

IT Q1FY21 RESULT PREVIEW

IT Services sector is likely to report muted growth / de-growth in Q1 FY21 amid uncertainty due to COVID outbreak and lockdown. However IT companies had transferred considerable resources to 'work-from-home' (WFH) to ensure business continuity which helps them to reduce the losses as compared to other industries.

We are expecting IT services to report revenue de-growth in US\$ terms between 5% - 9% on QoQ basis. In INR terms we are expecting revenue de-growth of 1.5% to 5% on QoQ basis. Margins are likely decline for all companies between 60bps – 260bps, due