			
P/E (x)	28.0	25.1	22.7
P/BV (x)	7.1	7.2	7.4
EV/EBITDA (x)	18.6	16.6	15.1
Div Yield (%)	3.2	3.6	4.0

CMP: INR1,747 TP: INR2,200 (+26%) Buy

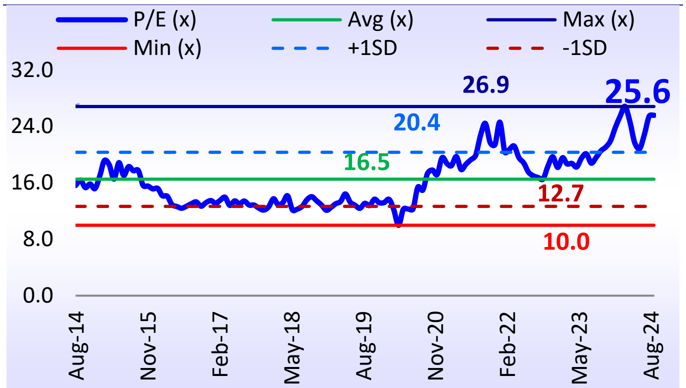
We believe HCL Technologies (HCLT) is best positioned to play the short-term slow, medium-term fast GenAI revolution we talked about earlier. Its exposure to verticals such as healthcare and manufacturing is higher than that of peers, ensuring all-weather growth. ER&D needs to do better; however, only if growth is to outperform peers. Margins would be largely range-bound. We believe HCLT's capabilities are comparable to the best in the industry, especially when it comes to new-age projects, despite the perception that HCLT's portfolio is more "defensive."

- **Industry Exposure (5/5):** Well-diversified portfolio; Healthcare and manufacturing higher than peers.
- **Margin Expansion Scope (3/5):** Margins to be largely range-bound, but expansion contingent on ER&D recovering.
- **Partnerships (5/5):** Top-tier ecosystem partnerships, largely a hygiene factor for all large-caps.
- **Automation Threat (5/5):** HCLT's strong Infrastructure management heritage works in its favor; we believe GenAI is yet to have a meaningful business case in IMS, and HCLT is shielded better than peers.
- **Client Strategies (3/5):** All large-caps have well-diversified clientele; no differentiation.
- **Technology Readiness (3/5):** HCLT, despite its IMS heritage, was one of the fastest growing firms even during the cloud migration boom, and we believe it will participate in the GenAI-led spending uptrend as well.

Valuation and Estimates

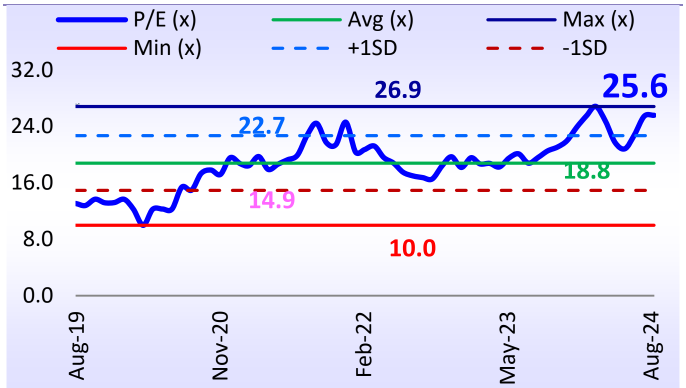
- Our positive view on HCLT remains tethered to its business profile, which should continue to benefit in the current macro environment. Its investments in next-gen platforms also position it well for a recovery in client spends. We introduce FY27 estimates and roll over to Sep'26E EPS. We upgrade our target multiple by 10% to factor in demand recovery, and now value HCLT at 30x Sep'26 EPS. **Reiterate BUY** with a TP of INR2,200. **HCLT remains our top pick in large cap IT.**

Exhibit 31: One year forward P/E – 10 year trend



Source: MOFSL, Company

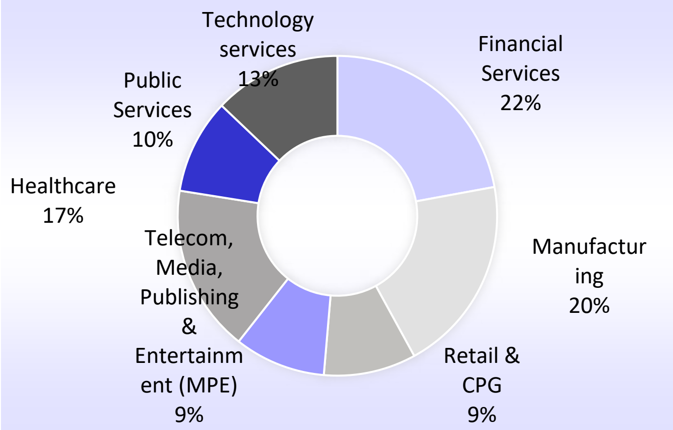
Exhibit 32: One year forward P/E – 5 year trend



Source: MOFSL, Company

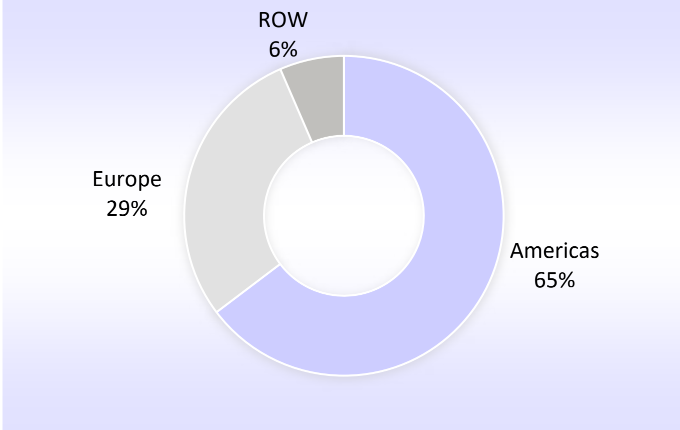
Story in Charts

Exhibit 33: Vertical exposure in FY24



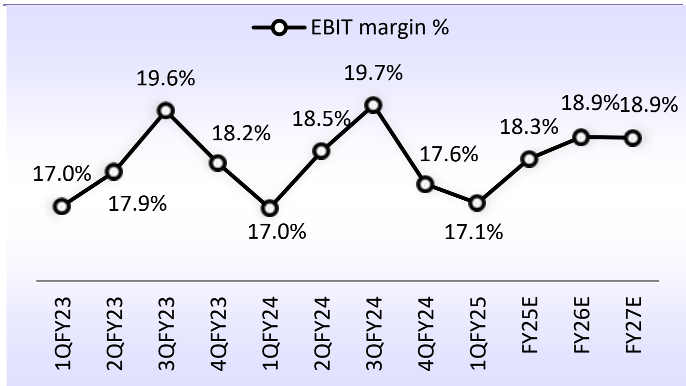
Source: MOFSL, Company

Exhibit 34: Geographical break-up in FY24



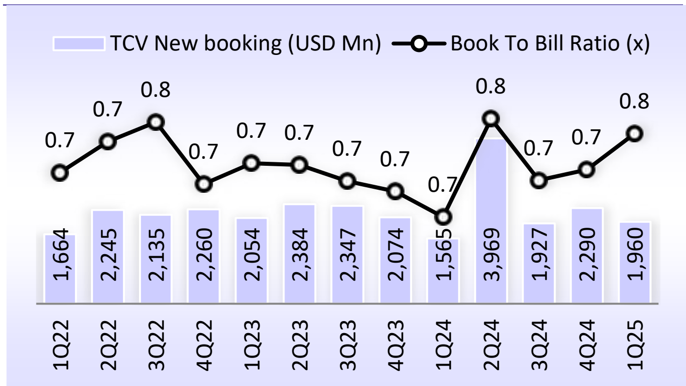
Source: MOFSL, Company

Exhibit 35: EBIT margin is expected to clock 18.9% by FY27



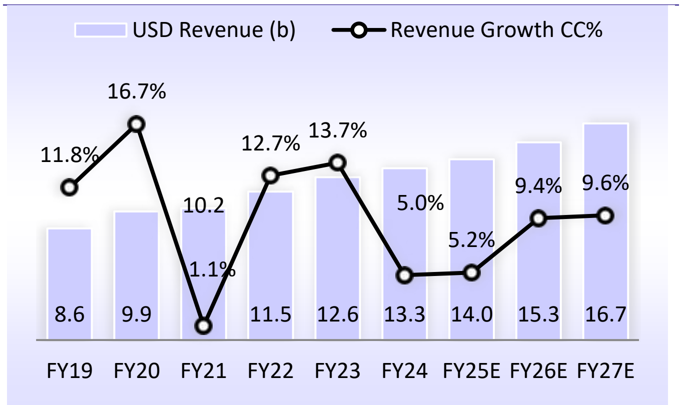
Source: MOFSL, Company

Exhibit 36: : Total TCV reached USD1,960m in 1QFY25



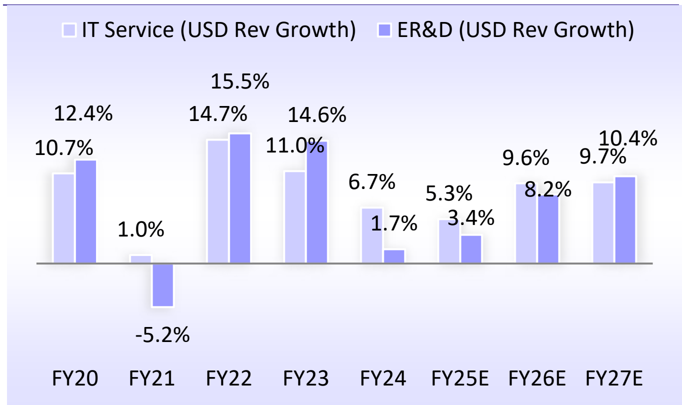
Source: MOFSL, Company

Exhibit 37: Revenue likely to grow at 5.2%/9.4%/9.6% in FY25/FY26/FY27



Source: MOFSL, Company

Exhibit 38: IT services to outperform ER&D growth rate in FY25/FY26



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**707**	**754**	**857**	**1,015**	**1,099**	**1,161**	**1,269**	**1,392**
Change (%)	17.0	6.7	13.6	18.5	8.3	5.7	9.3	9.6
Cost of Goods Sold	453	467	546	662	721	762	829	910
Gross Profit	**254**	**287**	**311**	**353**	**378**	**399**	**441**	**482**
Selling & Admin Exp.	87	93	109	127	136	145	155	169
EBITDA	**167**	**193**	**202**	**226**	**242**	**254**	**285**	**312**
% of Net Sales	23.6	25.6	23.6	22.3	22.0	21.9	22.5	22.5
Depreciation	28	40	40	41	42	42	46	50
EBIT	**139**	**153**	**162**	**185**	**200**	**212**	**240**	**262**
% of Net Sales	19.6	20.4	18.9	18.2	18.2	18.3	18.9	18.9
Other Income	2	7	8	10	9	20	19	24
PBT	**140**	**160**	**170**	**195**	**210**	**232**	**259**	**287**
Tax	29	41	34	46	53	60	67	75
Rate (%)	20.9	25.4	20.3	23.8	25.1	25.8	26.0	26.0
EO Item (net)	0	0	0	0	0	0	0	0
Minority interest	0	1	0	0	0	0	0	0
Adjusted PAT	**111**	**119**	**135**	**148**	**157**	**172**	**191**	**212**
Change (%)	9.3	7.4	13.7	9.9	5.7	9.6	11.2	10.8

Balance Sheet								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Reserves	517	615	620	654	683	674	663	652
Net Worth	**517**	**615**	**620**	**654**	**683**	**674**	**663**	**652**
Loans	51	39	39	21	22	22	22	22
Other liabilities	55	55	43	45	66	67	71	75
Capital Employed	**623**	**709**	**703**	**720**	**771**	**763**	**756**	**749**
Gross Block	511	546	560	596	643	672	697	725
Less : Depreciation	128	168	208	249	291	333	379	429
Net Block	**383**	**378**	**352**	**347**	**352**	**339**	**319**	**296**
Other assets	65	69	57	51	52	51	52	53
Investments	105	140	85	112	178	178	178	178
Curr. Assets	**279**	**291**	**397**	**425**	**416**	**434**	**470**	**509**
Debtors	178	175	207	255	255	267	290	315
Cash & Bank Balance	38	65	105	91	95	97	103	110
Other Current Assets	64	50	85	80	66	70	76	84
Current Liab. & Prov	**209**	**168**	**188**	**214**	**227**	**240**	**262**	**288**
Net Current Assets	**70**	**123**	**209**	**211**	**189**	**194**	**207**	**221**
Application of Funds	**623**	**709**	**703**	**720**	**771**	**763**	**756**	**749**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Diluted (INR)								
EPS	**40.7**	**43.8**	**49.8**	**54.8**	**57.9**	**62.5**	**69.4**	**77.0**
Cash EPS	51.2	58.5	64.6	70.1	73.3	77.6	86.0	95.2
Book Value	190.4	226.7	228.6	241.6	252.1	244.5	240.9	236.8
DPS	8.0	26.0	44.0	48.0	48.0	56.2	62.5	69.3
Payout (%)	19.6	59.4	88.3	87.6	82.9	90.0	90.0	90.0
Valuation (x)								
P/E	42.9	39.9	35.0	31.9	30.2	28.0	25.1	22.7
Cash P/E	34.1	29.9	27.0	24.9	23.8	22.5	20.3	18.3
EV/EBITDA	28.5	24.4	23.1	20.6	19.2	18.6	16.6	15.1
EV/Sales	6.7	6.3	5.5	4.6	4.2	4.1	3.7	3.4
Price/Book Value	9.2	7.7	7.6	7.2	6.9	7.1	7.2	7.4
Dividend Yield (%)	0.5	1.5	2.5	2.7	2.7	3.2	3.6	4.0
Profitability Ratios (%)								
RoE	23.6	21.0	21.9	23.3	23.5	25.4	28.6	32.2
RoCE	21.3	18.7	19.6	21.1	21.7	22.5	25.7	28.6
Turnover Ratios								
Debtors (Days)	92	85	88	92	85	84	83	83
Asset Turnover (x)	1.8	2.0	2.4	2.9	3.1	3.4	4.0	4.7

Cash Flow Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	149	166	174	193	201	214	237	262
Chg. in Working Capital	-16	30	-5	-13	23	-1	-4	-4
Net Operating CF	**134**	**196**	**169**	**180**	**224**	**213**	**233**	**258**
Net Purchase of FA	-18	-18	-16	-14	-10	-29	-25	-28
Net Purchase of Invest.	-105	-40	30	-25	-57	0	0	0
Net Cash from Inv.	**-124**	**-57**	**15**	**-39**	**-67**	**-29**	**-25**	**-28**
Issue of shares/other adj.	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-15	-79	-31	-29	-14	0	0	0
Dividend Payments	-16	-33	-114	-130	-141	-181	-201	-223
Net CF from Finan.	**-32**	**-112**	**-145**	**-159**	**-154**	**-181**	**-201**	**-223**
Free Cash Flow	115	179	153	166	214	184	208	230
Net Cash Flow	**-22**	**27**	**39**	**-18**	**3**	**2**	**6**	**7**
Forex difference	0	1	1	4	1	0	0	0
Opening Cash Balance	**60**	**38**	**66**	**106**	**91**	**95**	**98**	**104**
Closing Cash Balance	**38**	**66**	**106**	**91**	**95**	**98**	**104**	**111**

LTIMindtree

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	LTIM IN
Equity Shares (m)	296
M.Cap.(INRb)/(USDb)	1820.5 / 21.7
52-Week Range (INR)	6443 / 4514
1, 6, 12 Rel. Per (%)	12/9/-14
12M Avg Val (INR M)	2627

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	378	422	478
EBIT Margin (%)	15.8	16.5	17.1
PAT	49.6	57.6	67.4
EPS (INR)	167.3	194.2	227.4
EPS Gr. (%)	8.0	16.1	17.1
BV/Sh. (INR)	772.5	885.1	1,017.0
Ratios			
RoE (%)	23.1	23.4	23.9
RoCE (%)	19.5	20.1	20.6
Payout (%)	42.0	42.0	42.0
Valuations			
P/E (x)	36.8	31.7	27.0
P/BV (x)	8.0	6.9	6.0
EV/EBITDA (x)	25.0	21.4	18.1
Div Yield (%)	1.1	1.3	1.6

CMP: INR6,147 TP: INR7,400 (+20%) Buy

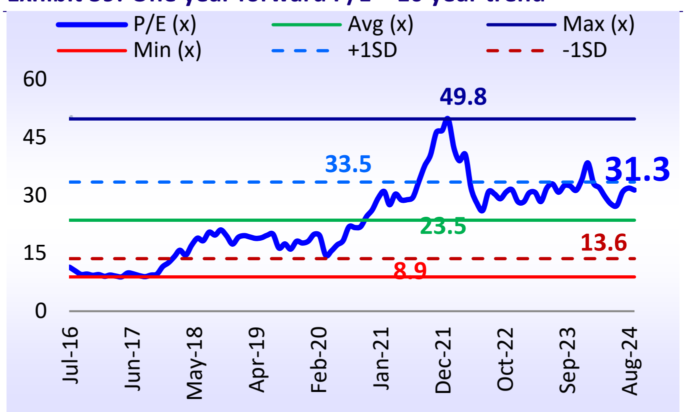
LTIM has top-tier ecosystem partnerships and excellent technology readiness, positioning it well for next-gen and pre-GenAI expenditures. It balances top client relationships with effective new client acquisitions. Margin expansion is a key concern though, due to unrealized merger synergies, but it should incrementally improve from here as demand improves. With BFSI clients increasing spending on transformation projects, LTIM stands to benefit despite its margin challenges.

- **Industry Exposure (5/5):** Clients in banking, financial services and insurance are again starting to spend on high-priority transformation projects. We see exposure to manufacturing and energy as a positive as well.
- **Margin Expansion Scope (1/5):** Margin performance remains the key concern for LTIM. It is now obvious that post-merger synergies have not been realized to the extent thought earlier, and a difficult demand environment has made improving margins even tougher.
- **Partnerships (5/5):** Top-tier ecosystem partnerships, particularly in niche areas such as Snowflake, Databricks, Google Cloud, Azure.
- **Automation Threat (5/5):** A portfolio comprising of top-tier modernization offerings and very little legacy burden.
- **Client Strategies (3/5):** LTIM needs to unlock more clients in the USD100m+ range at its scale.
- **Technology Readiness (5/5):** LTIM would be the key beneficiary of next-gen/pre-GenAI spending owing to its superior next-gen readiness.

Valuation and Estimates

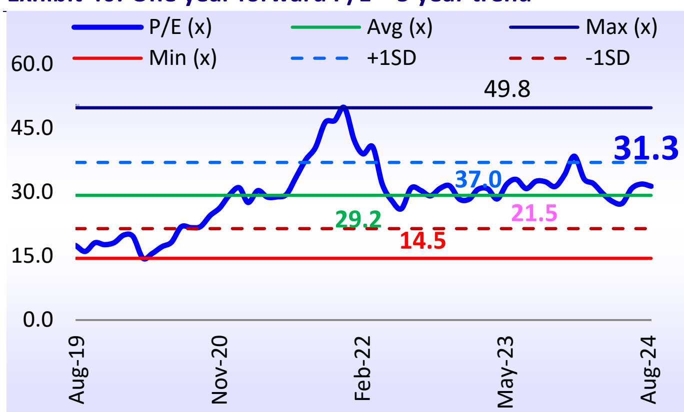
- **We reiterate our BUY rating on LTIM** due to its superior offerings in data engineering and ERP modernization, positioning it well to capture pre-GenAI expenditures. We anticipate LTIM to outperform its large-cap peers and expect low double-digit CC growth for FY26. Margins remain a concern, however, and the biggest risk to our thesis. We introduce FY27 estimates and roll over to Sep'26E EPS. We value LTIM at 35x Sep'26E EPS. Our revised TP of INR7,400 implies 20% upside potential.

Exhibit 39: One year forward P/E – 10 year trend



Source: MOFSL, Company

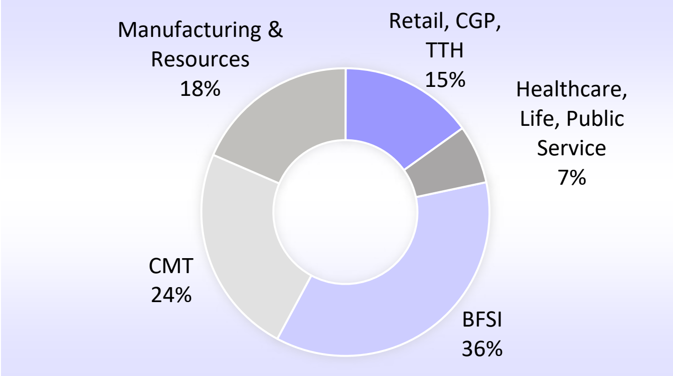
Exhibit 40: One year forward P/E – 5 year trend



Source: MOFSL, Company

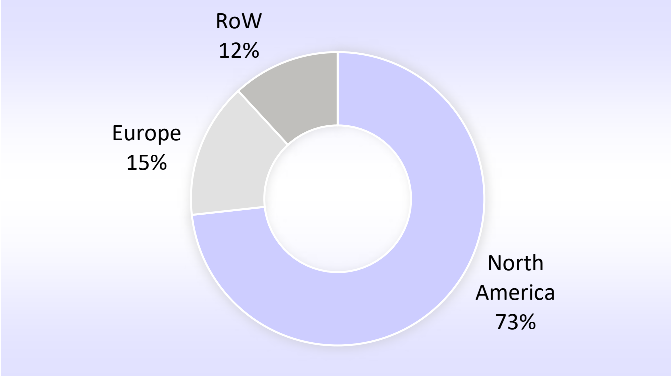
Story in Charts

Exhibit 41: Vertical exposure in FY24



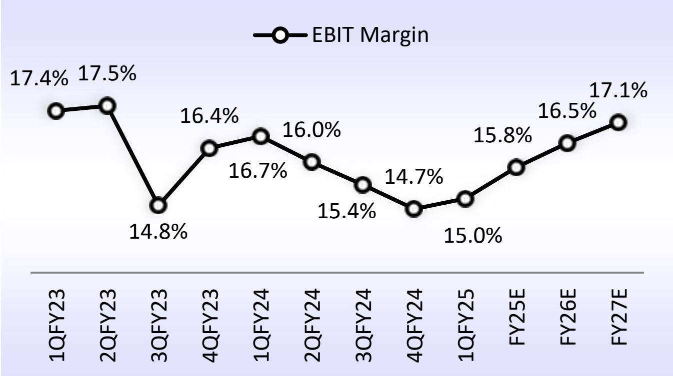
Source: MOFSL, Company

Exhibit 42: Geographical break-up in FY24



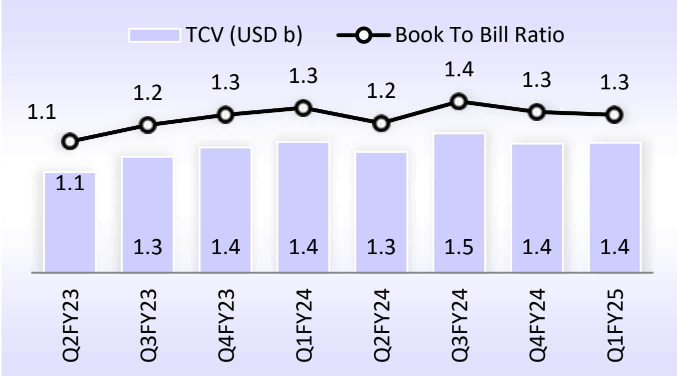
Source: MOFSL, Company

Exhibit 43: EBIT margin to expand to 17.1% by FY27



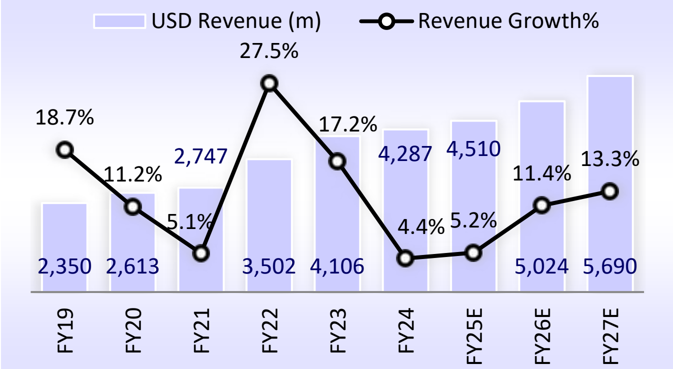
Source: MOFSL, Company

Exhibit 44: : Total TCV at USD1.4b in 1QFY25 with 1.3x BBR



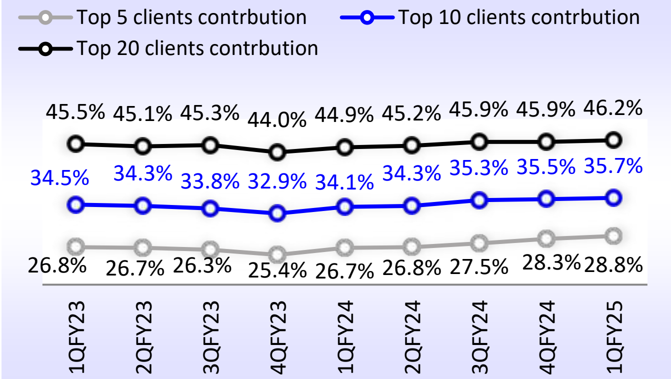
Source: MOFSL, Company

Exhibit 45: Revenue to grow at 5.2%/11.4%/13.3% YoY for FY25/26/27



Source: MOFSL, Company

Exhibit 46: Top 5 clients made up ~29% of revenue in 1QFY25



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**2,69,413**	**2,86,287**	**2,61,086**	**3,31,830**	**3,55,170**	**3,78,152**	**4,21,989**	**4,77,980**
Change (%)	12.2	6.3	(8.8)	27.1	7.0	6.5	11.6	13.3
Cost of Services	1,77,967	1,95,985	1,78,271	2,32,037	2,46,214	2,61,809	2,89,626	3,27,416
Gross Profit	**91,446**	**90,302**	**82,815**	**99,793**	**1,08,956**	**1,16,343**	**1,32,362**	**1,50,564**
SG&A Expenses	36,068	26,759	30,330	37,915	45,082	48,069	54,015	59,508
EBITDA	**55,378**	**63,543**	**52,485**	**61,878**	**63,874**	**68,273**	**78,348**	**91,055**
% of Net Sales	20.6	22.2	20.1	18.6	18.0	18.1	18.6	19.1
Depreciation	8,239	8,520	5,971	7,227	8,189	8,373	8,750	9,560
EBIT	**47,139**	**55,023**	**46,514**	**54,651**	**55,685**	**59,900**	**69,598**	**81,496**
% of Net Sales	17.5	19.2	17.8	16.5	15.7	15.8	16.5	17.1
Other Income	1,796	3,410	6,426	4,065	4,802	5,657	6,127	7,170
PBT	**48,934**	**58,434**	**52,940**	**58,716**	**60,487**	**65,557**	**75,724**	**88,665**
Tax	8,780	14,262	13,439	13,812	14,641	15,977	18,174	21,280
Rate (%)	17.9	24.4	25.4	23.5	24.2	24.4	24.0	24.0
Minority Interest	0	0	0	11	25	0	0	0
Extraordinary	0	-571	0	800	0	0	0	0
Adjusted PAT	**40,154**	**44,172**	**39,501**	**44,904**	**45,846**	**49,580**	**57,550**	**67,386**
Change (%)	-3	10	-11	14	2	8	16	17

Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	174	175	296	296	296	296	296	296
Reserves	53,866	72,859	1,42,576	1,65,625	1,99,876	2,28,639	2,62,027	3,01,120
Net Worth	**54,040**	**73,034**	**1,42,872**	**1,65,921**	**2,00,172**	**2,28,935**	**2,62,323**	**3,01,416**
Minority Interest	11	37	57	71	92	92	92	92
Other liabilities	10,886	7,697	11,972	14,143	17,934	17,918	17,956	18,004
Capital Employed	**64,937**	**80,768**	**1,54,901**	**1,80,135**	**2,18,198**	**2,46,945**	**2,80,371**	**3,19,512**
Net Block	**12,104**	**10,481**	**13,772**	**17,823**	**21,224**	**20,851**	**20,100**	**18,541**
Intangibles	7,684	9,241	14,861	15,452	15,078	15,078	15,078	15,078
Other LT Assets	5,170	6,056	27,805	29,789	50,798	46,618	49,818	53,906
Curr. Assets	**63,290**	**81,313**	**1,49,386**	**1,71,897**	**1,88,530**	**2,13,394**	**2,48,885**	**2,91,266**
Current Investments	22,186	36,282	57,882	53,349	77,494	92,494	1,12,494	1,32,494
Debtors	27,541	26,906	56,271	72,284	70,387	66,306	73,993	83,810
Cash & Bank Balance	5,252	7,594	14,462	23,389	18,200	25,488	30,224	38,868
Other Current Assets	8,311	10,531	20,771	22,875	22,449	29,106	32,174	36,094
Current Liab. & Prov	**23,311**	**26,323**	**50,923**	**54,826**	**57,432**	**48,996**	**53,511**	**59,278**
Trade payables	7,269	8,277	13,250	12,938	14,939	9,454	10,550	11,949
Other liabilities	13,454	14,504	31,381	33,754	34,007	31,056	34,475	38,842
Provisions	2,588	3,542	6,292	8,134	8,486	8,486	8,486	8,486
Net Current Assets	**39,979**	**54,990**	**98,463**	**1,17,071**	**1,31,098**	**1,64,398**	**1,95,374**	**2,31,988**
Application of Funds	**64,937**	**80,768**	**1,54,901**	**1,80,135**	**2,18,198**	**2,46,945**	**2,80,371**	**3,19,512**

 # Pro Forma P&L statement for the combined entity (LTIM) for FY20 and FY21
*** Standalone (LTI) Balance Sheet for FY20 and FY21**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
EPS	135.7	151.3	133.5	151.8	154.8	167.3	194.2	227.4
Cash EPS	163.6	180.1	153.7	173.5	182.5	195.5	223.7	259.6
Book Value	182.7	246.9	483.0	560.9	676.0	772.5	885.1	1,017.0
DPS	34.4	57.5	63.9	60.0	65.0	70.2	81.5	95.5
Payout (%)	25.4	38.0	47.9	39.5	42.0	42.0	42.0	42.0
Valuation (x)								
P/E ratio	45.3	40.6	46.0	40.5	39.7	36.8	31.7	27.0
Cash P/E ratio	37.6	34.1	40.0	35.4	33.7	31.4	27.5	23.7
EV/EBITDA ratio	32.3	27.9	33.3	28.1	27.0	25.0	21.4	18.1
EV/Sales ratio	6.6	6.2	6.7	5.2	4.9	4.5	4.0	3.5
Price/Book Value ratio	33.7	24.9	12.7	11.0	9.1	8.0	6.9	6.0
Dividend Yield (%)	0.6	0.9	1.0	1.0	1.1	1.1	1.3	1.6
Profitability Ratios (%)								
RoE	78.0	70.4	36.6	26.1	24.4	23.1	23.4	23.9
RoCE	67.2	57.1	29.5	24.9	21.2	19.5	20.1	20.6
Turnover Ratios								
Debtors (Days)	37.31	34.30	79	80	72	64	64	64
Fixed Asset Turnover (x)	22.3	27.3	19.0	18.6	16.7	18.1	21.0	25.8

Cash Flow Statement						(INR m)
Y/E March	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	44,695	48,591	50,720	57,953	66,301	76,945
Cash for Working Capital	-12,188	-17,645	5,975	-6,848	-9,402	-12,009
Net Operating CF	**32,507**	**30,946**	**56,695**	**51,105**	**56,899**	**64,937**
Net Purchase of FA	-10,529	-9,346	-8,330	-8,000	-8,000	-8,000
Free Cash Flow	**21,978**	**21,600**	**48,365**	**43,105**	**48,899**	**56,937**
Net Purchase of Invest.	-5,924	6,037	-30,791	-15,000	-20,000	-20,000
Net Cash from Invest.	**-16,453**	**-3,309**	**-39,121**	**-23,000**	**-28,000**	**-28,000**
Proc. from equity issues	2	12	0	0	0	0
Proceeds from LTB/STB	-3,529	-3,702	-4,947	0	0	0
Dividend Payments	-13,277	-15,627	-17,753	-20,817	-24,163	-28,292
Cash Flow from Fin.	**-16,804**	**-19,317**	**-22,700**	**-20,817**	**-24,163**	**-28,292**
Exchange difference	21	607	-63	0	0	0
Net Cash Flow	**-729**	**8,927**	**-5,189**	**7,288**	**4,736**	**8,644**
Opening Cash Bal.	**15,191**	**14,462**	**23,389**	**18,200**	**25,488**	**30,224**
Add: Net Cash	-729	8,927	-5,189	7,288	4,736	8,644
Closing Cash Bal.	**14,462**	**23,389**	**18,200**	**25,488**	**30,224**	**38,868**

Persistent Systems

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	PSYS IN
Equity Shares (m)	154
M.Cap.(INRb)/(USDb)	799.3 / 9.5
52-Week Range (INR)	5333 / 2788
1, 6, 12 Rel. Per (%)	8/13/47
12M Avg Val (INR M)	2701

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	116	137	163
EBIT Margin (%)	14.5	15.5	15.1
PAT	13.7	17.7	20.5
EPS (INR)	89.2	114.7	133.4
EPS Gr. (%)	18.9	28.5	16.3
BV/Sh. (INR)	379.2	448.7	529.5
Ratios			
RoE (%)	25.6	28.0	27.5
RoCE (%)	23.2	25.1	24.7
Payout (%)	40.0	40.0	40.0
Valuations			
P/E (x)	57.9	45.1	38.8
P/BV (x)	13.6	11.5	9.8
EV/EBITDA (x)	38.8	30.7	26.1
Div Yield (%)	0.7	0.9	1.0

CMP: INR5,169 TP: INR6,300 (+22%) Buy

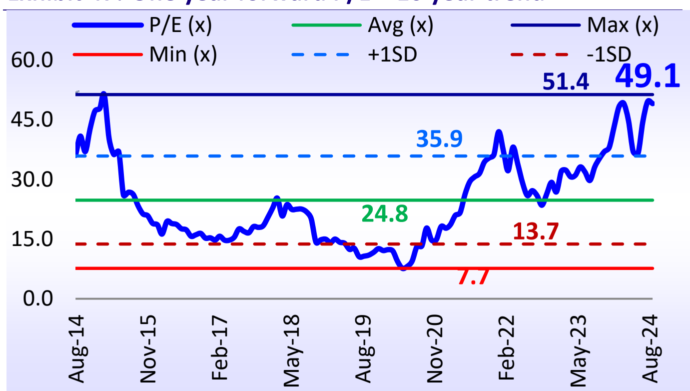
Persistent Systems (PSYS) emerges as the top performer in our IMPACT evaluation framework with a total score of 28. Key highlights:

- **Industry Exposure (5/5):** PSYS has a strong presence in high-growth verticals like healthcare and BFSI. Hi-tech has seen industry-wide weakness, but we believe the company's offerings here are strategic, and BFSI and Healthcare should lead the charge.
- **Margin Expansion Scope (3/5):** The short-term margin dip is a result of high onsite costs and subcontracting expenses owing to its large deal ramp-ups in healthcare. Both these factors can easily moderate with offshoring, and we believe margins could stabilize going forward.
- **Partnerships (5/5):** Key partnerships: AWS, GCP, Azure, and Databricks
- **Automation Threat (5/5):** Low contribution from service lines such as BPO and Testing makes PSYS's portfolio resilient to the automation threat.
- **Client Strategies (5/5):** In line with the best-in-class mid-tier companies, PSYS has struck the right balance between client mining and client hunting. Top 10 clients contribute 40% to revenues (down from 53% five years ago). We believe this mix gives enough comfort to mine key clients and keeps the portfolio diversified.
- **Technology Readiness (5/5):** High readiness for next-gen technologies, especially in data engineering. Its SASVA platform is already ahead of peers in solving teething GenAI issues, and its pivot to becoming a platform-based service company should give it further upside.

Valuation and Estimates

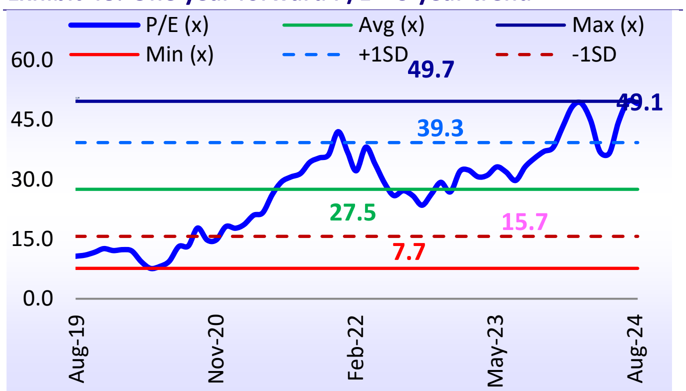
- We project a 18% USD revenue CAGR over FY24-27, which, combined with margin expansion, could result in a 21%+ EPS CAGR. This positions PSYS in a league of its own as a diversified product engineering and IT services player, justifying a premium valuation multiple. The stock is currently trading at an admittedly expensive valuation. That said, owing to its superior earnings growth trajectory, on PEG basis, we believe the valuation still has room for upside. We introduce FY27 estimates and roll over to Sep'26E EPS. **Reiterate BUY** with a TP of INR6,300 based on 50x Sep'26E EPS.

Exhibit 47: One year forward P/E – 10 year trend



Source: MOFSL, Company

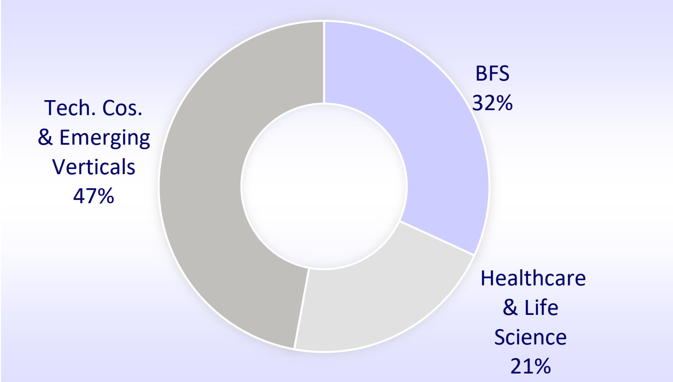
Exhibit 48: One year forward P/E – 5 year trend



Source: MOFSL, Company

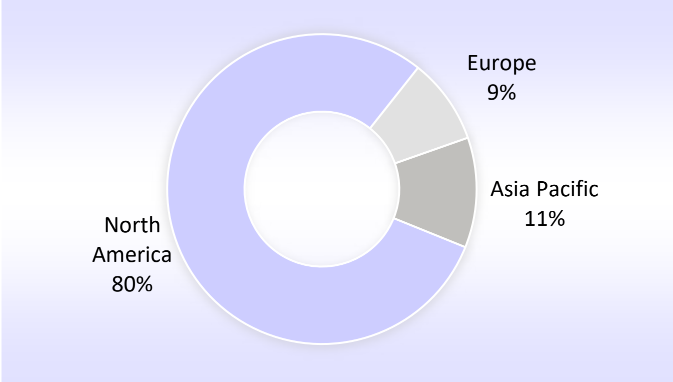
Story in Charts

Exhibit 49: Vertical exposure in FY24



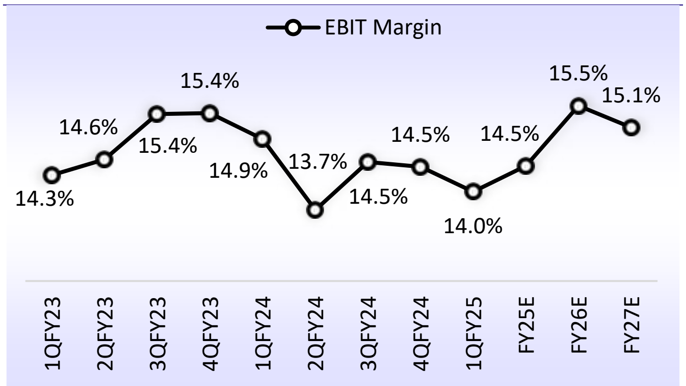
Source: MOFSL, Company

Exhibit 50: Geographical break-up in FY24



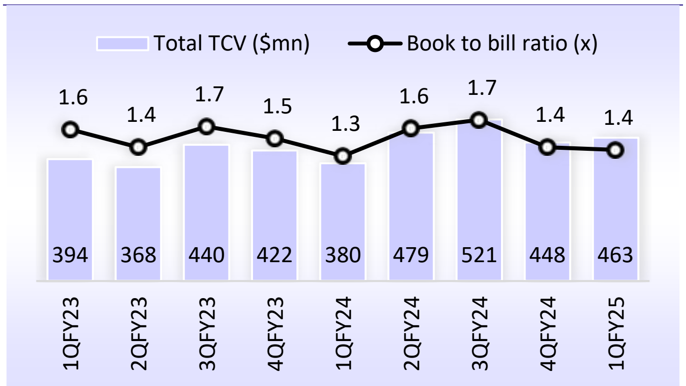
Source: MOFSL, Company

Exhibit 51: EBIT margin to expand to 15.1% by FY27



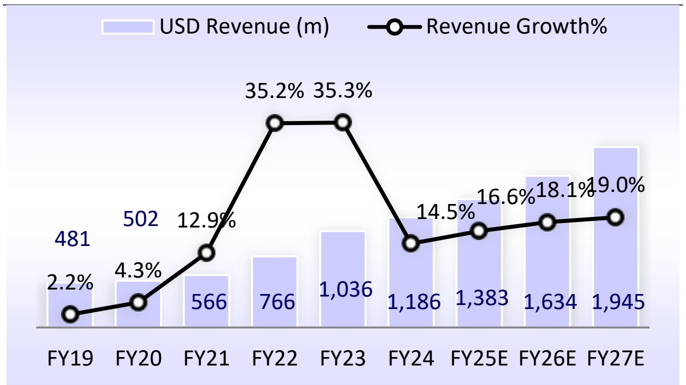
Source: MOFSL, Company

Exhibit 52: Total TCV reached USD462.8m in 1QFY25



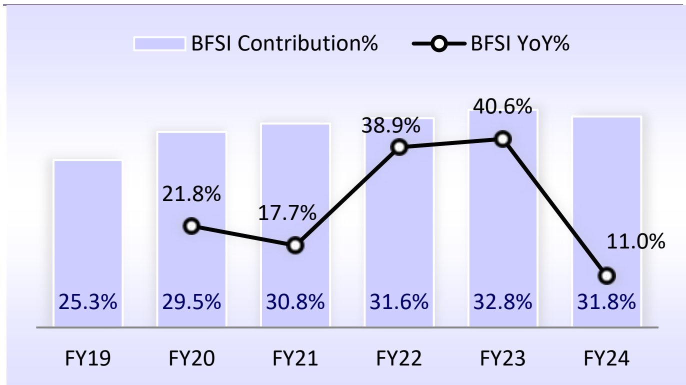
Source: MOFSL, Company

Exhibit 53: Revenue to grow at 18% CAGR over FY24-27



Source: MOFSL, Company

Exhibit 54: BFSI contribution reached to 31.8% in FY24



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**35,658**	**41,879**	**57,107**	**83,506**	**98,216**	**1,16,004**	**1,37,289**	**1,63,360**
Change (%)	5.9	17.4	36.4	46.2	17.6	18.1	18.3	19.0
Cost of Goods Sold	23,494	27,650	37,895	55,315	65,231	77,487	91,298	1,09,243
Gross Profit	**12,164**	**14,229**	**19,212**	**28,191**	**32,985**	**38,517**	**45,992**	**54,117**
Selling Expenses	7,234	7,398	9,556	12,999	15,742	18,672	21,143	25,157
EBITDA	**4,930**	**6,830**	**9,656**	**15,191**	**17,243**	**19,845**	**24,849**	**28,960**
% of Net Sales	13.8	16.3	16.9	18.2	17.6	17.1	18.1	17.7
Depreciation	1,660	1,756	1,660	2,719	3,094	3,016	3,570	4,247
EBIT	**3,270**	**5,075**	**7,996**	**12,472**	**14,149**	**16,828**	**21,280**	**24,713**
% of Net Sales	9.2	12.1	14.0	14.9	14.4	14.5	15.5	15.1
Other Income	1,254	1,020	1,321	233	813	874	1,373	1,634
PBT	**4,523**	**6,094**	**9,317**	**12,705**	**14,962**	**17,702**	**22,652**	**26,346**
Tax	1,121	1,588	2,339	3,198	3,541	3,955	4,984	5,796
Rate (%)	24.8	26.1	25.1	25.2	23.7	22.3	22.0	22.0
Extraordinary Item	0	0	75	297	486	0	0	0
Adjusted PAT	**3,403**	**4,507**	**6,904**	**9,211**	**10,935**	**13,748**	**17,669**	**20,550**
Change (%)	28.4	32.4	53.2	33.4	18.7	25.7	28.5	16.3

Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	764	764	764	764	770	770	770	770
Other Reserves	23,093	27,192	32,918	38,887	48,807	57,055	67,657	79,987
Net Worth	**23,858**	**27,957**	**33,682**	**39,651**	**49,577**	**57,826**	**68,427**	**80,757**
Loans	46	44	4,889	4,947	99	99	99	99
Other liabilities	544	957	1,360	2,013	2,218	2,620	3,101	3,690
Capital Employed	**24,448**	**28,958**	**39,931**	**46,610**	**51,894**	**60,545**	**71,627**	**84,546**
Net Block	**2,791**	**3,254**	**4,276**	**7,058**	**6,727**	**7,211**	**7,141**	**6,394**
CWIP	166	122	1,071	161	335	335	335	335
Intangibles	1,661	1,315	11,060	16,355	15,488	15,488	15,488	15,488
Investments	4,621	3,621	3,878	4,516	5,539	5,539	5,539	5,539
Deferred Tax Assets	960	1,038	1,123	1,129	1,360	1,606	1,901	2,261
Other	866	602	4,394	1,792	3,056	3,609	4,271	5,082
Current Assets	**19,856**	**26,703**	**28,339**	**35,179**	**41,232**	**50,380**	**63,106**	**78,701**
Debtors	5,922	5,709	9,484	15,705	16,761	18,433	21,816	25,959
Investments	5,165	13,765	10,514	6,242	6,330	11,830	17,330	22,830
Cash & BB	4,572	2,419	2,978	4,670	6,625	6,515	7,864	10,759
Loans & Advances	14	71	16	-	-	-	-	-
Other Current Assets	4,183	4,739	5,347	8,562	11,515	13,601	16,096	19,153
Current Liab. & Prov	**6,474**	**7,697**	**14,210**	**19,581**	**21,842**	**23,622**	**26,154**	**29,255**
Trade payables	2,247	2,733	4,299	5,689	8,139	9,217	10,908	12,979
Other liabilities	2,616	2,486	5,961	9,243	10,372	10,472	10,590	10,735
Provisions	1,611	2,478	3,950	4,649	3,331	3,934	4,656	5,540
Net Current Assets	**13,382**	**19,006**	**14,130**	**15,598**	**19,390**	**26,758**	**36,952**	**49,447**
Application of Funds	**24,448**	**28,958**	**39,931**	**46,610**	**51,894**	**60,545**	**71,627**	**84,546**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
EPS	**22.3**	**29.5**	**45.7**	**62.5**	**75.1**	**89.2**	**114.7**	**133.4**
Cash EPS	33.1	41.0	56.5	80.4	95.4	108.8	137.9	161.0
Book Value	156.1	182.9	220.4	260.7	325.9	379.2	448.7	529.5
DPS	6.0	10.0	15.5	25.0	26.0	35.7	45.9	53.4
Payout (%)	26.9	33.9	33.9	40.0	34.6	40.0	40.0	40.0
Valuation (x)								
P/E ratio	232.2	175.3	113.3	82.7	68.9	57.9	45.1	38.8
Cash P/E ratio	156.1	126.2	91.5	64.3	54.2	47.5	37.5	32.1
EV/EBITDA ratio	158.3	113.3	81.0	51.4	44.9	38.8	30.7	26.1
EV/Sales ratio	21.9	18.5	13.7	9.3	7.9	6.6	5.6	4.6
Price/Book Value	33.1	28.3	23.5	19.8	15.9	13.6	11.5	9.8
Dividend Yield (%)	0.1	0.2	0.3	0.5	0.5	0.7	0.9	1.0
Profitability Ratios (%)								
RoE	14.4	17.4	22.6	25.9	25.6	25.6	28.0	27.5
RoCE	10.2	14.1	17.4	21.6	21.9	23.2	25.1	24.7
Turnover Ratios								
Debtors (Days)	61	50	61	69	62	58	58	58
Asset Turnover (x)	13.9	13.9	15.2	14.7	14.2	16.6	19.1	24.1

Cash Flow Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	4,597	5,781	8,857	13,935	14,265	16,764	21,238	24,797
Chg. in Working Capital	-1,369	1,578	-407	-4,377	-2,052	-2,375	-3,822	-4,682
Net Operating CF	**3,229**	**7,359**	**8,450**	**9,558**	**12,213**	**14,389**	**17,416**	**20,116**
Net Purchase of FA	-746	-1,251	-3,808	-4,290	-2,710	-3,500	-3,500	-3,500
Free Cash Flow	**2,483**	**6,108**	**4,642**	**5,268**	**9,503**	**10,889**	**13,916**	**16,616**
Net Purchase of Invest.	597	-4,166	-5,965	76	-1,985	-5,500	-5,500	-5,500
Net Cash from Inv.	**-148**	**-5,417**	**-9,773**	**-4,213**	**-4,695**	**-9,000**	**-9,000**	**-9,000**
Issue of shares	0	0	0	0	1,608	0	0	0
Proceeds from LTB/STB	-2,344	-3,044	3,810	-1,059	-3,461	0	0	0
Dividend Payments	-2,978	-1,070	-1,987	-2,981	-4,084	-5,499	-7,068	-8,220
Net CF from Finan.	**-5,321**	**-4,114**	**1,823**	**-4,039**	**-5,937**	**-5,499**	**-7,068**	**-8,220**
Net Cash Flow	**-2,241**	**-2,171**	**499**	**1,305**	**1,581**	**-110**	**1,348**	**2,896**
Exchange difference	84	19	59	387	374	0	0	0
Opening Cash Balance	**6,729**	**4,572**	**2,420**	**2,979**	**4,671**	**6,626**	**6,516**	**7,865**
Closing Cash Balance	**4,572**	**2,420**	**2,979**	**4,671**	**6,626**	**6,516**	**7,865**	**10,760**

Coforge

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	COFORGE IN
Equity Shares (m)	67
M.Cap.(INRb)/(USDb)	432.9 / 5.2
52-Week Range (INR)	6847 / 4287
1, 6, 12 Rel. Per (%)	8/-7/-9
12M Avg Val (INR M)	2762

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	103	118	133
EBIT Margin (%)	13.4	14.5	15.0
PAT	9.7	12.4	14.6
EPS (INR)	151.9	194.1	229.7
Adj. PAT	9.7	12.4	14.6
Adj. EPS (INR)	150.8	192.7	228.1
Adj. EPS Gr. (%)	13.2	27.8	18.4
BV/Sh. (INR)	643.7	738.7	851.5
Ratios			
RoE (%)	24.4	27.5	28.3
RoCE (%)	22.6	26.0	27.1
Payout (%)	50.0	50.0	50.0
Valuations			
P/E (x)	43.0	33.7	28.4
P/BV (x)	10.1	8.8	7.6
EV/EBITDA (x)	23.0	18.7	15.9
Div Yield (%)	1.2	1.5	1.8

CMP: INR6,491 TP: INR8,100 (+25%) Upgrade to BUY

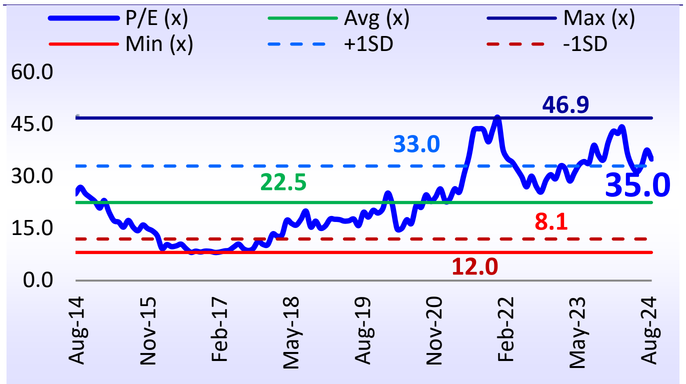
Coforge scores 24 in our IMPACT framework. Its exposure to BFSI should enable it to participate in demand recovery, and strong TCV and order backlog also indicate a robust near-term growth outlook. While there is uncertainty around the Cigniti integration, we believe it can extract cost synergies sooner than earlier expected, and this could provide upside risk to estimates. We upgrade the stock to BUY. Key highlights:

- **Industry Exposure (5/5):** BFS is turning around and Coforge's strong presence here should help it ride the recovery wave.
- **Margin Expansion Scope (3/5):** We believe Coforge could extract margin synergies from Cigniti earlier than expected, but wage hikes cloud core margin outlook.
- **Partnerships (5/5):** Top-tier ecosystem partnerships, particularly in niche areas such as Duck Creek, PEGA, and MuleSoft.
- **Automation Threat (3/5):** We believe Coforge's organic business remains robust, and its analytics offerings are fairly future proof. Cigniti's testing business, however, is primed for disruption as GenAI scales up, and we believe this is a medium to long-term threat.
- **Client Strategies (5/5):** In line with the best-in-class mid-tier companies, Coforge also has struck the right balance between client mining and client hunting. Top 10 clients contribute 35% to revenues.
- **Technology Readiness (3/5):** We believe Coforge could participate in the pre-GenAI-led data modernization spending through its offerings, but need more evidence on next-gen offerings.

Valuation and Estimates

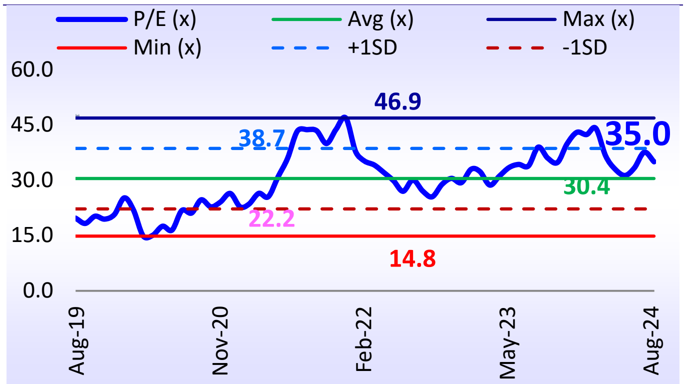
- We believe the company's healthy executable order book and a rebound in BFS client spending bode well for its organic business. Cigniti could prove to be an effective long term asset. We introduce FY27 estimates. We upgrade our target multiple to 38x Sep'26 EPS (30x earlier) as we factor in demand recovery and Cigniti cost synergies. This yields a TP of INR8,100, and we upgrade the stock to BUY.

Exhibit 55: One year forward P/E – 10 year trend



Source: MOFSL, Company

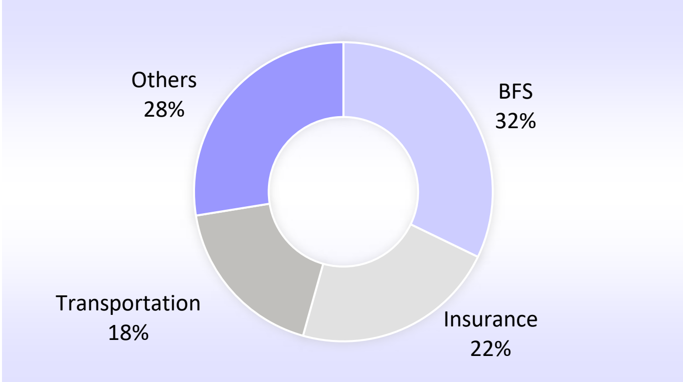
Exhibit 56: One year forward P/E – 5 year trend



Source: MOFSL, Company

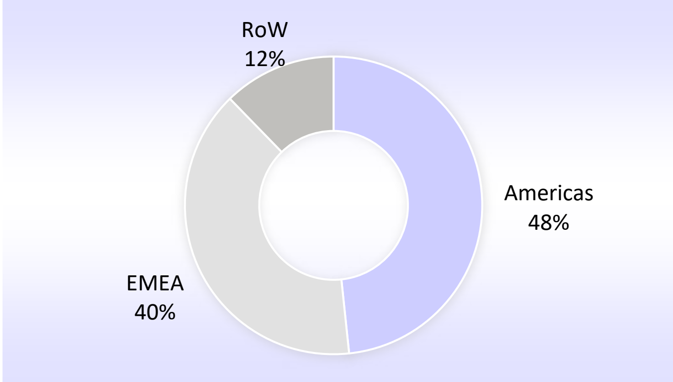
Story in Charts

Exhibit 57: Vertical exposure in FY24



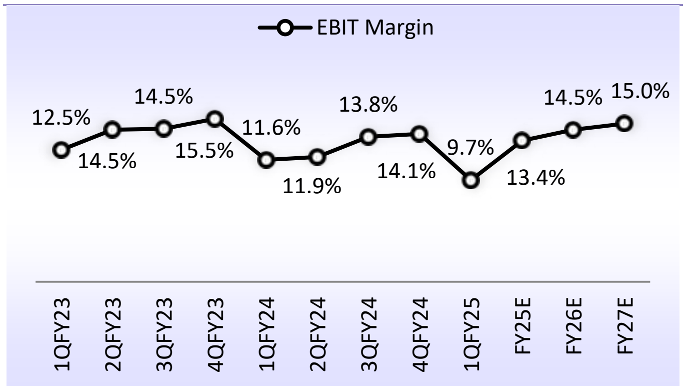
Source: MOFSL, Company

Exhibit 58: Geographical break-up in FY24



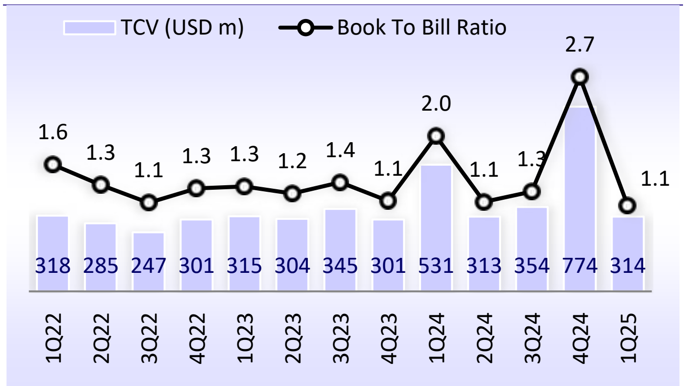
Source: MOFSL, Company

Exhibit 59: EBIT margin to expand to 15.0% by FY27



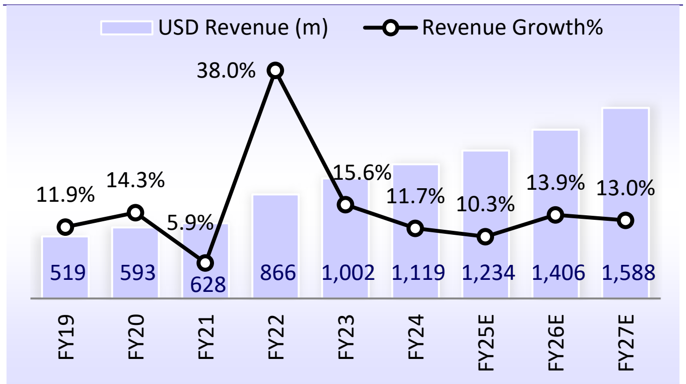
Source: MOFSL, Company

Exhibit 60: : Total TCV stood at USD314m in 1QFY25



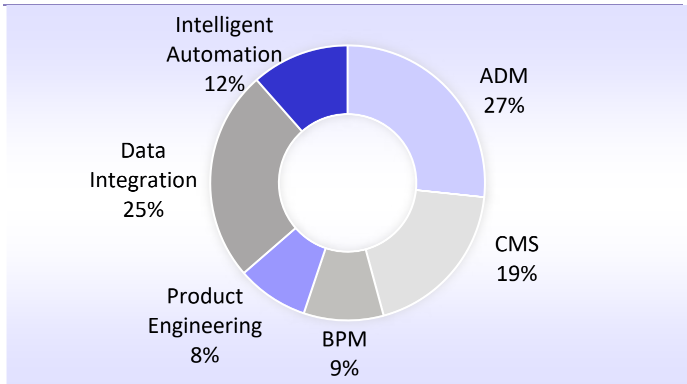
Source: MOFSL, Company

Exhibit 61: Revenue is expected to grow at 10.3%/13.9%/13.0% YoY in FY25/FY26/FY27



Source: MOFSL, Company

Exhibit 62: ADM constitutes 27% of total revenue in FY24



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**41,809**	**46,628**	**64,320**	**80,146**	**91,790**	**1,03,180**	**1,18,080**	**1,33,430**
Change (%)	13.7	11.5	37.9	24.6	14.5	12.4	14.4	13.0
Cost of revenue	27,502	31,692	43,736	54,059	61,872	68,736	78,500	88,715
Gross Profit	**14,307**	**14,936**	**20,584**	**26,087**	**29,918**	**34,444**	**39,581**	**44,714**
SGA expenses	6,840	6,545	8,527	11,438	13,821	15,921	17,122	18,680
RSU costs	17	480	633	587	1,120	847	967	1,092
EBITDA	**7,450**	**7,911**	**11,424**	**14,062**	**14,977**	**17,676**	**21,492**	**24,942**
% of Net Sales	17.8	17.0	17.8	17.5	16.3	17.1	18.2	18.7
Depreciation	1,730	1,836	2,272	2,585	3,186	3,824	4,425	4,867
EBIT	**5,720**	**6,075**	**9,152**	**11,477**	**11,791**	**13,853**	**17,068**	**20,075**
% of Net Sales	13.7	13.0	14.2	14.3	12.8	13.4	14.5	15.0
Other Income	461	113	-266	-630	-1,156	-1,158	-1,321	-1,493
PBT	**6,181**	**6,188**	**8,886**	**10,847**	**10,635**	**12,695**	**15,746**	**18,582**
Tax	1,229	1,302	1,468	2,208	2,093	2,784	3,149	3,716
Rate (%)	19.9	21.0	16.5	20.4	19.7	21.9	20.0	20.0
Extraordinary Items	128	226	269	1,188	165	0	0	0
Minority Interest	238	104	530	513	276	245	246	246
Adjusted PAT	**4,714**	**4,782**	**6,888**	**8,126**	**8,266**	**9,666**	**12,351**	**14,620**
Change (%)	15.3	1.4	44.0	18.0	1.7	16.9	27.8	18.4

Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	625	606	609	611	618	618	618	618
Reserves	23,340	24,055	26,722	30,214	35,648	40,349	46,392	53,569
Net Worth	**23,965**	**24,661**	**27,331**	**30,825**	**36,266**	**40,967**	**47,010**	**54,187**
Loans	48	5	3,365	3,382	3,399	2,203	703	703
Minority Interest	0	0	983	874	1,003	1,003	1,003	1,003
Other liabilities	2,443	2,043	6,073	4,360	5,094	5,726	6,553	7,405
Capital Employed	**26,456**	**26,709**	**37,752**	**39,441**	**45,762**	**49,898**	**55,269**	**63,298**
Net Block	**4,013**	**3,902**	**4,452**	**4,455**	**4,470**	**4,411**	**3,871**	**2,978**
CWIP	3	2	86	46	232	232	232	232
Intangibles	5,988	5,690	14,821	16,299	16,133	15,368	14,483	13,510
Investments	0	0	0	0	0	0	0	0
Deferred tax assets	2,884	4,245	7,976	9,970	14,217	15,981	18,289	20,666
Curr. Assets	**21,510**	**21,295**	**22,209**	**26,064**	**26,025**	**33,338**	**39,646**	**49,040**
Debtors	8,565	8,895	13,894	16,131	18,039	19,223	21,999	24,858
Cash & Bank Balance	8,195	7,999	4,468	5,699	3,213	8,767	11,547	17,307
Investments	976	247	67	88	139	139	139	139
Other Current Assets	3,774	4,154	3,780	4,146	4,634	5,209	5,961	6,736
Current Liab. & Prov	**7,942**	**8,425**	**11,792**	**17,393**	**15,315**	**19,431**	**21,250**	**23,124**
Trade payables	2,634	3,398	6,160	6,481	8,062	12,126	13,877	15,681
Other liabilities	4,979	4,802	5,316	10,552	6,836	6,836	6,836	6,836
Provisions	329	225	316	360	417	469	536	606
Net Current Assets	**13,568**	**12,870**	**10,417**	**8,671**	**10,710**	**13,907**	**18,396**	**25,916**
Application of Funds	**26,456**	**26,709**	**37,752**	**39,441**	**45,762**	**49,900**	**55,271**	**63,303**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
EPS	**75.5**	**77.4**	**110.9**	**130.6**	**133.2**	**150.8**	**192.7**	**228.1**
Cash EPS	101.2	103.4	143.2	153.0	181.9	210.4	261.7	304.0
Book Value	384.1	407.0	448.7	504.8	584.5	643.7	738.7	851.5
DPS	31.0	20.5	52.0	64.0	70.0	75.4	96.3	114.0
Payout %	41.0	26.5	46.9	49.0	52.5	50.0	50.0	50.0
Valuation (x)								
P/E	85.9	83.9	58.5	49.7	48.7	43.0	33.7	28.4
Cash P/E	64.1	62.7	45.3	42.4	35.7	30.8	24.8	21.3
EV/EBITDA	53.1	48.7	34.5	28.0	26.9	23.0	18.7	15.9
EV/Sales	9.5	8.3	6.1	4.9	4.4	3.9	3.4	3.0
Price/Book Value	16.9	15.9	14.5	12.9	11.1	10.1	8.8	7.6
Dividend Yield (%)	0.5	0.3	0.8	1.0	1.1	1.2	1.5	1.8
Profitability Ratios (%)								
RoE	21.1	19.7	26.0	27.1	24.0	24.4	27.5	28.3
RoCE	18.6	18.0	23.7	23.7	22.2	22.6	26.0	27.1
Turnover Ratios								
Debtors (Days)	63	68	65	68	68	66	64	64
Fixed Asset Turnover (x)	10.2	11.8	15.4	18.0	20.6	23.2	28.5	39.0

Cash Flow Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	5,633	7,121	9,089	10,532	11,834	13,358	16,645	19,356
Cash for Working Capital	-2,664	502	-1,433	-1,027	-2,800	1,225	-3,190	-3,286
Net Operating CF	**2,969**	**7,623**	**7,656**	**9,505**	**9,034**	**14,584**	**13,455**	**16,070**
Net Purchase of FA	-703	-757	-1,475	-1,537	-2,598	-3,000	-3,000	-3,000
Free Cash Flow	**2,266**	**6,866**	**6,181**	**7,968**	**6,436**	**11,584**	**10,455**	**13,070**
Net Purchase of Invest.	1,826	-1,597	-8,089	-1,179	120	0	0	0
Net Cash from Invest.	**1,123**	**-2,354**	**-9,564**	**-2,716**	**-2,478**	**-3,000**	**-3,000**	**-3,000**
Proceeds from Equity	275	18	51	18	-3,516	0	0	0
Proceeds from LTB/STB	-133	-697	2,139	-1,315	-573	-1,196	-1,500	0
Dividend Payments	-1,469	-4,852	-3,748	-4,285	-4,781	-4,833	-6,176	-7,310
Cash Flow from Fin.	**-1,327**	**-5,531**	**-1,558**	**-5,582**	**-8,870**	**-6,029**	**-7,676**	**-7,310**
Net Cash Flow	**2,765**	**-262**	**-3,466**	**1,207**	**-2,314**	**5,555**	**2,780**	**5,760**
Exchange difference	236	66	-65	24	-172	0	0	0
Opening Cash Bal.	**5,193**	**8,194**	**7,998**	**4,467**	**5,698**	**3,212**	**8,766**	**11,546**
Add: Net Cash	3,001	-196	-3,531	1,231	-2,486	5,555	2,780	5,760
Closing Cash Bal.	**8,194**	**7,998**	**4,467**	**5,698**	**3,212**	**8,766**	**11,546**	**17,306**

TCS

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	TCS IN
Equity Shares (m)	3618
M.Cap.(INRb)/(USDb)	16098.9 / 191.8
52-Week Range (INR)	4592 / 3296
1, 6, 12 Rel. Per (%)	3/-3/3
12M Avg Val (INR M)	9908

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	2,568	2,773	2,993
EBIT Margin (%)	25.3	25.5	26.0
PAT	516	560	614
EPS (INR)	143.5	155.7	170.6
EPS Gr. (%)	13.6	8.5	9.6
BV/Sh. (INR)	261	279	297
Ratios			
RoE (%)	55.8	57.0	58.5
RoCE (%)	46.6	47.4	48.8
Payout (%)	90.0	90.0	90.0
Valuations			
P/E (x)	31.0	28.6	26.1
P/BV (x)	17.0	16.0	15.0
EV/EBITDA (x)	22.5	20.6	18.7
Div Yield (%)	2.9	3.1	3.4

CMP: INR4,450 TP: INR5,400 (+21%) Buy

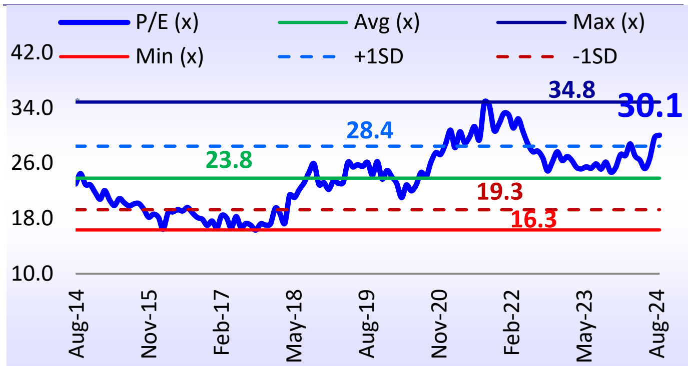
TCS remains the gold standard when it comes to IT services present and future, and our framework analysis indicates the same. It has well-diversified exposures to verticals and a focus on unlocking new geographies. However, BFSI remains a focus area and growth is contingent on BFSI recovering in the US and Europe. We believe there are limited margin levers to expand margins meaningfully from hereon, considering sub-con costs are at an all-time low, and a return of growth could lead to higher SG&A and subcon expenses. It will be at the forefront of IT services innovation, including GenAI, but will face threats on its legacy business from GenAI scale-up in the next 2-3 years.

- **Industry Exposure (3/5):** Well diversified portfolio with exposure to high-growth verticals like healthcare. Hi-tech could remain weak, but unlocking new geographies like India could offset some of these headwinds.
- **Margin Expansion Scope (3/5):** Limited margin expansion levers; subcon costs at all-time low, but best-in-class employee pyramid to support margin defense.
- **Partnerships (5/5):** Top-tier ecosystem partnerships, largely a hygiene factor for all large-caps.
- **Automation Threat (3/5):** Most large-caps will have to contend with a moderate amount of automation threat, which comes from GenAI, as low level coding gets automated and BPO gets disrupted.
- **Client Strategies (3/5):** All large-caps have well-diversified clientele; no differentiation.
- **Technology Readiness (5/5):** We expect TCS to lead the industry on implementing next-gen solutions.

Valuation and Estimates

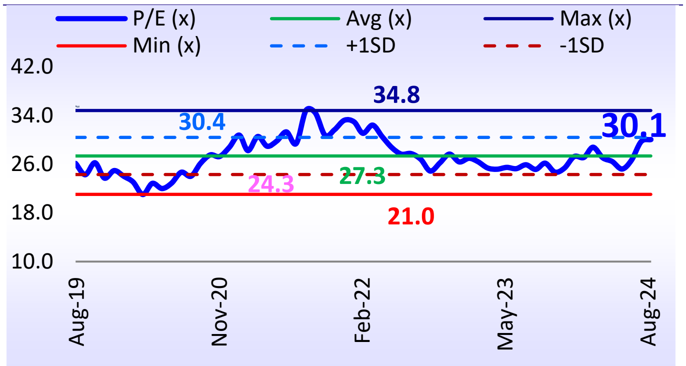
- Owing to its steadfast market leadership position and best-in-class execution, the company has been able to maintain its industry-leading margin and demonstrate superior return ratios. We introduce FY27 estimates and roll over to Sep'26E EPS. We upgrade our target multiple by 10% to factor in demand recovery, and now value TCS at 33x Sep'26 EPS. Our TP of INR5,400 implies with a 21% upside potential. **We reiterate our BUY rating**.

Exhibit 63: One year forward P/E – 10 year trend



Source: MOFSL, Company

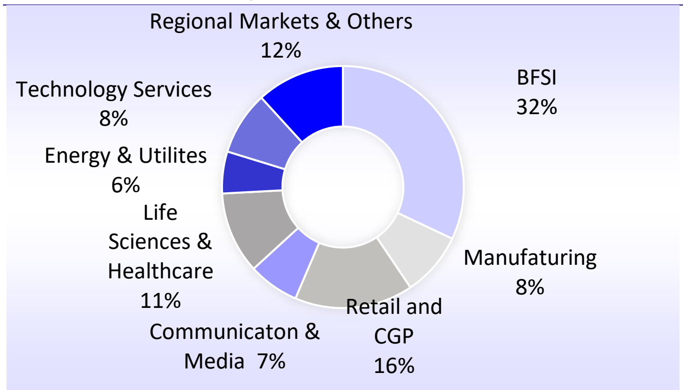
Exhibit 64: One year forward P/E – 5 year trend



Source: MOFSL, Company

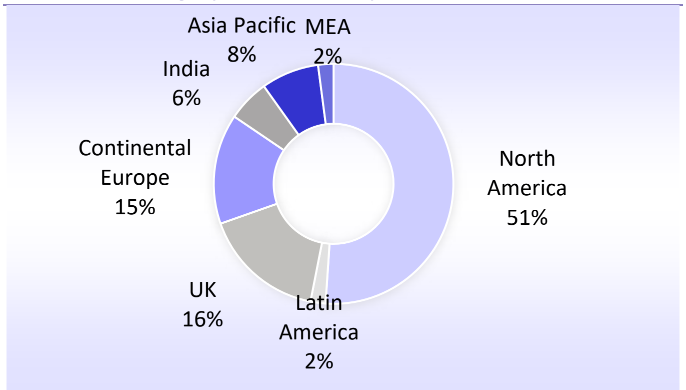
Story in Charts

Exhibit 65: Vertical exposure in FY24



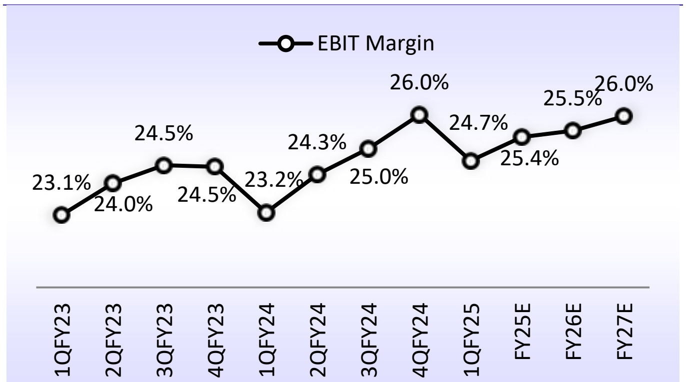
Source: MOFSL, Company

Exhibit 66: Geographical break-up in FY24



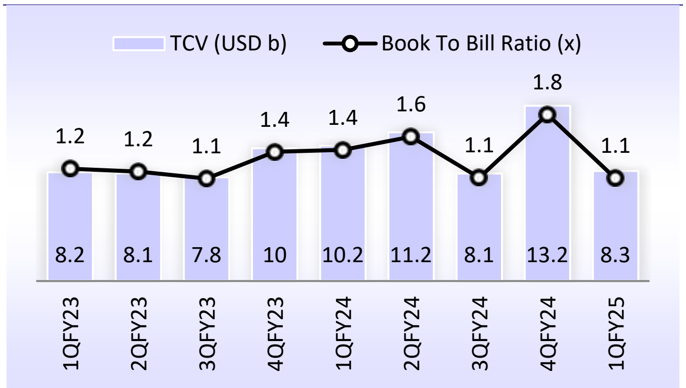
Source: MOFSL, Company

Exhibit 67: EBIT margin is expected to steadily inch up



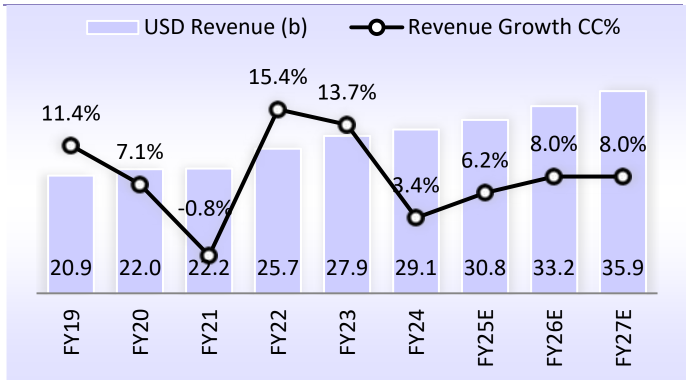
Source: MOFSL, Company

Exhibit 68: : Total TCV at USD8.3b in 1QFY25 with 1.1x BBR



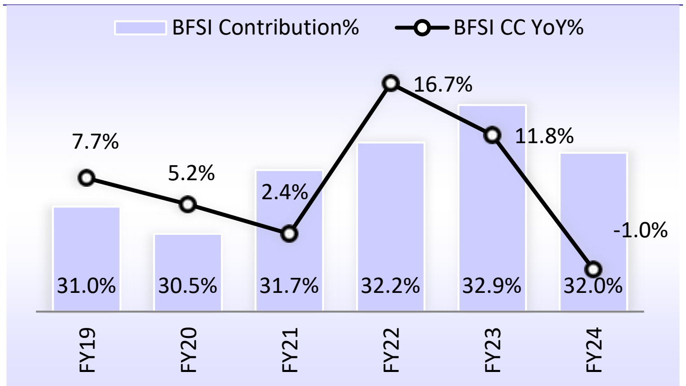
Source: MOFSL, Company

Exhibit 69: Revenue to grow at 6.2%/8.0%/8.0% in FY25/FY26/FY27



Source: MOFSL, Company

Exhibit 70: BFSI vertical accounted for 32% of revenue in FY24



Source: MOFSL, Company

Financials and valuations

Income statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**1,569**	**1,642**	**1,918**	**2,255**	**2,409**	**2,568**	**2,773**	**2,993**
Change (%)	7.2	4.6	16.8	17.6	6.8	6.6	8.0	8.0
Cost of Services	923	971	1,146	1,363	1,436	1,503	1,631	1,754
Gross Profit	**646**	**670**	**771**	**892**	**973**	**1,065**	**1,142**	**1,239**
SG&A Expenses	260	246	287	350	379	414	434	463
EBITDA	**421**	**465**	**532**	**599**	**655**	**715**	**777**	**852**
% of Net Sales	26.8	28.4	27.8	26.6	27.2	27.8	28.0	28.5
Depreciation	35	41	48	56	60	64	69	75
EBIT	**386**	**425**	**485**	**542**	**594**	**651**	**708**	**777**
% of Net Sales	24.6	25.9	25.3	24.1	24.7	25.3	25.5	26.0
Other Income	37	25	32	27	37	42	44	48
PBT	**422**	**450**	**517**	**569**	**632**	**693**	**752**	**825**
Tax	98	115	132	146	163	177	192	210
Rate (%)	23.2	25.5	25.6	25.7	25.7	25.5	25.5	25.5
Extraordinary gains/loss	0	-10	0	0	-7	0	0	0
Minority Interest	1	1	1	2	2	-3	-3	-3
Adjusted PAT	**324**	**326**	**384**	**423**	**462**	**516**	**560**	**614**
Change (%)	2.8	0.4	18.1	10.0	9.3	11.7	8.5	9.6

Balance Sheet								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share capital	4	4	4	4	4	4	4	4
Reserves	838	861	888	901	901	953	1,016	1,085
Net Worth	**841**	**864**	**891**	**904**	**905**	**957**	**1,020**	**1,089**
Minority Interest & Others	97	102	100	97	99	122	128	134
Loans	0	0	0	0	0	0	0	0
Capital Employed	**938**	**966**	**992**	**1,001**	**1,003**	**1,079**	**1,148**	**1,222**
Gross Block	408	449	502	550	605	666	737	812
Depreciation	207	247	295	351	412	476	545	620
Net Block	**201**	**201**	**207**	**199**	**193**	**190**	**192**	**192**
Intangibles	45	57	55	52	52	49	52	54
Other LT assets	60	56	70	83	89	94	101	109
Curr. Assets	**902**	**993**	**1,083**	**1,103**	**1,130**	**1,195**	**1,288**	**1,391**
Debtors	363	367	418	500	536	556	601	649
Cash & Bank Balance	97	69	125	71	90	193	276	364
Investments	261	316	360	401	358	313	268	223
Other Current Assets	182	241	180	131	146	134	144	156
Current Liab. & Prov	**271**	**342**	**424**	**436**	**461**	**449**	**486**	**524**
Net Current Assets	**632**	**651**	**660**	**667**	**669**	**746**	**803**	**867**
Application of Funds	**938**	**966**	**992**	**1,001**	**1,003**	**1,079**	**1,148**	**1,222**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic (INR)								
EPS	**86.2**	**86.7**	**104.0**	**115.3**	**126.3**	**143.5**	**155.7**	**170.6**
Cash EPS	95.6	97.6	117.0	130.7	142.8	161.2	174.8	191.3
Book Value	224.2	231.1	241.8	247.3	248.1	261.4	278.7	297.5
DPS	71.4	97.2	100.9	115.1	72.9	129.1	140.1	153.5
Payout (%)	82.8	112.1	97.1	99.8	57.7	90.0	90.0	90.0
Valuation (x)								
P/E	51.7	51.4	42.8	38.6	35.3	31.0	28.6	26.1
Cash P/E	46.6	45.6	38.1	34.1	31.2	27.6	25.5	23.3
EV/EBITDA	39.5	35.6	30.6	27.1	24.7	22.5	20.6	18.7
EV/Sales	10.6	10.1	8.5	7.2	6.7	6.3	5.8	5.3
Price/Book Value	19.9	19.3	18.4	18.0	17.9	17.0	16.0	15.0
Dividend Yield (%)	1.6	2.2	2.3	2.6	1.6	2.9	3.1	3.4
Profitability Ratios (%)								
RoE	37.3	38.0	43.7	46.9	50.9	55.8	57.0	58.5
RoCE	31.7	33.2	36.8	40.5	44.0	46.6	47.4	48.8
Turnover Ratios								
Debtors (Days)	84	82	80	81	81	79	79	79
Fixed Asset Turnover (x)	7.8	8.1	9.3	11.3	12.5	13.5	14.4	15.6

Cash Flow Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	370	379	427	462	512	569	619	680
Cash for Working Capital	-47	9	-28	-42	-69	5	-20	-23
Net Operating CF	**324**	**388**	**399**	**420**	**443**	**574**	**599**	**656**
Net Purchase of FA	-32	-32	-30	-31	-27	-50	-54	-58
Free Cash Flow	**291**	**356**	**370**	**389**	**417**	**525**	**545**	**598**
Net Purchase of Invest.	118	-50	21	31	87	45	45	45
Net Cash from Invest.	**86**	**-81**	**-9**	**0**	**60**	**-5**	**-9**	**-13**
Proceeds from Equity Issues	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-13	-211	-195	-57	-16	0	0	0
Others	-9	-6	-7	-8	-7	0	0	0
Dividend Payments	-377	-109	-134	-414	-462	-467	-507	-555
Cash Flow from Fin.	**-399**	**-326**	**-336**	**-479**	**-485**	**-467**	**-507**	**-555**
Net Cash Flow	**14**	**-18**	**56**	**-54**	**19**	**103**	**83**	**88**
Opening Cash Balance	**77**	**91**	**73**	**130**	**76**	**95**	**197**	**281**
Add: Net Cash	14	-18	56	-54	19	103	83	88
Closing Cash Balance	**91**	**73**	**130**	**76**	**95**	**197**	**281**	**369**

Infosys

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	INFO IN
Equity Shares (m)	4152
M.Cap.(INRb)/(USDb)	7866.8 / 93.7
52-Week Range (INR)	1976 / 1344
1, 6, 12 Rel. Per (%)	5/6/3
12M Avg Val (INR M)	11266

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	1,634	1,785	1,946
EBIT Margin (%)	20.6	21.1	21.4
PAT	265	299	333
EPS (INR)	64.0	72.0	80.3
EPS Gr. (%)	9.5	12.5	11.5
BV/Sh. (INR)	213	214	214
Ratios			
RoE (%)	30.1	33.8	37.6
RoCE (%)	24.5	27.4	30.0
Payout (%)	85.0	85.0	85.0
Valuations			
P/E (x)	29.6	26.3	23.6
P/BV (x)	8.9	8.9	8.8
EV/EBITDA (x)	20.1	18.0	16.3
Div Yield (%)	2.9	3.2	3.6

CMP: INR1,895 TP: INR2,200 (+16%) Buy

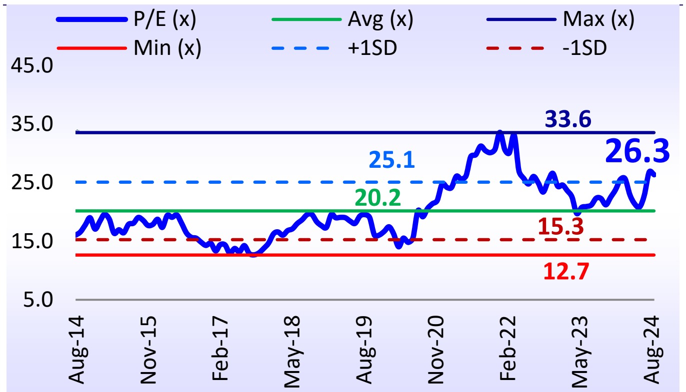
Infosys' higher proportion of discretionary spending in its portfolio has hurt its growth rate. We believe it stands to benefit the most in case of a discretionary recovery, but this could be impeded by higher exposures to communications & hi-tech, which are expected to be muted for slightly longer. Margins could recover with volumes. Infosys' next-gen threat is in line with peers; it faces some automation threat from low-level coding being automated, but its platform-based solutions around data and AI could offset some of this threat.

- **Industry Exposure (3/5):** Well diversified portfolio. Communications and Hi-tech could remain weak for longer.
- **Margin Expansion Scope (3/5):** Margins may expand in line with revenue recovery from discretionary spends returning.
- **Partnerships (5/5):** Top-tier ecosystem partnerships, largely a hygiene factor for all large-caps.
- **Automation Threat (3/5):** Most large-caps will have to contend with a moderate amount of automation threat which comes from GenAI, as low level coding gets automated and BPO gets disrupted.
- **Client Strategies (3/5):** All large-caps have well-diversified clientele; no differentiation- higher discretionary spends makes portfolio slightly volatile.
- **Technology Readiness (5/5):** Expect Infosys to be at the fore-front of implementing next-gen solutions.

Valuation and Estimates

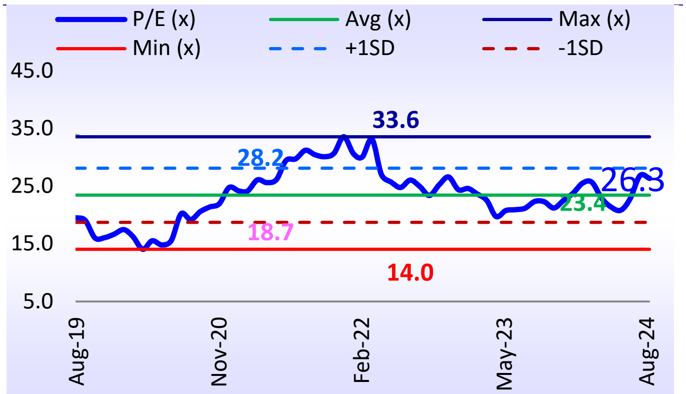
- Infosys' strong deal wins should provide comfort on medium term growth outlook. It has maintained its margin guidance, but continue to see upside potential in medium term, which we see as encouraging. We expect INFO to be a key beneficiary of the acceleration in IT spends in the medium term. We introduce FY27 estimates and roll over to Sep'26E EPS. We upgrade our target multiple by 10% to factor in demand recovery, and now value Infosys at 28x Sep'26 EPS. This yields a rounded TP of INR2,200 implying 16% upside. **We reiterate our BUY rating.**

Exhibit 71: One year forward P/E – 10-year trend



Source: MOFSL, Company

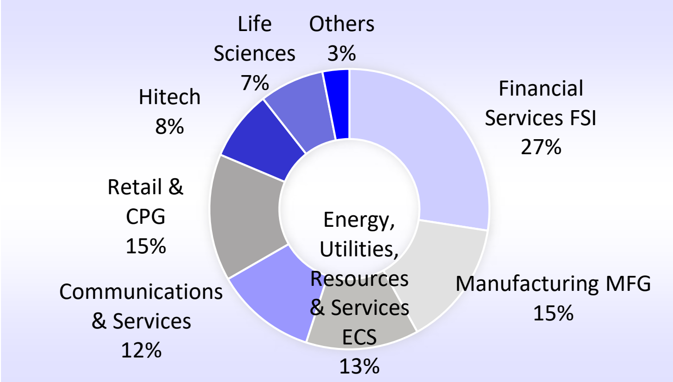
Exhibit 72: One year forward P/E – 5-year trend



Source: MOFSL, Company

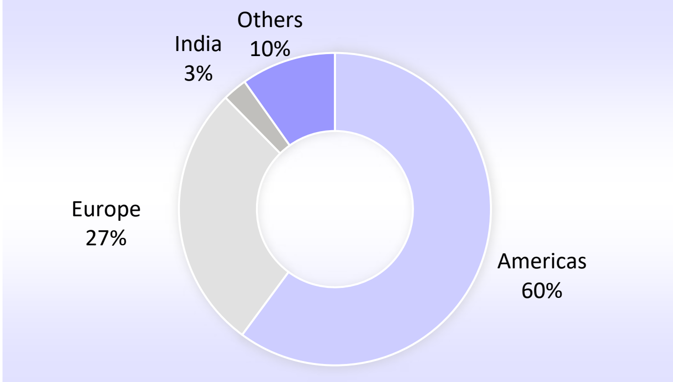
Story in Charts

Exhibit 73: Vertical exposure in FY24



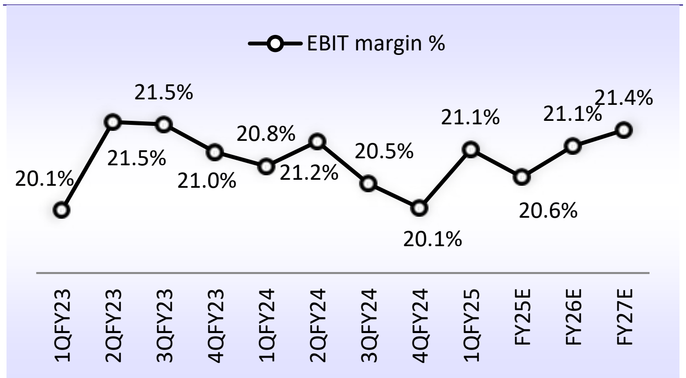
Source: MOFSL, Company

Exhibit 74: Geographical break-up in FY24



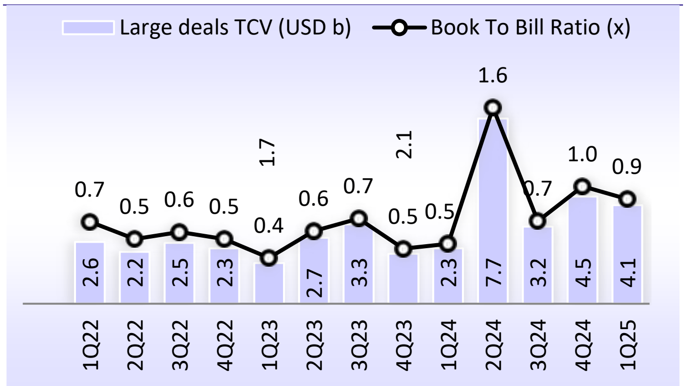
Source: MOFSL, Company

Exhibit 75: EBIT margin is expected to reach 21.4% by FY27



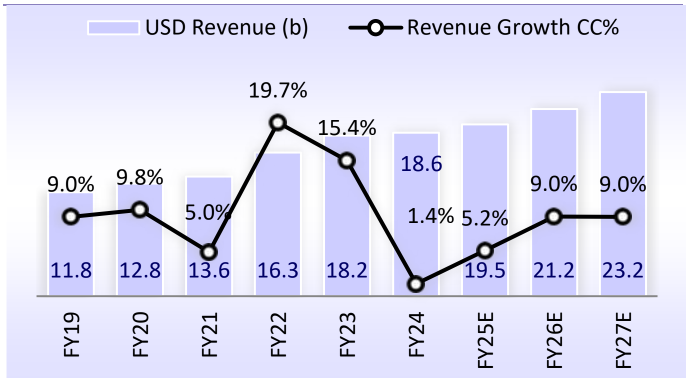
Source: MOFSL, Company

Exhibit 76: : Total TCV at USD4.1b in 1Q with 0.9x BBR



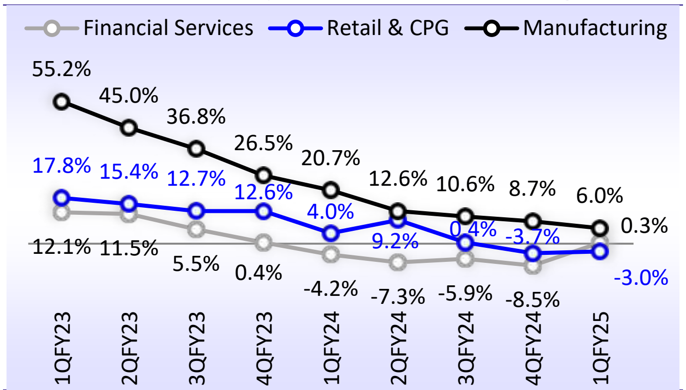
Source: MOFSL, Company

Exhibit 77: Revenue to grow at 5%/9.0%/9.0% in FY25/FY26/FY27



Source: MOFSL, Company

Exhibit 78: BFSI turned positive in 1QFY25 (YoY cc growth)



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**908**	**1,005**	**1,216**	**1,468**	**1,537**	**1,634**	**1,785**	**1,946**
Change (%)	9.8	10.7	21.1	20.7	4.7	6.3	9.2	9.0
Software Develop. Exp.	607	654	820	1,024	1,074	1,144	1,240	1,353
Selling and Mktg. Exp.	0	0	0	0	0	0	0	0
Gross Profit	**301**	**351**	**396**	**444**	**463**	**490**	**545**	**593**
SGA expenses	107	104	116	135	145	153	167	176
EBITDA	**223**	**279**	**315**	**357**	**368**	**391**	**436**	**481**
% of Net Sales	24.5	27.8	25.9	24.4	24.0	23.9	24.4	24.7
Depreciation	29	33	35	48	51	54	59	64
EBIT	**194**	**246**	**280**	**309**	**317**	**337**	**377**	**417**
% of Net Sales	21.3	24.5	23.0	21.1	20.7	20.6	21.1	21.4
Interest	0	0	0	0	0	0	0	0
Other Income	26	20	21	24	23	29	32	37
PBT	**220**	**266**	**301**	**333**	**341**	**366**	**409**	**453**
Tax	54	72	80	92	97	101	110	120
Rate (%)	24.4	27.0	26.4	27.7	28.5	27.6	27.0	26.5
Minority Interest	0	1	0	0	0	0	0	0
Extraordinary Items	0	0	0	0	-19	0	0	0
Adjusted PAT	**166**	**194**	**221**	**241**	**243**	**265**	**299**	**333**
Change (%)	2.9	16.7	14.2	9.0	1.0	9.0	12.6	11.5

Balance Sheet								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	21	21	21	21	21	21	21	21
Reserves	633	742	733	733	860	862	864	867
Net Worth	**655**	**764**	**754**	**754**	**881**	**883**	**885**	**888**
Capital Employed	**719**	**845**	**843**	**866**	**990**	**1,001**	**1,014**	**1,028**
Gross Block	428	479	511	593	628	679	734	794
Less : Depreciation	181	213	248	296	347	401	460	524
Net Block	**247**	**266**	**263**	**297**	**281**	**277**	**274**	**270**
Investments & Other Assets	134	211	244	253	203	249	257	265
Curr. Assets	**546**	**607**	**672**	**709**	**894**	**898**	**936**	**976**
Debtors	240	268	343	407	430	403	440	480
Cash & Bank Balance	186	247	175	122	148	268	260	251
Investments	47	23	67	69	129	129	129	129
Other Current Assets	73	69	88	111	188	98	107	117
Current Liab. & Prov	**209**	**239**	**336**	**392**	**388**	**424**	**454**	**484**
Net Current Assets	**337**	**369**	**336**	**317**	**506**	**474**	**482**	**492**
Application of Funds	**719**	**845**	**843**	**866**	**990**	**1,000**	**1,013**	**1,027**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic (INR)								
EPS	**38.9**	**45.6**	**52.4**	**57.6**	**63.3**	**63.9**	**72.0**	**80.3**
Cash EPS	45.7	53.3	60.7	69.1	75.5	76.9	86.2	95.8
Book Value	153.7	180.0	179.0	180.4	212.9	213.3	213.8	214.4
DPS	17.5	27.0	31.0	33.5	46.0	54.4	61.2	68.3
Payout (%)	44.9	106.7	59.0	96.7	78.2	85.0	85.0	85.0
Valuation (x)								
P/E ratio	48.7	41.6	36.1	32.9	29.9	29.6	26.3	23.6
Cash P/E ratio	41.5	35.6	31.2	27.4	25.1	24.6	22.0	19.8
EV/EBITDA ratio	36.2	28.8	25.3	22.2	21.3	20.1	18.0	16.3
EV/Sales ratio	8.9	8.0	6.6	5.4	5.1	4.8	4.4	4.0
Price/Book Value ratio	12.3	10.5	10.6	10.5	8.9	8.9	8.9	8.8
Dividend Yield (%)	0.9	1.4	1.6	1.8	2.4	2.9	3.2	3.6
Profitability Ratios (%)								
RoE	25.5	27.3	29.2	32.0	29.8	30.1	33.8	37.6
RoCE	21.2	23.0	24.4	26.2	24.5	24.5	27.4	30.0
Turnover Ratios								
Debtors (Days)	96	97	103	101	102	90	90	90
Fixed Asset Turnover (x)	3.7	3.8	4.6	4.9	5.5	5.9	6.5	7.2

Cash Flow Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	205	235	261	295	312	309	347	386
Cash for Working Capital	-19	6	-12	-65	-52	115	-14	-16
Net Operating CF	**186**	**241**	**250**	**230**	**261**	**425**	**333**	**370**
Net Purchase of FA	-34	-21	-22	-26	-22	-41	-45	-49
Free Cash Flow	**152**	**220**	**228**	**204**	**239**	**384**	**288**	**322**
Net Purchase of Invest.	16	-63	-53	8	-37	0	0	0
Net Cash from Invest.	**-18**	**-84**	**-75**	**-18**	**-59**	**-41**	**-45**	**-49**
Proceeds from Equity	0	0	0	0	0	0	0	0
Others	-6	-7	-8	-15	-28	0	0	0
Dividend Payments	-95	-91	-127	-137	-147	-263	-297	-331
Buyback of shares	-75	0	-111	-115	0	0	0	0
Cash Flow from Fin.	**-176**	**-98**	**-246**	**-267**	**-175**	**-263**	**-297**	**-331**
Net Cash Flow	**-8**	**60**	**-72**	**-54**	**27**	**120**	**-8**	**-9**
Effect of forex on cash flow	-1	1	-1	1	-1	0	0	0
Opening Cash Bal.	**196**	**186**	**247**	**175**	**122**	**148**	**268**	**260**
Add: Net Cash	-9	61	-72	-53	26	120	-8	-9
Closing Cash Bal.	**186**	**247**	**175**	**122**	**148**	**268**	**260**	**251**

Wipro

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	WPRO IN
Equity Shares (m)	5230
M.Cap.(INRb)/(USDb)	2693.2 / 32.1
52-Week Range (INR)	580 / 375
1, 6, 12 Rel. Per (%)	2/-11/-6
12M Avg Val (INR M)	3886

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	887	933	980
EBIT Margin (%)	15.9	16.4	16.4
PAT	116	128	135
EPS (INR)	21.9	24.4	25.7
EPS Gr. (%)	7.5	11.5	5.2
BV/Sh. (INR)	140.7	143.1	145.8
Ratios			
RoE (%)	15.6	17.3	17.8
RoCE (%)	12.2	13.5	14.0
Payout (%)	90.0	70.0	70.0
Valuations			
P/E (x)	23.5	21.1	20.0
P/BV (x)	3.7	3.6	3.5
EV/EBITDA (x)	13.8	12.7	13.6
Div Yield (%)	3.8	3.3	3.5

CMP: INR515 TP: INR500 (-3%) Neutral

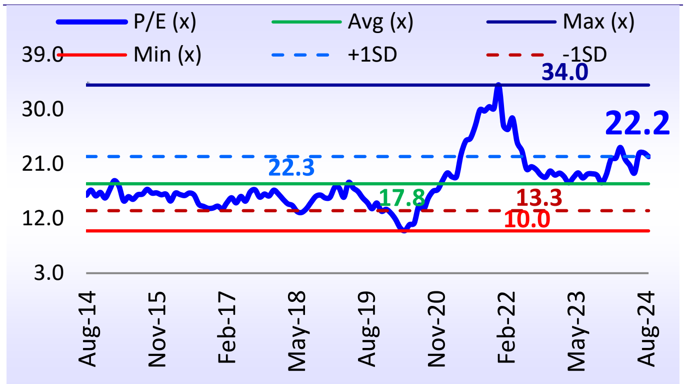
Wipro's BFSI exposure is higher than that of other large caps, and growth recovery is contingent on BFSI recovering in earnest. It also has high exposure to retail, which continues to struggle from cost pressures and growth remains subdued. Wipro's margins will be largely range-bound, and it faces automation threat in line with industry large-caps. While there is a change of guard at the top at Wipro, we need to see further evidence of a turnaround.

- **Industry Exposure (3/5):** BFSI and Hi-tech exposure higher than peers; discretionary exposure higher in BFSI owing to its Capco business.
- **Margin Expansion Scope (3/5):** Margins to be largely range-bound, but expansion contingent on volumes recovering and capital allocation discipline (acquisitions).
- **Partnerships (5/5):** Top-tier ecosystem partnerships, largely a hygiene factor for all large-caps.
- **Automation Threat (3/5):** Most large-caps will have to contend with a moderate amount of automation threat, which comes from GenAI, as low level coding gets automated and BPO gets disrupted.
- **Client Strategies (3/5):** All large-caps have well-diversified clientele; no differentiation.
- **Technology Readiness (3/5):** Wipro's tech readiness in line with peers; already invested in next-gen partnerships such as Databricks (global elite partner, highest amongst peers) and Snowflake.

Valuation and Estimates

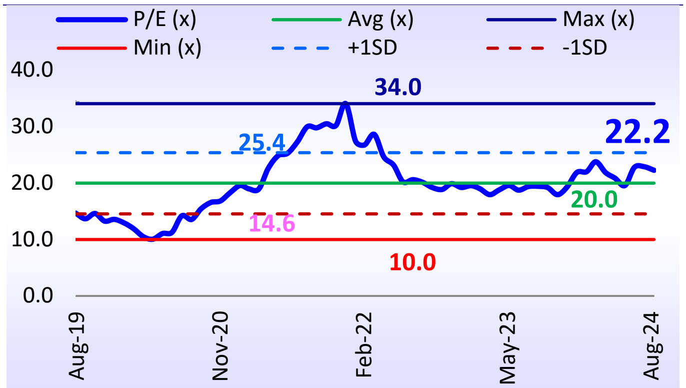
- We expect the company to deliver FY24-27E IT Services revenue CAGR of ~3%. **We reiterate our Neutral rating** as we view the current valuation as fair, and wait for further evidence of a turnaround under the new management. We introduce FY27 estimates in the note and roll over to Sep'26E EPS. Our TP implies 20x Sep'26E EPS.

Exhibit 79: One year forward P/E – 10 year trend



Source: MOFSL, Company

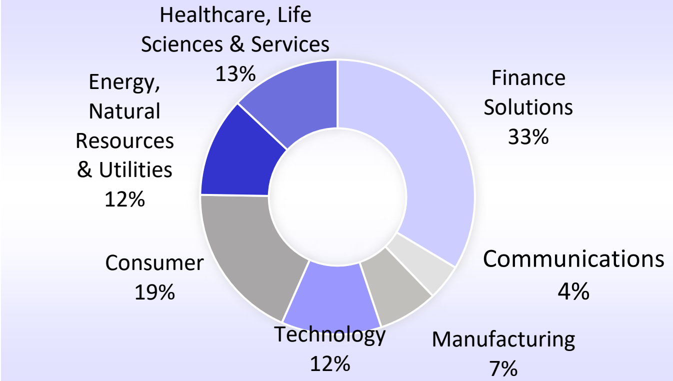
Exhibit 80: One year forward P/E – 5 year trend



Source: MOFSL, Company

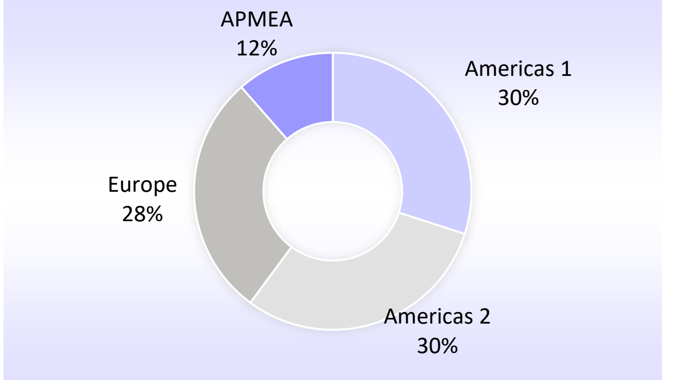
Story in Charts

Exhibit 81: Vertical exposure in FY24



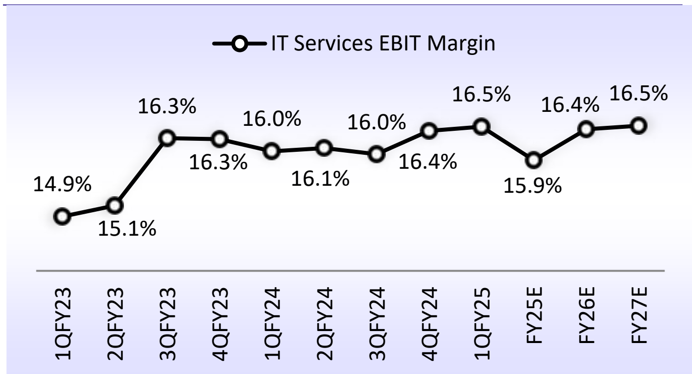
Source: MOFSL, Company

Exhibit 82: Geographical break-up in FY24



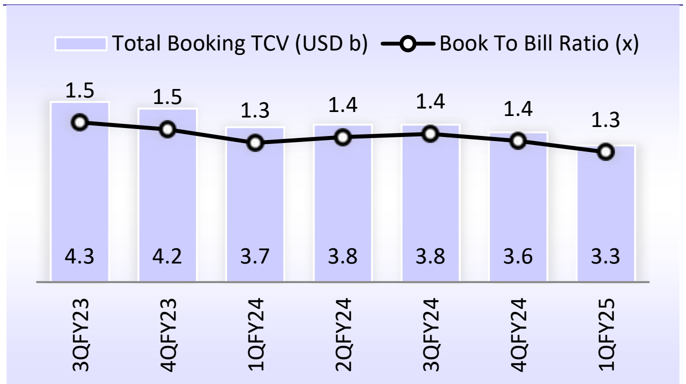
Source: MOFSL, Company

Exhibit 83: EBIT margin is anticipated to reach 16.5% by FY27



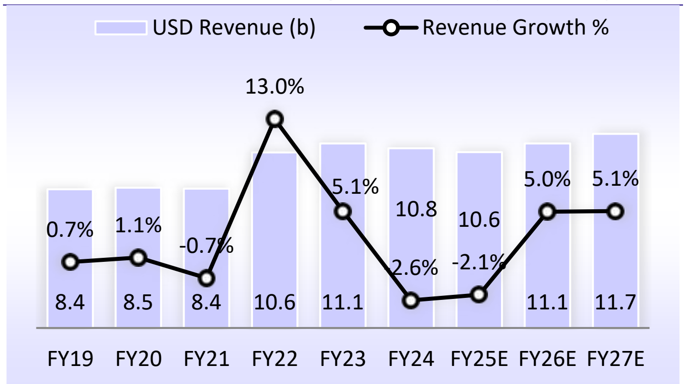
Source: MOFSL, Company

Exhibit 84: : Total TCV at USD3.3b in 1Q with a healthy 1.3x BBR



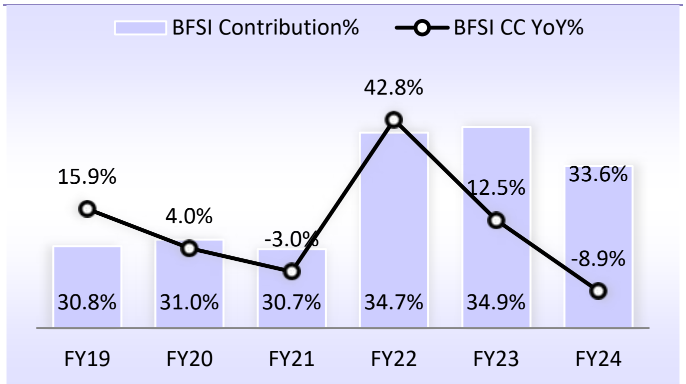
Source: MOFSL, Company

Exhibit 85: WPRO'S revenue growth to turn positive by FY26



Source: MOFSL, Company

Exhibit 86: BFSI came down to ~34% revenue contribution



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**610**	**619**	**791**	**905**	**896**	**887**	**933**	**980**
Change (%)	4.2	1.5	27.7	14.4	-0.9	-1.0	5.1	5.1
Operating Costs	436	423	556	645	631	622	652	685
Gross Profit	**174**	**196**	**235**	**259**	**266**	**266**	**281**	**295**
SG&A	69	73	97	120	130	125	128	134
EBITDA	**126**	**151**	**169**	**173**	**170**	**174**	**188**	**198**
% of Net Sales	20.6	24.3	21.4	19.1	19.0	19.7	20.2	20.2
Depreciation & Amort.	21	28	31	33	34	34	35	37
EBIT	**105**	**123**	**138**	**140**	**136**	**141**	**153**	**161**
% of Net Sales	17.2	19.8	17.5	15.4	15.2	15.9	16.4	16.4
Other Income	17	16	13	8	11	13	16	17
PBT	**123**	**139**	**151**	**148**	**147**	**154**	**169**	**178**
Tax	25	30	29	34	36	37	41	43
Rate (%)	20.2	21.8	19.1	23.0	24.5	24.1	24.0	24.0
Extraordinary items	0	0	0	0	0	0	0	0
Minority Interest	0	1	0	0	1	1	1	1
Adjusted PAT	**97**	**108**	**122**	**114**	**110**	**116**	**128**	**135**
Change (%)	8.0	11.0	13.2	-7.1	-2.9	5.0	10.5	5.2

Balance Sheet								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	11	11	11	11	10	10	10	10
Reserves	546	542	647	770	739	724	737	751
Net Worth	**557**	**553**	**658**	**781**	**750**	**735**	**748**	**762**
Minority Interest & others	38	41	56	66	88	55	57	60
Loans	78	83	152	150	141	131	121	111
Capital Employed	**674**	**677**	**866**	**997**	**979**	**921**	**926**	**933**
Gross Block	268	299	338	369	395	413	432	451
Less : Depreciation	170	198	228	262	296	330	365	402
Net Block	98	102	110	107	100	84	67	49
Investments	11	12	20	22	23	23	23	23
Intangible Assets	147	152	291	351	349	349	349	349
Other non-current assets	41	42	38	35	31	50	52	55
Curr. Assets	**520**	**523**	**621**	**661**	**651**	**662**	**692**	**726**
Debtors	130	121	176	187	174	181	190	200
Inventories	2	1	1	1	1	1	1	1
Cash & Bank Balance	144	170	104	92	97	76	74	74
Adv., Other Current Assets	54	55	98	72	68	73	76	79
Investments	190	176	242	309	311	331	351	371
Current Liab. & Prov	**143**	**154**	**213**	**179**	**173**	**246**	**256**	**268**
Net Current Assets	**377**	**369**	**408**	**482**	**477**	**416**	**436**	**458**
Application of Funds	**674**	**677**	**866**	**997**	**979**	**921**	**926**	**933**

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**16.4**	**18.8**	**21.9**	**20.7**	**20.4**	**21.9**	**24.4**	**25.7**
Cash EPS	20.2	23.9	27.9	26.8	27.1	28.5	31.2	32.8
Book Value	95.6	97.9	120.4	142.7	141.8	140.7	143.1	145.8
DPS	1.0	1.0	6.0	1.0	0.0	19.7	17.1	18.0
Payout (%)	113.9	93.3	26.9	4.8	1.6	90.0	70.0	70.0
Valuation (x)								
P/E ratio	31.4	27.5	23.5	24.9	25.3	23.5	21.1	20.0
Cash P/E ratio	25.5	21.5	18.4	19.2	19.0	18.0	16.5	15.7
EV/EBITDA ratio	21.8	17.6	15.5	14.8	14.5	13.8	12.7	13.6
EV/Sales ratio	4.5	4.3	3.3	2.8	2.7	2.7	2.6	2.7
Price/Book Value ratio	5.4	5.3	4.3	3.6	3.6	3.7	3.6	3.5
Dividend Yield (%)	0.2	0.2	1.2	0.2	0.0	3.8	3.3	3.5
Profitability Ratios (%)								
RoE	17.3	19.4	20.2	15.8	14.4	15.6	17.3	17.8
RoCE	13.7	16.0	16.3	12.8	11.3	12.2	13.5	14.0
Turnover Ratios								
Debtors (Days)	78	72	81	75	71	74	74	74
Asset Turnover ratio (x)	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8

Cash Flow Statement (INR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	124	125	147	145	158	149	163	172
Cash for Wkg. Capital	-24	23	-36	-15	19	8	-2	-1
Net Operating CF	**101**	**148**	**111**	**131**	**176**	**158**	**162**	**170**
Net Purchase of FA	-22	-19	-19	-14	-6	-18	-19	-20
Other change in investments	56	27	-205	-70	18	-20	-20	-20
Net Cash from Invest.	**34**	**8**	**-224**	**-84**	**12**	**-38**	**-39**	**-40**
Issue of Shares/Other adj	0	0	0	0	0	0	0	0
Proceeds from LTB/STB	-143	-122	53	-28	-177	-20	-20	-20
Dividend Payments	-8	-6	-7	-33	-6	-121	-105	-110
Net CF from Finan.	**-151**	**-129**	**47**	**-61**	**-183**	**-141**	**-125**	**-130**
Free Cash Flow	78	129	91	116	170	140	143	151
Net Cash Flow	**-16**	**26**	**-67**	**-14**	**5**	**-21**	**-2**	**0**
Forex difference	2	-1	1	2	0	0	0	0
Opening Cash Bal.	**157**	**142**	**168**	**102**	**90**	**95**	**74**	**72**
Add: Net Cash	-14	26	-66	-12	5	-21	-2	0
Closing Cash Bal.	**142**	**168**	**102**	**90**	**95**	**74**	**72**	**73**

Tech Mahindra

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	TECHM IN
Equity Shares (m)	978
M.Cap.(INRb)/(USDb)	1544.8 / 18.4
52-Week Range (INR)	1665 / 1089
1, 6, 12 Rel. Per (%)	2/12/-1
12M Avg Val (INR M)	3012

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	535	570	617
EBIT Margin (%)	9.2	12.4	12.8
Adj. PAT	39.5	56.4	62.8
Adj. EPS (INR)	44.5	63.6	70.8
PAT	39.5	56.4	62.8
EPS (INR)	44.5	63.6	70.8
EPS Gr. (%)	66.4	42.9	11.2
BV/Sh. (INR)	308.6	318.7	330.0
Ratios			
RoE (%)	14.6	20.3	21.9
RoCE (%)	15.9	22.2	23.9
Payout (%)	85.0	85.0	85.0
Valuations			
P/E (x)	35.4	24.8	22.3
P/BV (x)	5.1	5.0	4.8
EV/EBITDA (x)	20.4	15.5	13.9
Div Yield (%)	2.4	3.4	3.8

CMP: INR1,579 TP: INR1,600 (+1%) Neutral

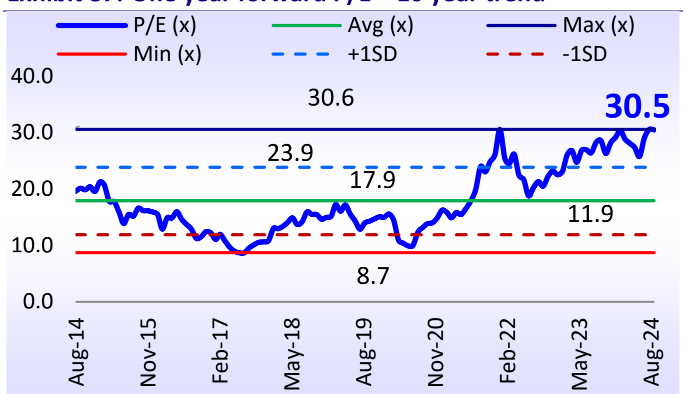
We are encouraged by the turnaround plan under the new management; however, outsized exposure to communications could impede the pace of recovery. Margins have a huge runway for recovery ahead, but balancing margin recovery with growth could be a tricky ask. It has a strong BPO business, which faces a moderate threat of automation from GenAI over the medium term.

- **Industry Exposure (1/5):** Communications could be weaker for longer, and this could be a drag on growth.
- **Margin Expansion Scope (3/5):** Margins have a huge runway of recovery ahead of them, but balancing margin recovery with growth could be a tricky ask.
- **Partnerships (5/5):** Top-tier ecosystem partnerships, largely a hygiene factor for all large-caps.
- **Automation Threat (3/5):** Most large-caps will have to contend with a moderate amount of automation threat, which comes from GenAI, as low level coding gets automated and BPO gets disrupted.
- **Client Strategies (3/5):** All large-caps have well-diversified clientele; no differentiation.
- **Technology Readiness (3/5):** TECHM's readiness is in line with peers; already invested in next-gen partnerships such as Databricks, Servicenow, and MongoDB.

Valuation and Estimates

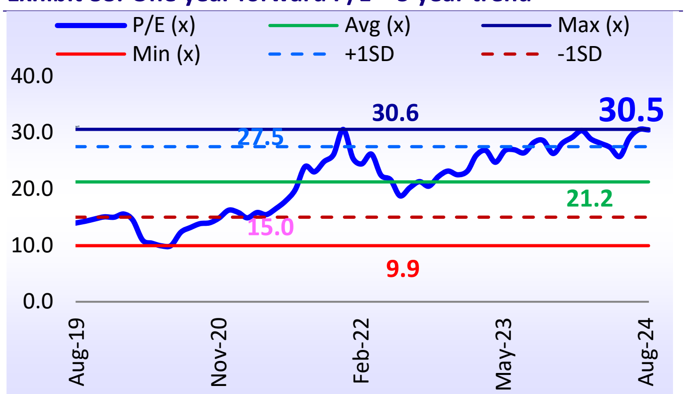
- We remain positive about the restructuring at TECHM under the new leadership, but expect the impact of these steps to be visible gradually. We remain on the sidelindes as we feel the current valuation fairly factors in the uncertainties around growth and margin. We introduce FY27 estimates in the note and roll over to Sep'26E EPS. Reiterate Neutral with a revised TP of INR1,600 (based on 23x Sep'26E EPS).

Exhibit 87: One year forward P/E – 10 year trend



Source: MOFSL, Company

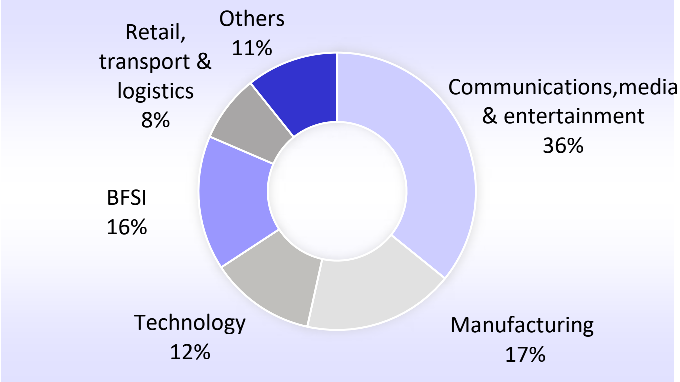
Exhibit 88: One year forward P/E – 5 year trend



Source: MOFSL, Company

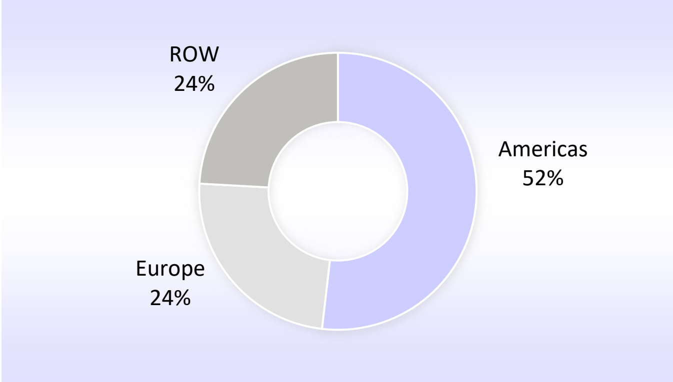
Story in Charts

Exhibit 89: Vertical exposure in FY24



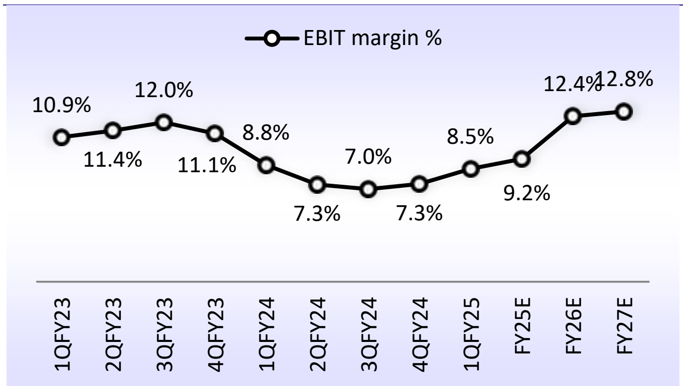
Source: MOFSL, Company

Exhibit 90: Geographical break-up in FY24



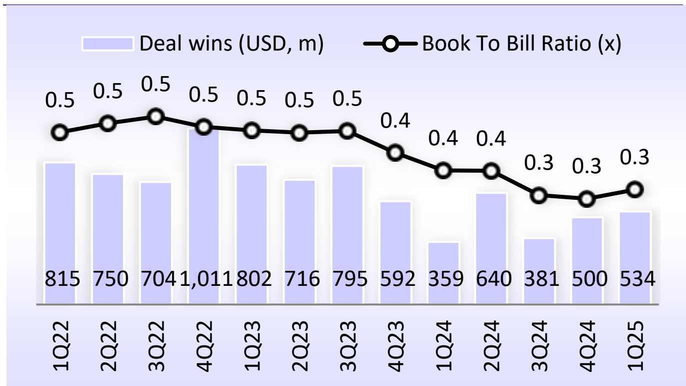
Source: MOFSL, Company

Exhibit 91: EBIT margin likely to recover to 12.8% by FY27



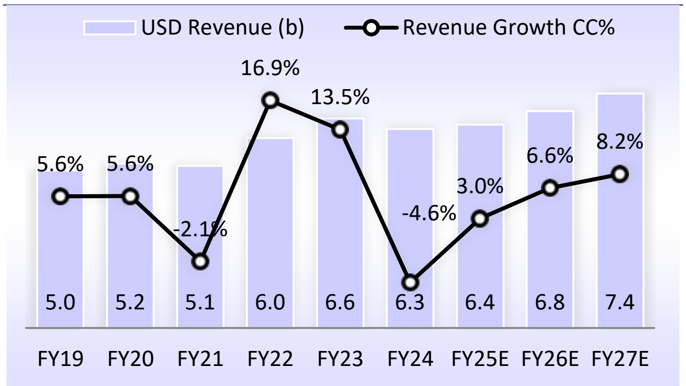
Source: MOFSL, Company

Exhibit 92: : Total TCV at USD534m in 1Q but weak 0.3x BBR



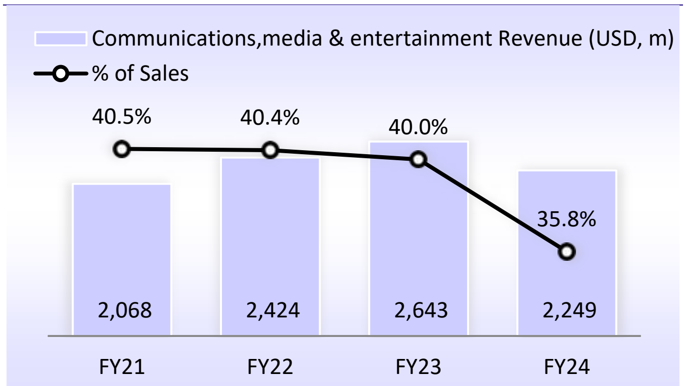
Source: MOFSL, Company

Exhibit 93: Revenue to grow at 3.0%/6.6%/8.2% in FY25/FY26/FY27



Source: MOFSL, Company

Exhibit 94: Telecom remains weak



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**369**	**379**	**446**	**533**	**520**	**535**	**570**	**617**
Change (%)	6.1	2.7	17.9	19.4	-2.4	2.9	6.6	8.2
COGS	260	259	310	381	391	394	413	444
Gross Profit	**109**	**120**	**137**	**152**	**129**	**141**	**158**	**173**
SGA expenses	52	52	57	71	71	74	69	74
EBITDA	**57**	**68**	**80**	**80**	**58**	**67**	**89**	**99**
% of Net Sales	15.5	18.1	18.0	15.1	11.1	12.6	15.6	16.1
Depreciation	14	15	15	20	18	18	18	20
EBIT	**43**	**54**	**65**	**61**	**40**	**49**	**71**	**79**
% of Net Sales	11.6	14.2	14.6	11.4	7.6	9.2	12.4	12.8
Other Income	10	6	10	6	5	3	3	3
PBT	**53**	**60**	**75**	**67**	**45**	**52**	**74**	**82**
Tax	12	15	18	16	8	12	17	19
Rate (%)	22.0	25.3	24.4	23.7	18.5	23.8	23.0	23.0
Minority interest	-1	-1	1	1	0	0	0	0
Share from associates	0	0	0	0	0	0	0	0
Extraordinary Items (EO)	-2	-1	0	-2	-13	0	0	0
Adjusted PAT	**43**	**46**	**56**	**51**	**36**	**39**	**56**	**63**
Change (%)	-1.1	7.2	22.1	-8.9	-28.5	9.0	42.9	11.2

Balance Sheet								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	4	4	4	4	4	4	4	4
Reserves	214	244	264	275	262	269	278	288
Net Worth	**218**	**249**	**269**	**279**	**267**	**273**	**282**	**292**
Minority Interest	4	4	5	5	5	5	5	5
Loans	24	17	16	16	15	15	15	15
Other LT liabilities	28	28	36	31	23	23	24	26
Amount pending invest.	12	12	12	12	12	12	12	12
Capital Employed	**287**	**309**	**338**	**343**	**322**	**329**	**339**	**350**
Applications								
Assets	**89**	**91**	**149**	**149**	**139**	**138**	**139**	**138**
Investments	2	6	4	6	5	5	5	5
Other non-current assets	50	47	50	62	56	58	62	67
Curr. Assets	**232**	**253**	**245**	**244**	**234**	**241**	**253**	**267**
Debtors	76	65	75	81	71	74	79	86
Cash & Bank Balance	30	27	38	41	43	41	38	37
Investments	57	98	46	30	32	47	62	77
Other Current Assets	68	63	86	93	88	80	74	67
Current Liab. & Prov	**87**	**88**	**111**	**119**	**112**	**113**	**119**	**126**
Net Current Assets	**145**	**165**	**134**	**126**	**122**	**128**	**134**	**141**
Application of Funds	**287**	**309**	**338**	**343**	**322**	**329**	**339**	**350**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic (INR)								
EPS	**48.7**	**52.1**	**63.2**	**57.6**	**41.1**	**44.6**	**63.8**	**70.9**
Diluted EPS	**48.3**	**51.7**	**62.6**	**57.3**	**41.1**	**44.5**	**63.6**	**70.8**
Cash EPS	62.3	66.7	79.7	76.7	47.4	64.8	83.9	93.7
Book Value	249.9	284.4	305.2	317.3	302.6	308.6	318.7	330.0
DPS	15.0	45.0	45.0	50.0	40.0	37.8	54.1	60.2
Payout (%)	31.0	87.1	71.9	87.3	97.3	85.0	85.0	85.0
Valuation (x)								
P/E ratio	32.5	30.3	25.0	27.4	38.4	35.4	24.8	22.3
Cash P/E ratio	25.4	23.7	19.8	20.6	33.3	24.4	18.8	16.9
EV/EBITDA ratio	24.0	20.0	17.1	17.0	23.6	20.4	15.5	13.9
EV/Sales ratio	3.7	3.6	3.1	2.6	2.6	2.6	2.4	2.2
Price/Book Value	6.3	5.6	5.2	5.0	5.2	5.1	5.0	4.8
Dividend Yield (%)	0.9	2.8	2.8	3.2	2.5	2.4	3.4	3.8
Profitability Ratios (%)								
RoE	20.2	19.5	21.5	18.5	13.3	14.6	20.3	21.9
RoCE	17.3	19.3	21.0	18.6	12.4	15.9	22.2	23.9
Turnover Ratios								
Debtors (Days)	75	62	61	56	50	50	51	51
Fixed Asset Turnover (x)	4.1	4.1	3.0	3.6	3.7	3.9	4.1	4.5
Leverage Ratio								
Debt/Equity Ratio (x)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Cash Flow Statement								(INR b)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	49	65	67	74	51	58	75	84
Change in Working Capital	-5	16	-14	-18	13	5	3	3
Net Operating CF	**44**	**81**	**53**	**56**	**64**	**63**	**78**	**87**
Net Purchase of FA	-8	-6	-8	-10	-7	-17	-18	-20
Free Cash Flow	**35**	**75**	**45**	**46**	**56**	**46**	**60**	**67**
Net Purchase of Invest.	19	-49	13	7	-6	-15	-15	-15
Net Cash from Invest.	**10**	**-55**	**5**	**-3**	**-13**	**-32**	**-33**	**-35**
Inc./(Dec.) in Equity	0	1	1	0	0	0	0	0
Proceeds from LTB/STB	-20	-13	-8	-9	-9	0	0	0
Dividend Payments	-25	-18	-40	-43	-39	-33	-48	-53
Cash Flow from Fin.	**-45**	**-30**	**-47**	**-51**	**-48**	**-33**	**-48**	**-53**
Other adjustments	1	0	0	1	0	0	0	0
Net Cash Flow	**10**	**-3**	**11**	**3**	**3**	**-2**	**-3**	**-1**
Opening Cash Balance	**20**	**30**	**27**	**38**	**41**	**43**	**41**	**38**
Add: Net Cash	10	-3	11	3	3	-2	-3	-1
Closing Cash Balance	**30**	**27**	**38**	**41**	**43**	**41**	**38**	**37**

L&T Technology

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	LTTS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	592.2 / 7.1
52-Week Range (INR)	6000 / 4107
1, 6, 12 Rel. Per (%)	12/-5/-6
12M Avg Val (INR M)	977

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	106	118	134
EBIT Margin (%)	15.9	16.8	17.0
PAT	13.8	16.2	18.5
EPS (INR)	129.8	152.7	174.8
EPS Gr. (%)	5.5	17.6	14.5
BV/Sh. (INR)	576.4	674.6	787.1
Ratios			
RoE (%)	24.1	24.5	24.0
RoCE (%)	18.7	19.2	18.9
Payout (%)	35.0	30.0	30.0
Valuations			
P/E (x)	43.0	36.5	31.9
P/BV (x)	9.7	8.3	7.1
EV/EBITDA (x)	27.8	23.7	20.3
Div Yield (%)	0.8	0.8	0.9

CMP: INR5,595 TP: INR6,600 (+18%) Buy

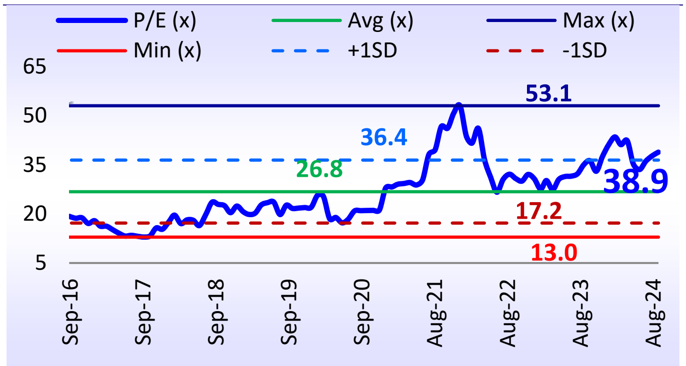
For ER&D names, we replace ecosystem partnerships with presence in software engineering (vs. heavy industries). LTTS's strength lies in its engineering heritage from its parent company, as well as a well-diversified portfolio. Its hi-tech vertical could be under pressure in the short term in line with industry trends. Margin performance is satisfactory, and LTTS's tech stack is better than its peers, providing a future-ready portfolio. Technology readiness is moderate, with sufficient time to adapt to future disruptions from GenAI.

- **Industry Exposure (3/5):** Well diversified portfolio; its recent realignment of verticals into mobility, sustainability and tech positions it well to capture growth opportunities.
- **Margin Expansion Scope (3/5):** We believe LTTS margins will largely be range-bound in the short term.
- **Software stack (3/5):** LTTS has a well-developed software stack, and we believe it can participate in software-led engineering deals despite having a heavy engineering heritage.
- **Automation Threat (5/5):** Minimal automation threat as of now; its deep domain expertise and heavy engineering focus are currently not under threat from automation.
- **Client Strategies (5/5):** LTTS has a good balance between client mining and client hunting strategies, and we believe it has minimal threat from client concentration risks.
- **Technology Readiness (3/5):** We believe GenAI could take some time to disrupt outsourced engineering, and LTTS has enough time to make itself future proof.

Valuation and Estimates

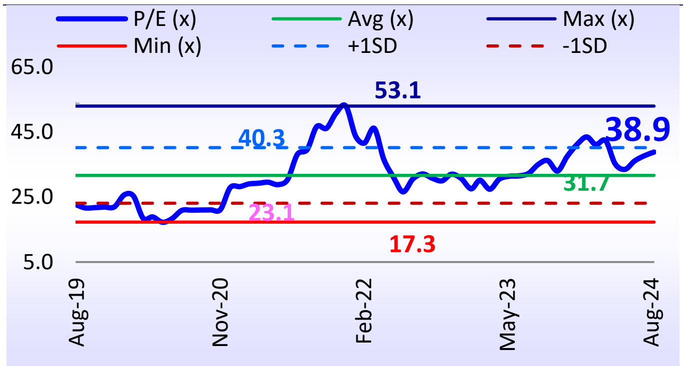
- Digitization is boosting spending in ER&D, and LTTS should benefit due to its strong capabilities, multi-vertical presence, and solid wallet share. We expect the company to deliver strong revenue growth over the coming years. We introduce FY27 estimates and roll over to Sep'26E EPS. Our TP of INR6,600 implies 40x Sep'26E EPS. We expect industry spending to improve vs. the preceding five years. **We reiterate our BUY rating on the stock.**

Exhibit 95: One year forward P/E – 10 year trend



Source: MOFSL, Company

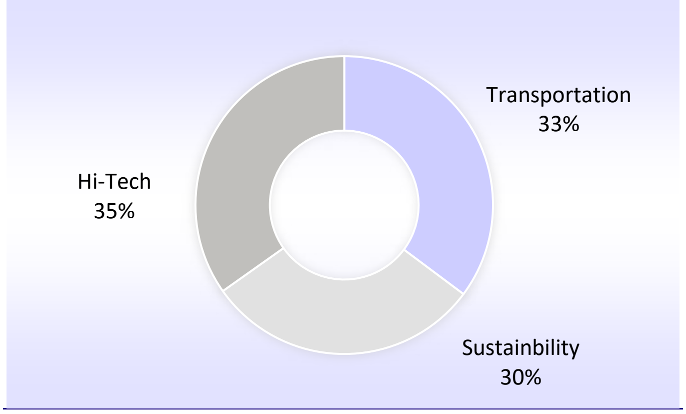
Exhibit 96: One year forward P/E – 5 year trend



Source: MOFSL, Company

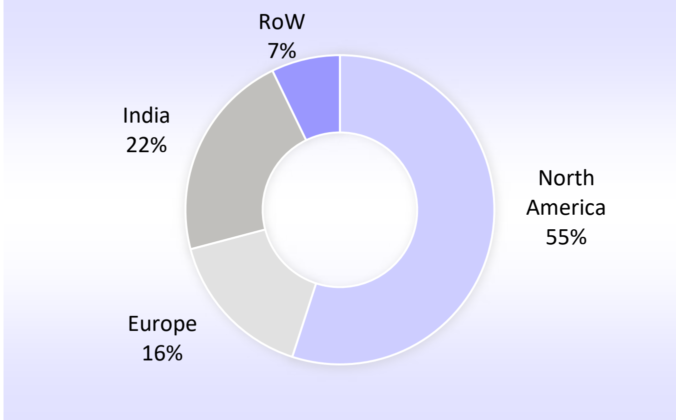
Story in Charts

Exhibit 97: Vertical exposure in 1QFY25



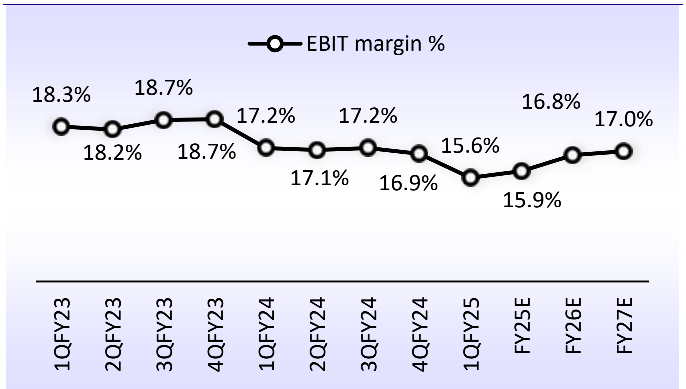
Source: MOFSL, Company

Exhibit 98: Geographical break-up in FY24



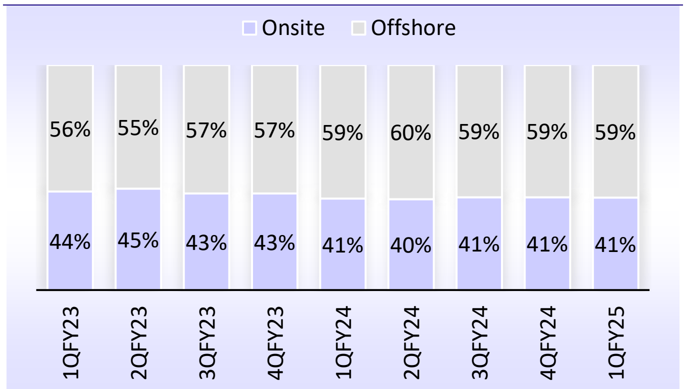
Source: MOFSL, Company

Exhibit 99: EBIT margin to expand to 17.0% by FY27



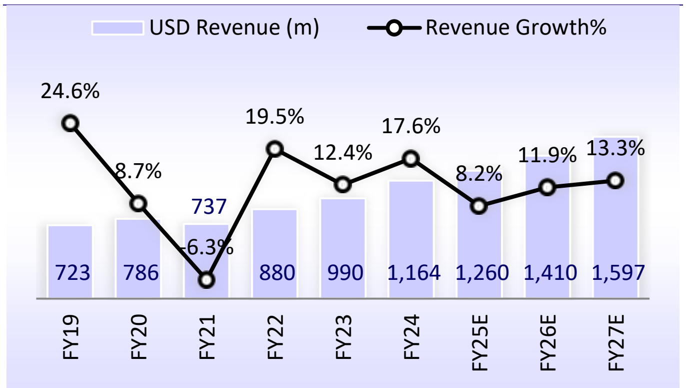
Source: MOFSL, Company

Exhibit 100: : Offshore mix reached ~59% in 1QFY25



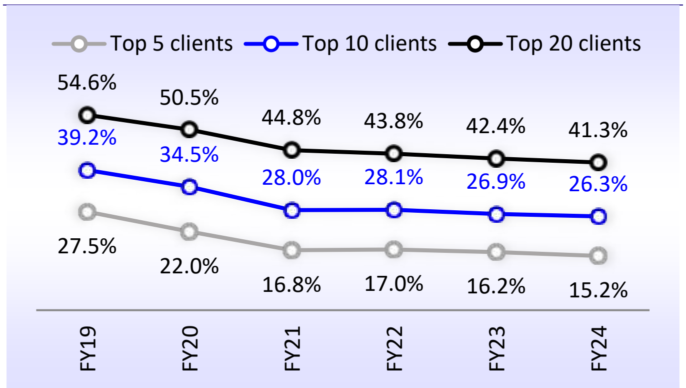
Source: MOFSL, Company

Exhibit 101: Revenue to grow at 8.2%/11.8%/13.2% in FY25/FY26/FY27



Source: MOFSL, Company

Exhibit 102: Top 5 clients contributed ~15% of revenue



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Total Income from Operations	**56,192**	**54,497**	**65,697**	**80,136**	**96,472**	**1,05,647**	**1,18,447**	**1,34,180**
Change (%)	10.7	-3.0	20.6	22.0	20.4	9.5	12.1	13.3
Employees Cost	32,747	33,550	36,505	45,639	49,298	55,544	61,000	68,834
Other Expenses	4,961	4,566	7,286	8,342	19,169	19,481	22,505	25,494
Total Expenditure	**37,708**	**38,116**	**43,791**	**53,981**	**68,467**	**75,025**	**83,505**	**94,328**
% of Sales	67.1	69.9	66.7	67.4	71.0	71.0	70.5	70.3
Gross Profit	**18,484**	**16,381**	**21,906**	**26,155**	**28,005**	**30,622**	**34,942**	**39,851**
SG&A	7,379	6,307	7,757	9,023	8,816	10,790	12,082	13,686
EBITDA	**11,105**	**10,074**	**14,149**	**17,132**	**19,189**	**19,832**	**22,860**	**26,165**
% of Sales	19.8	18.5	21.5	21.4	19.9	18.8	19.3	19.5
Depreciation	1,829	2,183	2,144	2,314	2,716	2,995	2,961	3,354
EBIT	**9,276**	**7,891**	**12,005**	**14,818**	**16,473**	**16,837**	**19,899**	**22,811**
% of Sales	16.5	14.5	18.3	18.5	17.1	15.9	16.8	17.0
Other Income	1,727	1,082	1,087	1,620	1,564	1,950	2,132	2,415
PBT	**11,003**	**8,973**	**13,092**	**16,438**	**18,037**	**18,787**	**22,031**	**25,226**
Total Tax	2,779	2,307	3,486	4,697	4,975	5,020	5,838	6,685
Tax Rate (%)	25.3	25.7	26.6	28.6	27.6	26.7	26.5	26.5
Minority Interest	-38	-32	-36	-43	-26	-3	0	0
Adjusted PAT	**8,186**	**6,634**	**9,570**	**11,698**	**13,036**	**13,764**	**16,193**	**18,541**
Tax Rate (%)	6.9	-19.0	44.3	22.2	11.4	5.6	17.6	14.5

Consolidated - Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	209	210	211	211	211	211	211	211
Total Reserves	27,477	34,521	41,414	49,298	52,612	60,595	70,958	82,825
Net Worth	**27,686**	**34,731**	**41,625**	**49,509**	**52,823**	**60,806**	**71,169**	**83,036**
Minority Interest	69	101	137	180	206	209	209	209
Borrowings	303	0	0	0	0	0	0	0
Other Long term liabilities	4,890	4,915	5,359	4,293	8,701	9,528	10,683	12,101
Capital Employed	**32,948**	**39,747**	**47,121**	**53,982**	**61,730**	**70,543**	**82,061**	**95,346**
Net Fixed Assets	**6,275**	**6,997**	**6,946**	**6,930**	**5,552**	**4,023**	**2,705**	**1,212**
Goodwill	5,460	5,827	5,881	6,010	6,010	6,010	6,010	6,010
Capital WIP	87	119	99	65	65	65	65	65
Other Assets	2,109	2,760	4,733	4,758	5,235	5,466	5,790	6,187
Curr. Assets, Loans&Adv.	**29,102**	**35,026**	**43,251**	**51,410**	**59,440**	**69,923**	**82,917**	**97,912**
Account Receivables	13,807	12,346	16,959	17,301	21,145	23,156	25,961	29,409
Cash and Bank Balance	2,179	1,751	2,347	5,346	4,755	10,135	16,997	25,028
Current Investments	6,370	15,725	18,313	22,641	25,141	27,641	30,141	32,641
Other Current Assets	6,746	5,204	5,632	6,122	8,399	8,992	9,818	10,834
Curr. Liability & Prov.	**10,085**	**10,982**	**13,789**	**15,191**	**14,572**	**14,945**	**15,426**	**16,040**
Account Payables	1,975	2,352	3,934	4,505	3,886	4,259	4,740	5,354
Other Current Liabilities	6,456	7,046	7,903	9,321	9,321	9,321	9,321	9,321
Provisions	1,654	1,584	1,952	1,365	1,365	1,365	1,365	1,365
Net Current Assets	**19,017**	**24,044**	**29,462**	**36,219**	**44,867**	**54,978**	**67,491**	**81,872**
Appl. of Funds	**32,948**	**39,747**	**47,121**	**53,982**	**61,730**	**70,543**	**82,061**	**95,346**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic EPS (INR)	77.5	62.8	90.5	110.5	123.0	129.8	152.7	174.8
Cash EPS	94.9	83.5	110.8	132.4	148.7	158.0	180.6	206.5
BV/Share	264.9	330.8	394.5	469.3	500.7	576.4	674.6	787.1
DPS	21.0	22.0	35.0	45.0	45.0	45.4	45.8	52.4
Payout (%)	27.1	35.0	38.7	40.7	36.6	35.0	30.0	30.0
Valuation (x)								
P/E	71.9	88.8	61.6	50.5	45.3	43.0	36.5	31.9
Cash P/E	58.8	66.8	50.3	42.1	37.5	35.3	30.9	27.0
P/BV	21.1	16.9	14.1	11.9	11.1	9.7	8.3	7.1
EV/Sales	10.2	10.4	8.6	7.0	5.8	5.2	4.6	4.0
EV/EBITDA	51.6	56.3	40.0	32.7	29.2	27.8	23.7	20.3
Dividend Yield (%)	0.4	0.4	0.6	0.8	0.8	0.8	0.8	0.9
Return Ratios (%)								
RoE	31.1	21.2	25.0	25.6	25.4	24.1	24.5	24.0
RoCE	24.0	16.2	20.3	20.9	20.6	18.7	19.2	18.9

Consolidated - Cash Flow Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
OP/(Loss) before Tax	11,002	8,973	13,092	16,437	18,037	18,787	22,031	25,226
Depreciation	1,829	2,183	2,144	2,315	2,716	2,995	2,961	3,354
Interest & Finance Charges	365	455	437	435	0	0	0	0
Direct Taxes Paid	-2,119	-2,523	-3,563	-4,670	-4,975	-5,020	-5,838	-6,685
(Inc)/Dec in WC	-4,287	4,245	-1,452	-1,188	-2,809	-1,635	-2,319	-2,828
Others	-409	-60	-597	-177	0	0	0	0
CF from Operations	**6,381**	**13,273**	**10,061**	**13,152**	**12,969**	**15,126**	**16,835**	**19,067**
(Inc)/Dec in FA	-1,511	-756	-1,555	-1,726	-5,338	-1,466	-1,643	-1,861
Free Cash Flow	**4,870**	**12,517**	**8,506**	**11,426**	**7,631**	**13,661**	**15,191**	**17,206**
(Pur)/Sale of Investments	-1,039	-9,653	-3,393	-5,018	-2,500	-2,500	-2,500	-2,500
Others	328	355	465	1,026	0	0	0	0
CF from Investments	**-2,222**	**-10,054**	**-4,483**	**-5,718**	**-7,838**	**-3,966**	**-4,143**	**-4,361**
Issue of Shares	1	1	1	0	0	0	0	0
Inc/(Dec) in Debt	-1,028	-995	-913	-833	0	0	0	0
Interest Paid	-365	-455	-437	-435	0	0	0	0
Dividend Paid	-2,636	-2,198	-3,633	-3,167	-5,722	-5,781	-5,829	-6,675
CF from Fin. Activity	**-4,028**	**-3,647**	**-4,982**	**-4,435**	**-5,722**	**-5,781**	**-5,829**	**-6,675**
Inc/Dec of Cash	**131**	**-428**	**596**	**2,999**	**-591**	**5,380**	**6,862**	**8,031**
Forex Adjustment	0	0	0	0	0	0	0	0
Opening Balance	2,048	2,179	1,751	2,347	5,346	4,755	10,135	16,997
Closing Balance	**2,179**	**1,751**	**2,347**	**5,346**	**4,755**	**10,135**	**16,997**	**25,028**

Mphasis

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	MPHL IN
Equity Shares (m)	189
M.Cap.(INRb)/(USDb)	566.3 / 6.7
52-Week Range (INR)	3165 / 2068
1, 6, 12 Rel. Per (%)	8/9/-4
12M Avg Val (INR M)	1981

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	142	157	171
EBIT Margin (%)	15.4	15.8	15.6
PAT	17.5	19.9	21.3
EPS (INR)	91.8	104.3	112.1
EPS Gr. (%)	12.3	13.6	7.5
BV/Sh. (INR)	502.2	544.3	589.4
Ratios			
RoE (%)	19.1	20.1	19.9
RoCE (%)	16.1	17.0	16.9
Payout (%)	60.4	60.4	60.4
Valuations			
P/E (x)	32.6	28.7	26.7
P/BV (x)	6.0	5.5	5.1
EV/EBITDA (x)	21.7	19.3	17.7
Div Yield (%)	1.9	2.1	2.3

CMP: INR2,994 TP: INR3,000 Neutral

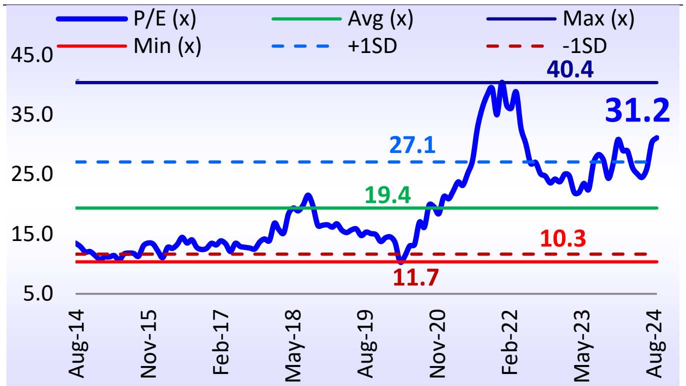
Mphasis excels in top-tier ecosystem partnerships, particularly in niche areas like Snowflake and Google Cloud. However, it faces high automation threats in volume-based processing and needs stronger next-gen technology readiness. While the company's client mining is strong, it is overly dependent on top clients due to weak client hunting. Its margins remain range-bound with potential for revival in the mortgage business if market conditions improve. A BFS turnaround and rate cuts could boost its industry exposure.

- **Industry Exposure (3/5):** A turnaround in BFS and rate cuts could help revive Mphasis' mortgage business.
- **Margin Expansion Scope (3/5):** Mphasis margins have largely been range-bound, and we expect a similar trajectory with an outside chance of margin revival in case of strong volume recovery in mortgage processing business.
- **Partnerships (5/5):** Top-tier ecosystem partnerships, particularly in niche areas such as Snowflake, Databricks, Google Cloud, and Azure.
- **Automation Threat (3/5):** Volume-based processing business is at a high automation threat level.
- **Client Strategies (3/5):** Mphasis has the best-in-class client mining and wallet share with its top clients; however, we believe its client hunting has been weak, leading to overdependence on top clients.
- **Technology Readiness (3/5):** Need more evidence to support technology readiness for next-gen.

Valuation and Estimates

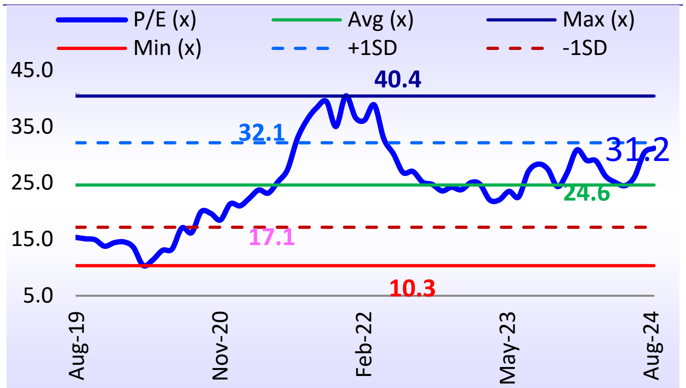
- We believe the stock has fully priced in a tailwind from the US BFS clients and a rate cut cycle, and it trades at an expensive valuation of 30x 12M forward earnings. We introduce FY27 estimates in the note. There is a limited upside from hereon; our TP of INR3,000 based on Sep'26E. **We reiterate our Neutral rating on the stock.**

Exhibit 103: One year forward P/E – 10 year trend



Source: MOFSL, Company

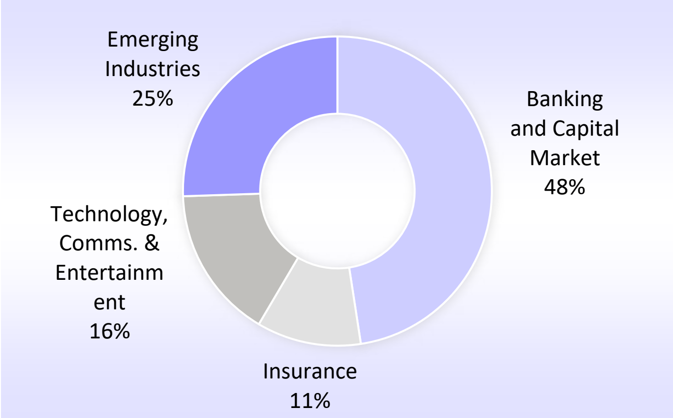
Exhibit 104: One year forward P/E – 5 year trend



Source: MOFSL, Company

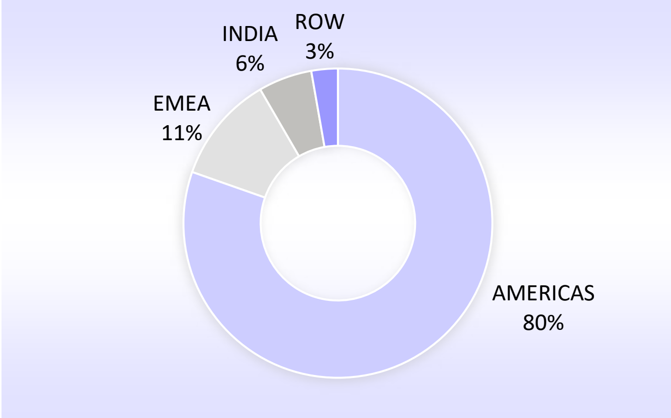
Story in Charts

Exhibit 105: Vertical exposure in FY24



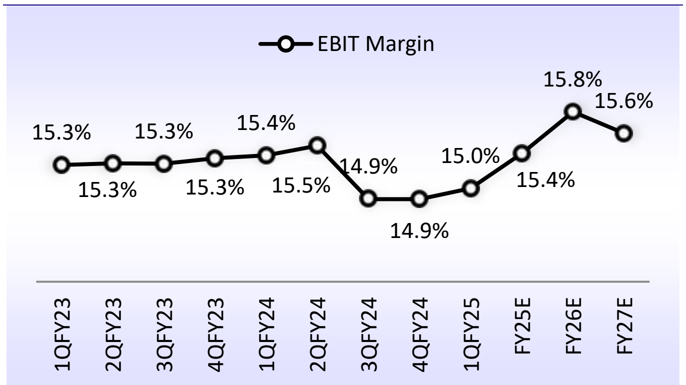
Source: MOFSL, Company

Exhibit 106: Geographical break-up in FY24



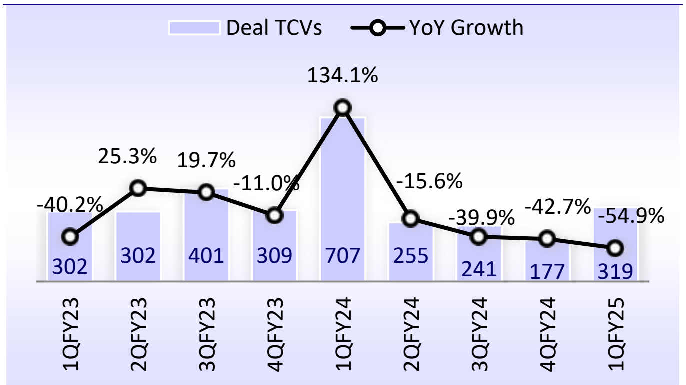
Source: MOFSL, Company

Exhibit 107: EBIT margin to expand to 15.6% by FY27



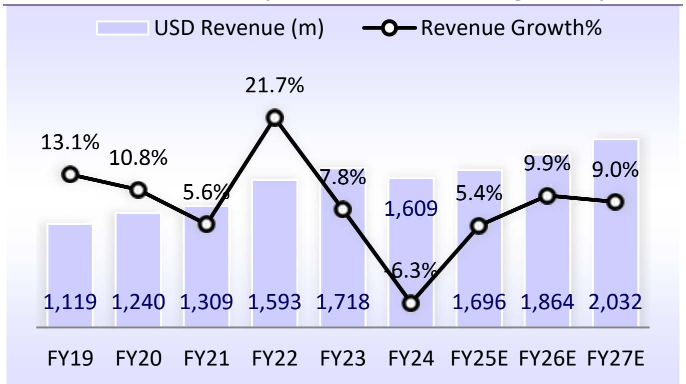
Source: MOFSL, Company

Exhibit 108: : Total TCV reached USD319m in 1QFY25



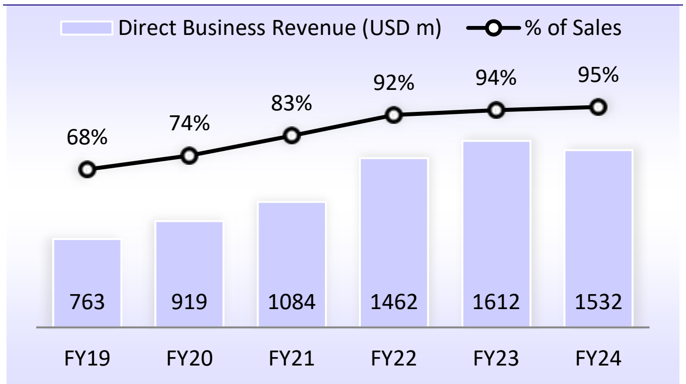
Source: MOFSL, Company

Exhibit 109: MPHL is expected to revert to its growth path



Source: MOFSL, Company

Exhibit 110: Direct business was at 95% of revenue in FY24



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Revenues	**88,436**	**97,222**	**1,19,616**	**1,37,985**	**1,32,785**	**1,42,311**	**1,56,679**	**1,70,756**
Change (%)	14.4	9.9	23.0	15.4	-3.8	7.2	10.1	9.0
Cost Of Goods Sold	61,376.5	67,723.0	84,664	98,128	92,772	99,749	1,10,413	1,20,729
Gross Profit	**27,060**	**29,499**	**34,952**	**39,857**	**40,013**	**42,563**	**46,266**	**50,028**
SG&A Expenses	10,536	11,472	13,570	15,517	15,793	17,247	18,175	19,808
EBITDA	**16,524**	**18,027**	**21,382**	**24,340**	**24,220**	**25,315**	**28,091**	**30,220**
% of Net Sales	19	19	17.9	17.6	18.2	17.8	17.9	17.7
Depreciation	2,317	2,418	2,906	3,253	4,106	3,427	3,290	3,586
EBIT	**14,207**	**15,609**	**18,476**	**21,087**	**20,114**	**21,889**	**24,801**	**26,634**
% of Net Sales	16	16	15.4	15.3	15.1	15.4	15.8	15.6
Other Income	967	696	861	644	570	1,319	1,567	1,708
PBT	**15,174**	**16,305**	**19,337**	**21,731**	**20,684**	**23,207**	**26,368**	**28,342**
Tax	3,306	4,139	4,870	5,351	5,135	5,736	6,517	7,005
Rate (%)	**22**	**25**	25.2	24.6	24.8	24.7	24.7	24.7
Adjusted PAT	**11,868**	**12,166**	**14,467**	**16,380**	**15,549**	**17,471**	**19,851**	**21,337**
Change (%)	10.6	2.5	18.9	13.2	-5.1	12.4	13.6	7.5

Balance Sheet								(INR m)
Y/E	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	1,865	1,870	1,878	1,884	1,890	1,890	1,890	1,890
Reserves	56,431	63,397	67,553	77,464	86,056	93,045	1,00,985	1,09,519
Net Worth	**58,296**	**65,267**	**69,431**	**79,348**	**87,946**	**94,935**	**1,02,875**	**1,11,410**
Loans	5,713	5,135	5,272	1,985	15,436	15,436	15,436	15,436
Other long term liabilities	7,567	7,285	9,030	8,768	11,310	11,150	11,264	11,377
Capital Employed	**71,576**	**77,687**	**83,734**	**90,101**	**1,14,692**	**1,21,520**	**1,29,575**	**1,38,222**
Net Block	**8,823**	**8,869**	**10,388**	**11,281**	**14,011**	**11,588**	**9,404**	**7,022**
CWIP	74	31	110	55	137	137	137	137
Goodwill	21,405	21,326	27,348	29,586	41,793	41,793	41,793	41,793
Investments	3,479	3,114	3,778	3,848	4,971	4,971	4,971	4,971
Other assets	9,624	9,246	8,774	11,794	14,066	17,145	18,524	19,875
Curr. Assets	**44,131**	**51,403**	**57,164**	**59,531**	**66,324**	**70,648**	**82,009**	**94,135**
Debtors	17,696	18,505	22,270	25,207	24,256	27,293	30,048	32,748
Cash	11,267	9,098	9,494	10,534	8,144	1,409	5,008	9,449
Investments	9,768	16,870	14,351	13,679	25,928	29,928	33,928	37,928
Other Current Assets	5,400	6,929	11,048	10,111	7,997	12,019	13,025	14,010
Current Liab. & Prov	**15,959**	**16,302**	**23,828**	**25,993**	**26,610**	**24,762**	**27,262**	**29,712**
Sundry Liabilities	15,891	15,806	22,744	23,573	23,818	23,624	26,009	28,346
Provisions	68	497	1,084	2,420	2,792	1,138	1,253	1,366
Net Current Assets	**28,172**	**35,100**	**33,336**	**33,538**	**39,714**	**45,886**	**54,746**	**64,423**
Application of Funds	**71,576**	**77,687**	**83,734**	**90,102**	**1,14,692**	**1,21,520**	**1,29,575**	**1,38,222**

Financials and valuations

Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
EPS	**63.1**	**64.2**	**75.1**	**86.9**	**81.8**	**91.8**	**104.3**	**112.1**
Cash EPS	75.5	77.0	90.2	104.2	103.3	109.8	121.6	130.9
Book Value	312.9	349.3	365.3	421.2	466.1	502.2	544.3	589.4
DPS	35.0	65.0	45.7	52.2	49.4	55.5	63.0	67.7
Payout %	55.4	101.2	60.8	60.0	60.5	60.4	60.4	60.4
Valuation (x)								
P/E	47.5	46.6	39.9	34.5	36.6	32.6	28.7	26.7
Cash P/E	39.7	38.9	33.2	28.7	29.0	27.3	24.6	22.9
EV/EBITDA	32.9	29.9	25.8	22.3	22.6	21.7	19.3	17.7
EV/Sales	6.1	5.5	4.6	3.9	4.1	3.9	3.5	3.1
Price/Book Value	9.6	8.6	8.2	7.1	6.4	6.0	5.5	5.1
Dividend Yield (%)	1.2	2.2	1.5	1.7	1.7	1.9	2.1	2.3
Profitability Ratios (%)								
RoE	21.4	19.7	21.5	22.0	18.6	19.1	20.1	19.9
RoCE	18.6	16.8	18.3	19.1	16.1	16.1	17.0	16.9
Turnover Ratios								
Debtors (Days)	73	69	68	67	67	70	70	70
Fixed Asset Turnover (x)	16.2	11.0	12.4	12.7	10.5	11.1	14.9	20.8

Cash Flow Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	12,788	14,999	18,497	20,397	17,769	19,579	21,574	23,215
Chg. in Wkg. Capital	422	-453	-1,501	-5,779	4,028	-12,146	-2,526	-2,474
Net Operating CF	**13,210**	**14,545**	**16,996**	**14,618**	**21,797**	**7,433**	**19,049**	**20,740**
Net Purchase of FA	-1,243	-1,252	-1,192	-1,112	-916	-1,004	-1,106	-1,205
Free Cash Flow	**11,967**	**13,293**	**15,805**	**13,506**	**20,881**	**6,429**	**17,943**	**19,536**
Net Purchase of Invest.	2,652	-6,967	-1,629	2,936	-23,905	-2,681	-2,433	-2,292
Net Cash from Invest.	**1,408**	**-8,219**	**-2,820**	**1,825**	**-24,821**	**-3,685**	**-3,539**	**-3,497**
Proceeds from equity	151	268	442	271	301	0	0	0
Proceeds from LTB/STB and others	-3,863	-2,356	-2,152	-7,153	9,898	0	0	0
Dividend Payments	-6,065	-6,527	-12,177	-8,652	-9,427	-10,483	-11,910	-12,802
Net CF from Financing	**-9,777**	**-8,615**	**-13,887**	**-15,534**	**772**	**-10,483**	**-11,910**	**-12,802**
Net Cash Flow	**4,842**	**-2,288**	**289**	**908**	**-2,252**	**-6,735**	**3,599**	**4,441**
Exchange difference	10	120	107	132	-139	0	0	0
Opening Cash Balance	**6,416**	**11,267**	**9,098**	**9,494**	**10,534**	**8,144**	**1,409**	**5,008**
Add: Net Cash	4,851	-2,169	396	1,040	-2,391	-6,735	3,599	4,441
Closing Cash Balance	**11,267**	**9,098**	**9,494**	**10,534**	**8,144**	**1,409**	**5,008**	**9,449**

Cyient

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	CYL IN
Equity Shares (m)	111
M.Cap.(INRb)/(USDb)	217.4 / 2.6
52-Week Range (INR)	2459 / 1542
1, 6, 12 Rel. Per (%)	14/-12/-16
12M Avg Val (INR M)	939

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	71	79	89
EBIT Margin (%)	14.6	15.5	15.5
PAT	7.9	9.6	10.8
EPS (INR)	71.9	86.7	97.7
EPS Gr. (%)	7.5	20.7	12.6
BV/Sh. (INR)	413.0	447.7	486.7
Ratios			
RoE (%)	16.9	19.0	19.8
RoCE (%)	14.4	16.1	16.8
Payout (%)	60.0	60.0	60.0
Valuations			
P/E (x)	27.3	22.6	20.1
P/BV (x)	4.7	4.4	4.0
EV/EBITDA (x)	15.8	13.4	11.8
Div Yield (%)	2.2	2.7	3.0

CMP: INR1,960 TP: INR2,300 (+17%) Buy

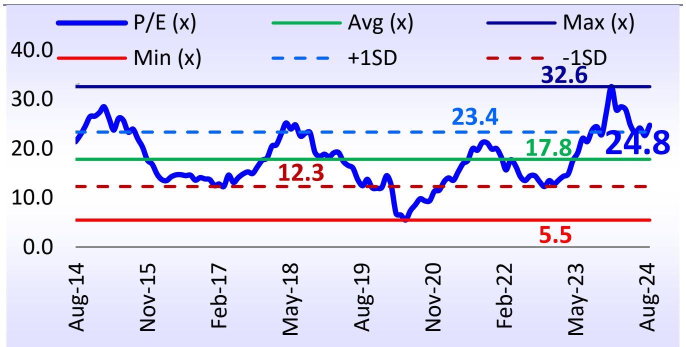
For ER&D names, we replace ecosystem partnerships with presence in software engineering (vs. heavy industries). Cyient benefits from strong client strategies and minimal automation threats due to its deep domain expertise and focus on heavy engineering. The company's exposure to high-growth verticals such as aerospace, defense, and sustainability is promising, though its presence in the communications sector could be a drag. Margin performance is satisfactory, comparable to industry leaders, but its low proportion of software engineering work is a challenge, despite ongoing investments. Technology readiness is moderate, with sufficient time to adapt to future disruptions from GenAI.

- **Industry Exposure (3/5):** Exposure to verticals with structural tailwinds such as aerospace and defense, sustainability, as well as new and upcoming investments in autos. However, exposure to communications vertical could be a drag.
- **Margin Expansion Scope (3/5):** Steady state margins are satisfactory, in our opinion, but have recently declined due to revenue weakness.
- **Software stack (1/5):** Presence mostly in heavy engineering industries means that Cyient has a low proportion of software engineering-led work. That said the company is making investments to tilt this balance.
- **Automation Threat (5/5):** Minimal automation threat as of now; its deep domain expertise and heavy engineering focus are currently not under threat from automation.
- **Client Strategies (5/5):** One of the few ER&D companies to have a USD100m+ anchor client; despite that, it has a good balance of revenues coming from top 10 clients and others.
- **Technology Readiness (3/5):** We believe GenAI could take some time to disrupt outsourced engineering, and Cyient has enough time to make itself future proof.

Valuation and Estimates

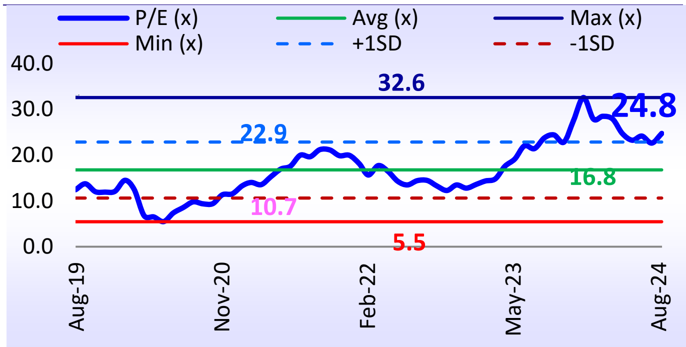
- Based on SOTP, we value the company's stake in DLM at market valuation with a holding company discount of 20%. In our P/E-based valuation, we value the DET business at 27x Sep'26E EPS (~10% premium to its earlier exit premium) owing to exposure to structurally strong verticals such as aerospace and sustainability. **We reiterate our BUY rating on the stock,** mainly owing to undemanding valuations and favorable vertical exposures. Our SOTP-based TP of INR2,300 implies an upside of 17%**.**

Exhibit 111: One year forward P/E – 10 year trend



Source: MOFSL, Company

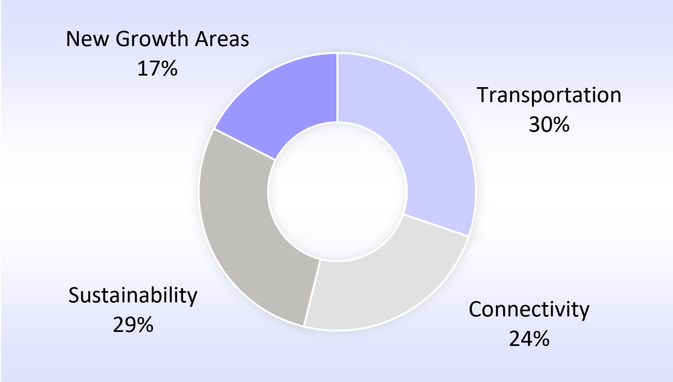
Exhibit 112: One year forward P/E – 5 year trend



Source: MOFSL, Company

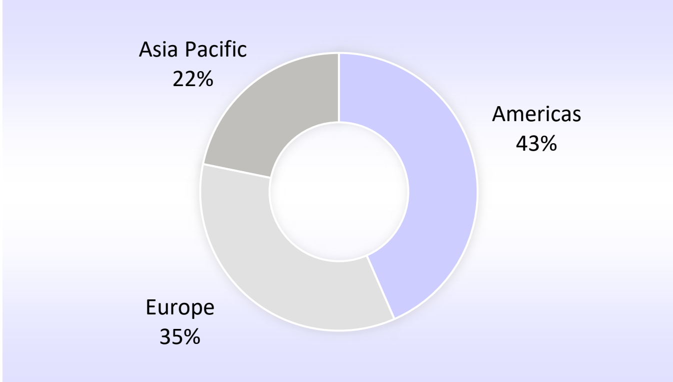
Story in Charts

Exhibit 113: Vertical exposure in FY24



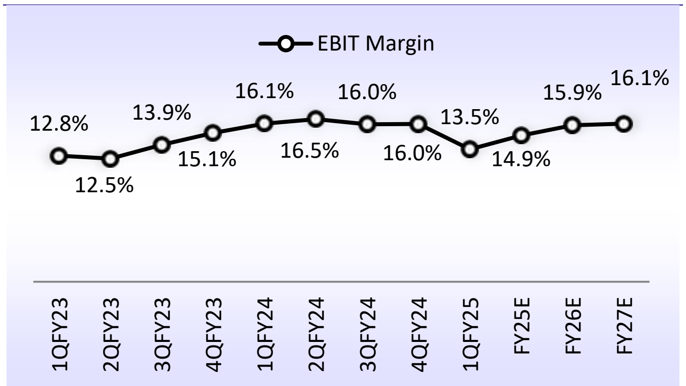
Source: MOFSL, Company

Exhibit 114: Geographical break-up in FY24



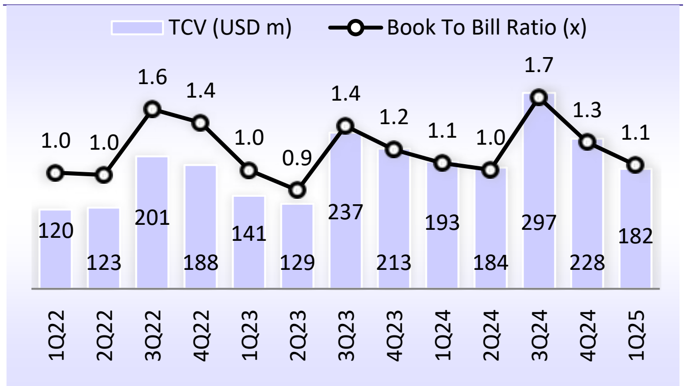
Source: MOFSL, Company

Exhibit 115: DET EBIT margin to expand to 16.1% by FY27



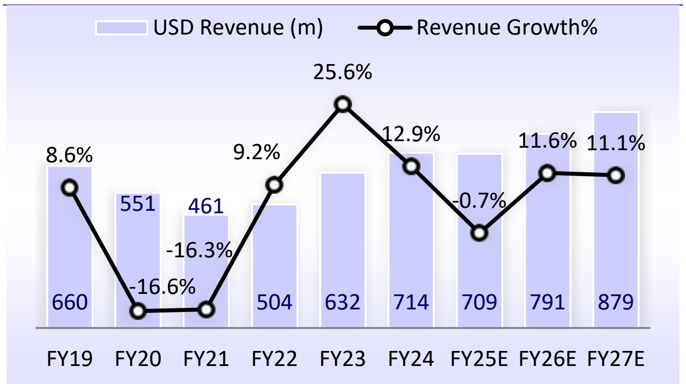
Source: MOFSL, Company

Exhibit 116: Total TCV at USD182m in 1QFY25 with 1.1x BBR



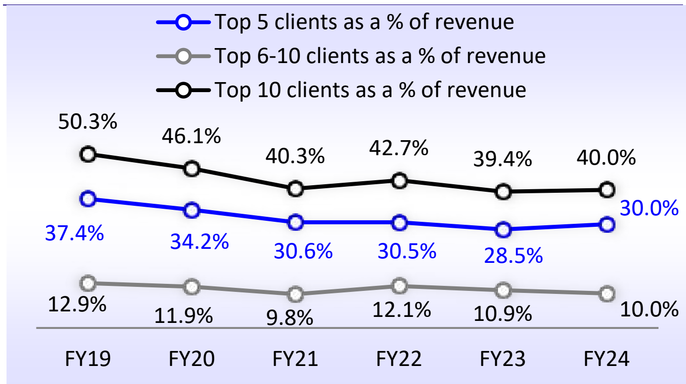
Source: MOFSL, Company

Exhibit 117: Revenue to remain flat in FY25 but could pick up in FY26/27



Source: MOFSL, Company

Exhibit 118: Top 5 clients contributed ~30% of revenue in FY24



Source: MOFSL, Company

Financials and valuations

Income Statement (Consol)								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**44,275**	**41,325**	**45,344**	**60,159**	**71,472**	**70,716**	**79,225**	**89,188**
Change (%)	(4.1)	(6.7)	9.7	32.7	18.8	(1.1)	12.0	12.6
Cost of Services	28,964	27,162	28,453	37,415	45,944	44,315	49,357	55,564
Gross Profit	**15,311**	**14,163**	**16,891**	**22,744**	**25,528**	**26,402**	**29,868**	**33,624**
SG&A Expenses	9,352	8,056	8,675	12,501	12,500	13,261	14,419	16,232
EBITDA	**5,959**	**6,107**	**8,216**	**10,243**	**13,028**	**13,140**	**15,449**	**17,392**
% of Net Sales	13.5	14.8	18.1	17.0	18.2	18.6	19.5	19.5
Depreciation	1,878	1,944	1,923	2,566	2,666	2,816	3,169	3,568
EBIT	**4,081**	**4,163**	**6,293**	**7,677**	**10,362**	**10,324**	**12,280**	**13,824**
% of Net Sales	9.2	10.1	13.9	12.8	14.5	14.6	15.5	15.5
Other Income	734	684	687	-185	-499	62	158	178
PBT	**4,815**	**4,847**	**6,980**	**7,492**	**9,863**	**10,386**	**12,438**	**14,003**
Tax	1,076	1,133	1,761	1,723	2,314	2,401	2,845	3,202
Rate (%)	22.3	23.4	25.2	23.0	23.5	23.1	22.9	22.9
Minority interest	-13	0	0	0	-200	-37	0	0
Adjusted PAT	**3,726**	**3,714**	**5,219**	**5,769**	**7,349**	**7,948**	**9,594**	**10,800**
Change (%)	12.7	-0.3	40.5	10.5	27.4	8.1	20.7	12.6

Balance Sheet (Consol)								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	550	550	552	553	555	555	555	555
Reserves	25,059	29,023	30,614	34,114	42,026	45,120	48,958	53,278
Net Worth	**25,609**	**29,573**	**31,166**	**34,667**	**42,581**	**45,675**	**49,513**	**53,833**
Other liabilities	4,194	3,812	4,061	5,644	8,091	8,037	8,645	9,356
Loan	3,738	2,755	3,264	9,336	4,526	4,526	4,526	4,526
Capital Employed	**33,541**	**36,140**	**38,491**	**49,647**	**55,198**	**58,238**	**62,683**	**67,715**
Applications								
Gross Block	17,388	18,558	19,223	21,776	24,924	27,924	31,924	35,924
Less : Depreciation	9,712	10,779	11,959	14,525	17,191	20,007	23,176	26,744
Net Block	**6,909**	**7,181**	**6,787**	**7,251**	**7,733**	**7,917**	**8,748**	**9,180**
CWIP	800	113	134	27	16	16	16	16
Intangibles	6,800	7,191	6,662	21,413	21,089	21,089	21,089	21,089
Other assets	2,638	1,925	5,318	4,877	5,607	5,593	5,746	5,924
Curr. Assets	**24,650**	**28,518**	**28,972**	**31,913**	**35,591**	**42,343**	**47,290**	**53,450**
Current Investments	0	0	866	1,718	758	2,258	3,758	5,258
Debtors	7,262	8,026	7,333	11,271	12,617	12,012	13,457	15,150
Cash & Bank Balance	8,995	14,408	12,157	6,215	4,848	10,888	10,823	11,369
Other Current Assets	8,393	6,084	8,616	12,709	17,368	17,184	19,252	21,673
Current Liab. & Prov	**8,256**	**8,788**	**9,382**	**15,834**	**14,838**	**18,720**	**20,205**	**21,944**
Trade payables	3,729	4,532	5,259	7,142	6,878	10,656	11,938	13,439
Other liabilities	4,150	3,872	3,709	7,555	6,816	6,932	6,999	7,077
Provisions	377	384	414	1,137	1,144	1,132	1,268	1,428
Net Current Assets	**16,394**	**19,730**	**19,590**	**16,079**	**20,753**	**23,623**	**27,085**	**31,506**
Application of Funds	**33,541**	**36,140**	**38,491**	**49,647**	**55,198**	**58,238**	**62,683**	**67,715**

Financials and valuations

Ratios (Consol)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	**33.8**	**33.8**	**47.8**	**52.4**	**66.9**	**71.9**	**86.7**	**97.7**
Cash EPS	50.8	51.5	65.3	75.6	91.1	97.3	115.4	129.9
Book Value	232.0	269.1	285.1	314.6	387.5	413.0	447.7	486.7
DPS	27.0	24.5	24.0	26.0	30.0	43.1	52.0	58.6
Payout (%)	80.0	72.5	50.3	49.7	44.9	60.0	60.0	60.0
Valuation (x)								
P/E ratio	58.1	58.0	41.1	37.5	29.3	27.3	22.6	20.1
Cash P/E ratio	38.6	38.1	30.0	25.9	21.5	20.1	17.0	15.1
EV/EBITDA ratio	35.4	33.4	24.9	21.2	16.5	15.8	13.4	11.8
EV/Sales ratio	4.8	4.9	4.5	3.6	3.0	2.9	2.6	2.3
Price/Book Value ratio	8.5	7.3	6.9	6.2	5.1	4.7	4.4	4.0
Dividend Yield (%)	1.4	1.2	1.2	1.3	1.5	2.2	2.7	3.0
Profitability Ratios (%)								
RoE	14.6	13.5	17.2	17.5	18.3	16.9	19.0	19.8
RoCE	10.6	9.9	13.6	14.7	16.1	14.4	16.1	16.8
Turnover Ratios								
Debtors (Days)	63	68	62	68	64	62	62	62

Cash Flow Statement (Consol) **(INR m)**

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	5,496	5,872	7,318	9,024	9,869	10,801	12,763	14,368
Cash for Working Capital	328	2,686	-973	-3,485	-3,190	4,508	-1,572	-1,841
Net Operating CF	**5,824**	**8,558**	**6,345**	**5,539**	**6,679**	**15,309**	**11,190**	**12,527**
Net Purchase of FA	-2,138	-949	-626	-625	-782	-3,000	-4,000	-4,000
Free Cash Flow	**3,686**	**7,609**	**5,719**	**4,914**	**5,897**	**12,309**	**7,190**	**8,527**
Net Purchase of Invest.	568	-58	-3,197	-9,675	-4,545	-1,500	-1,500	-1,500
Net Cash from Invest.	**-1,570**	**-1,007**	**-3,823**	**-10,300**	**-5,327**	**-4,500**	**-5,500**	**-5,500**
Proc. from equity issues	17	37	121	79	146	0	0	0
Proceeds from LTB/STB	-916	-2,134	-1,994	1,458	237	0	0	0
Dividend Payments	-3,564	-10	-2,952	-2,630	-3,058	-4,769	-5,756	-6,480
Cash Flow from Fin.	**-4,463**	**-2,107**	**-4,825**	**-1,093**	**-2,675**	**-4,769**	**-5,756**	**-6,480**
Exchange difference	131	-31	52	-88	-44	0	0	0
Net Cash Flow	**-78**	**5,413**	**-2,251**	**-5,942**	**-1,367**	**6,040**	**-66**	**547**
Opening Cash Bal.	**9,073**	**8,995**	**14,408**	**12,157**	**6,215**	**4,848**	**10,888**	**10,823**
Add: Net Cash	-78	5,413	-2,251	-5,942	-1,367	6,040	-66	547
Closing Cash Bal.	**8,995**	**14,408**	**12,157**	**6,215**	**4,848**	**10,888**	**10,823**	**11,369**

Zensar

BSE SENSEX	S&P CNX
81,560	24,936

Bloomberg	ZENT IN
Equity Shares (m)	227
M.Cap.(INRb)/(USDb)	173.3 / 2.1
52-Week Range (INR)	840 / 456
1, 6, 12 Rel. Per (%)	-3/18/11
12M Avg Val (INR M)	925

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	54	59	65
EBIT Margin (%)	14.2	14.8	15.3
PAT	6.4	7.2	8.2
EPS (INR)	28.1	31.4	35.7
EPS Gr. (%)	-3.4	11.5	14.0
BV/Sh. (INR)	177.4	200.2	226.2
Ratios			
RoE (%)	16.9	16.7	16.9
RoCE (%)	14.3	14.6	14.8
Payout (%)	24.0	24.0	24.0
Valuations			
P/E (x)	27.2	24.4	21.4
P/BV (x)	4.3	3.8	3.4
EV/EBITDA (x)	18.1	15.3	13.0
Div Yield (%)	0.9	1.0	1.1

CMP: INR764 TP: INR760 (-1%) Neutral

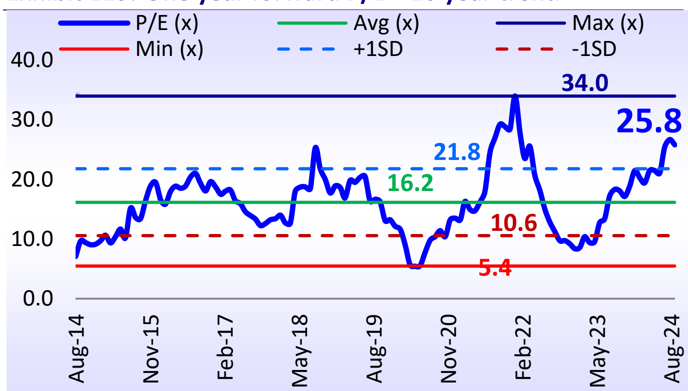
We like Zensar's exposures to banking and manufacturing, but are slightly vary of the high exposure to hi-tech, which could be weaker for longer. We also expect margins to be largely range bound. Its ecosystem partnership with Guidewire is key, whereas it also has moderately strong partnerships with Azure, Oracle, Salesforce, etc. Its key business lines include application services and data, which face less automation threat in the short to medium term.

- **Industry Exposure (3/5):** high exposure to Hi-tech, which could be weaker for longer; BFS exposure ideal and could help in resilience.
- **Margin Expansion Scope (3/5):** Margins have room for recovery ahead of them, but balancing margin recovery with growth could be a tricky ask.
- **Partnerships (3/5):** Key ecosystem partnerships: Azure, Oracle, Salesforce, and Guidewire.
- **Automation Threat (5/5):** Low exposure to BPO, high exposure to SaaS based application services service lines, and a growing data engineering business.
- **Client Strategies (5/5):** Good balance between client hunting and client mining.
- **Technology Readiness (3/5):** Registered partner with next-gen platforms such as Databricks.

Valuation and Estimates

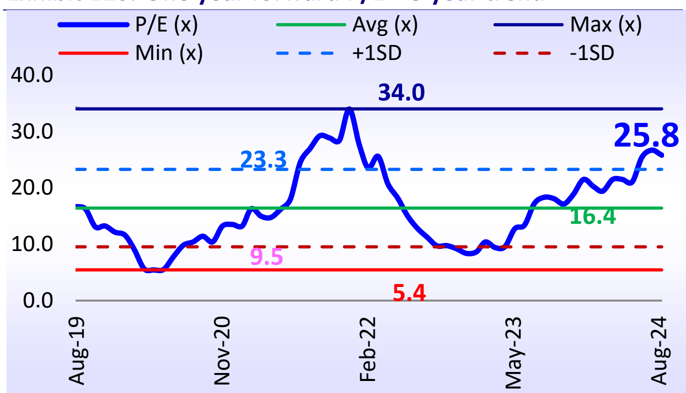
- We believe company's exposure to Hi-tech vertical could continue to drag growth in the near term, however BFS is recovering and expect this to partially offset hi-tech weakness. We introduce FY27 estimates in the note and roll over to Sep'26E EPS. **Reiterate Neutral** with a revised TP of INR760 (based on 23x Sep'26E EPS).

Exhibit 119: One year forward P/E – 10 year trend



Source: MOFSL, Company

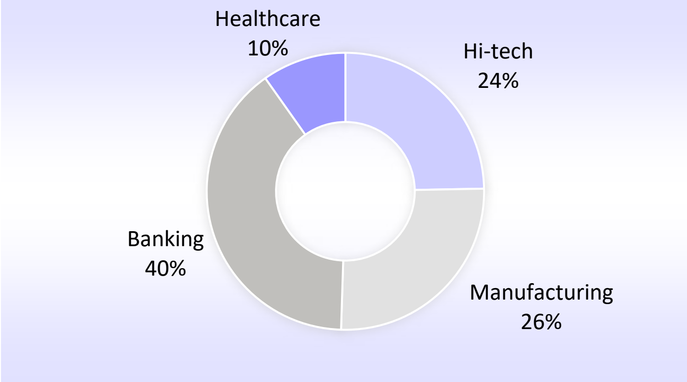
Exhibit 120: One year forward P/E – 5 year trend



Source: MOFSL, Company

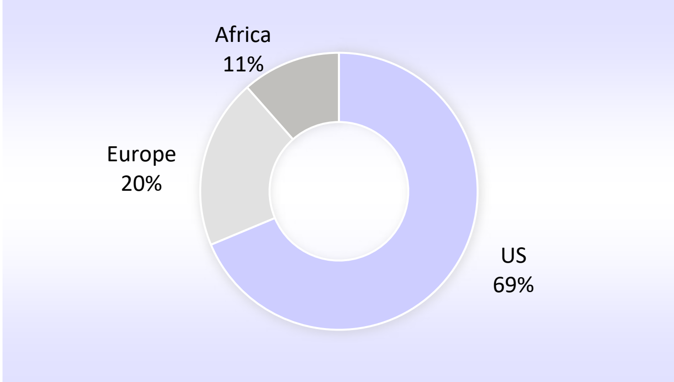
Story in Charts

Exhibit 121: Vertical exposure in 1QFY25



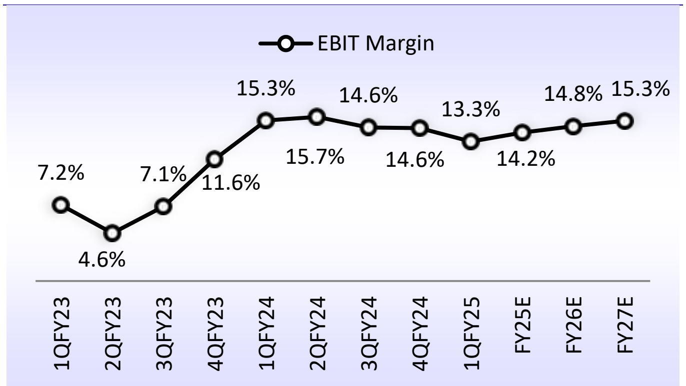
Source: MOFSL, Company

Exhibit 122: Geographical break-up in 1QFY25



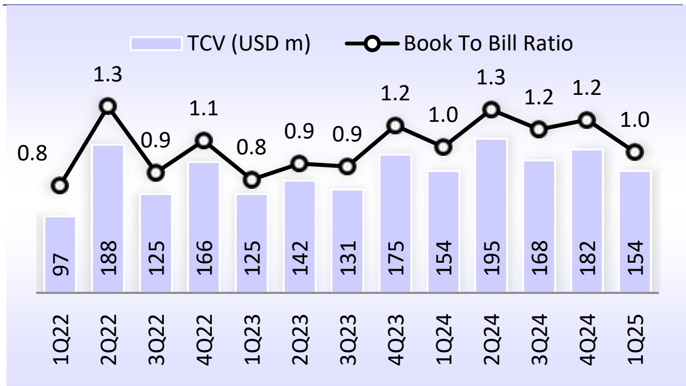
Source: MOFSL, Company

Exhibit 123: EBIT margin is expected to clock 15.3% by FY27



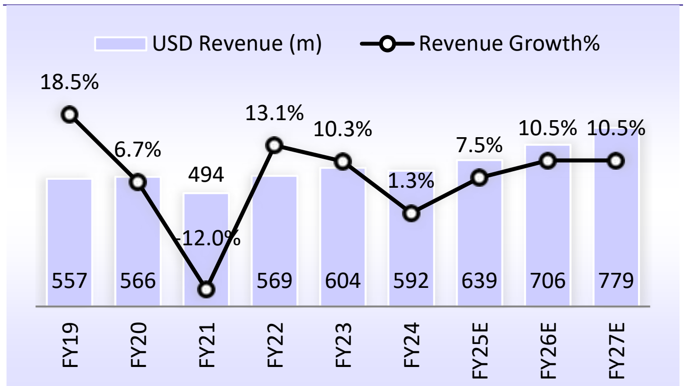
Source: MOFSL, Company

Exhibit 124: : Total TCV reached USD154m in 1QFY25



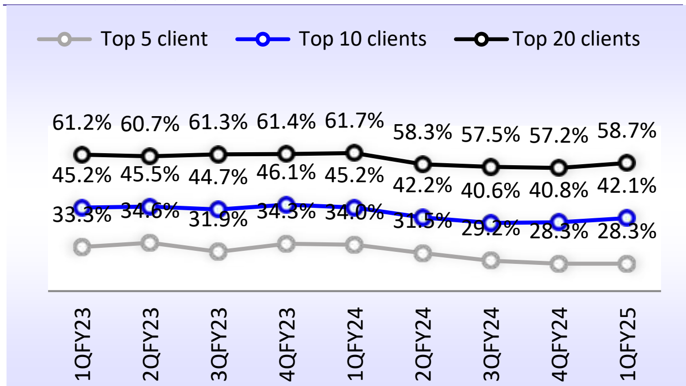
Source: MOFSL, Company

Exhibit 125: Revenue likely to grow at 7.5%/10.5%/10.5% in FY25/FY26/FY27



Source: MOFSL, Company

Exhibit 126: Top 5 clients contributed 28% of revenue in 1Q



Source: MOFSL, Company

Financials and valuations

Income Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sales	**40,102**	**36,681**	**42,437**	**48,483**	**49,018**	**53,670**	**59,276**	**65,477**
Change (%)	2.9	(8.5)	15.7	14.2	1.1	9.5	10.4	10.5
Cost of Services	28,756	24,417	29,214	35,000	33,434	36,505	39,715	43,635
Gross Profit	**11,347**	**12,264**	**13,223**	**13,483**	**15,584**	**17,165**	**19,561**	**21,842**
SG&A Expenses	6,310	5,422	6,659	7,960	6,869	8,532	9,662	10,623
EBITDA	**5,037**	**6,842**	**6,564**	**5,523**	**8,715**	**8,633**	**9,899**	**11,219**
% of Net Sales	12.6	18.7	15.5	11.4	17.8	16.1	16.7	17.1
Depreciation	1,567	1,732	1,849	1,830	1,338	1,038	1,152	1,224
EBIT	**3,470**	**5,109**	**4,715**	**3,693**	**7,377**	**7,595**	**8,747**	**9,995**
% of Net Sales	8.7	13.9	11.1	7.6	15.0	14.2	14.8	15.3
Interest	605	536	354	278	209	245	296	327
Other Income	435	367	907	642	1,583	1,177	1,067	1,179
Forex	449	-113	470	386	5	-19	0	0
PBT	**3,749**	**4,828**	**5,738**	**4,443**	**8,756**	**8,507**	**9,518**	**10,846**
Tax	1,038	1,261	1,525	1,166	2,107	2,079	2,351	2,679
Rate (%)	27.7	26.1	26.6	26.2	24.1	24.4	24.7	24.7
Minority Interest	82	70	53	0	0	0	0	0
Adjusted PAT	**2,629**	**3,497**	**4,160**	**3,277**	**6,649**	**6,428**	**7,167**	**8,167**
Change (%)	-18.9	33.0	19.0	-21.2	102.9	-3.3	11.5	14.0

Balance Sheet								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Share Capital	451	451	452	453	453	453	453	453
Reserves	20,900	23,423	26,417	29,309	35,166	39,802	44,970	50,860
Net Worth	**21,351**	**23,874**	**26,869**	**29,762**	**35,619**	**40,255**	**45,423**	**51,313**
Loans	2,886	-	0	0	0	0	0	0
Other liabilities	4,008	3,526	3,544	2,866	2,319	2,319	2,319	2,319
Capital Employed	**28,244**	**27,401**	**30,413**	**32,628**	**37,938**	**42,574**	**47,742**	**53,632**
Net Block	**13,340**	**11,330**	**12,858**	**11,735**	**10,393**	**10,155**	**9,804**	**9,379**
Other LT Assets	2,039	3,076	3,226	6,291	10,144	10,286	10,456	10,645
Curr. Assets	**20,576**	**19,928**	**22,628**	**23,184**	**25,941**	**31,474**	**37,743**	**44,920**
Current Investments	2,670	7,410	5,141	7,045	9,315	11,315	13,315	15,315
Inventories	941	0	0	0	0	0	0	0
Debtors	6,656	5,888	7,967	7,298	7,320	8,822	9,744	10,763
Cash & Bank Balance	5,258	3,492	5,054	4,744	4,432	6,000	8,791	12,331
Other Current Assets	5,051	3,138	4,466	4,097	4,874	5,337	5,894	6,511
Current Liab. & Prov	**7,711**	**6,933**	**8,299**	**8,582**	**8,540**	**9,341**	**10,261**	**11,313**
Trade payables	2,650	2,201	3,164	2,772	3,095	3,379	3,676	4,039
Other liabilities	5,061	4,732	5,135	5,810	5,445	5,962	6,584	7,273
Net Current Assets	**12,865**	**12,994**	**14,329**	**14,602**	**17,401**	**22,133**	**27,483**	**33,608**
Application of Funds	**28,245**	**27,400**	**30,413**	**32,628**	**37,938**	**42,574**	**47,742**	**53,632**

Financials and valuations

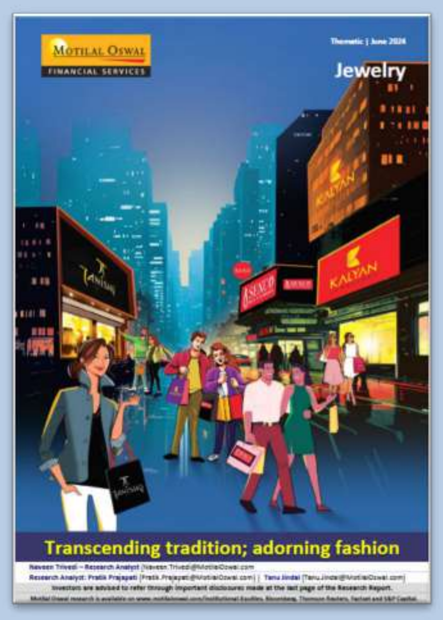
Ratios								
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
EPS	**11.7**	**15.3**	**18.3**	**14.4**	**29.1**	**28.1**	**31.4**	**35.7**
Cash EPS	18.6	22.9	26.5	22.4	35.0	32.7	36.4	41.1
Book Value	96.3	105.7	119.0	131.5	157.3	177.4	200.2	226.2
DPS	2.8	6.4	5.0	5.0	7.0	6.8	7.5	8.6
Payout (%)	24.0	41.8	27.3	34.8	24.0	24.0	24.0	24.0
Valuation (x)								
P/E ratio	65.4	49.9	41.7	53.2	26.2	27.2	24.4	21.4
Cash P/E ratio	41.0	33.4	28.9	34.1	21.8	23.4	21.0	18.6
EV/EBITDA ratio	32.6	23.6	24.7	29.2	18.3	18.1	15.3	13.0
EV/Sales ratio	4.1	4.4	3.8	3.3	3.2	2.9	2.6	2.2
Price/Book Value ratio	7.9	7.2	6.4	5.8	4.9	4.3	3.8	3.4
Dividend Yield (%)	0.4	0.8	0.7	0.7	0.9	0.9	1.0	1.1
Profitability Ratios (%)								
RoE	12.9	15.5	16.4	11.6	20.3	16.9	16.7	16.9
RoCE	10.6	14.1	12.0	8.6	15.9	14.3	14.6	14.8
Turnover Ratios								
Debtors (Days)	61	59	69	55	55	60	60	60
Fixed Asset Turnover (x)	3.5	3.0	3.5	3.9	4.4	5.2	5.9	6.8

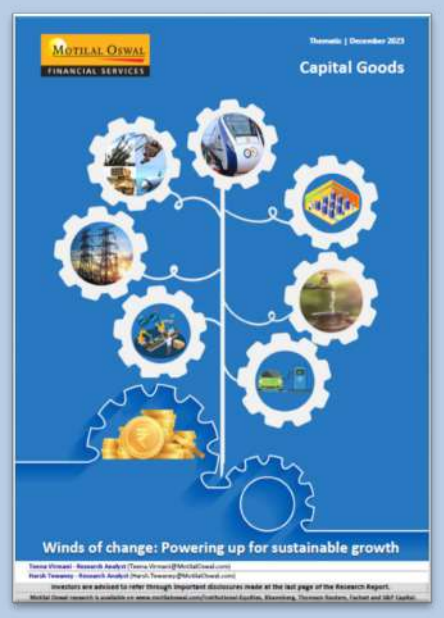
Cash Flow Statement								(INR m)
Y/E March	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
CF from Operations	4,508	5,432	5,774	5,030	6,901	6,554	7,548	8,540
Cash for Working Capital	2,354	3,148	-2,427	2,113	-480	-1,306	-730	-773
Net Operating CF	**6,862**	**8,580**	**3,347**	**7,143**	**6,421**	**5,249**	**6,818**	**7,767**
Net Purchase of FA	-781	-393	-373	-334	-151	-800	-800	-800
Free Cash Flow	**6,081**	**8,187**	**2,974**	**6,809**	**6,270**	**4,449**	**6,018**	**6,967**
Net Purchase of Invest.	-2,372	-4,890	400	-4,941	-4,600	-842	-933	-821
Net Cash from Invest.	**-3,153**	**-5,283**	**27**	**-5,275**	**-4,751**	**-1,642**	**-1,733**	**-1,621**
Proc. from equity issues	15	15	32	4	1	0	0	0
Proceeds from LTB/STB	-502	-4,505	-1,260	-1,058	-726	-245	-296	-327
Dividend Payments	-1,228	-271	-881	-1,132	-1,246	-1,793	-1,999	-2,277
Cash Flow from Fin.	**-1,714**	**-4,761**	**-2,109**	**-2,186**	**-1,971**	**-2,038**	**-2,295**	**-2,605**
Exchange difference	4	-20	14	8	-11	0	0	0
Net Cash Flow	**1,999**	**-1,483**	**1,279**	**-310**	**-312**	**1,568**	**2,790**	**3,541**
Opening Cash Bal.	**3,259**	**5,258**	**3,775**	**5,054**	**4,744**	**4,432**	**6,000**	**8,790**
Add: Net Cash	1,999	-1,483	1,279	-310	-312	1,568	2,790	3,541
Closing Cash Bal.	**5,258**	**3,775**	**5,054**	**4,744**	**4,432**	**6,000**	**8,790**	**12,331**

NOTES

REPORT GALLERY

RECENT STRATEGY/THEMATIC REPORTS





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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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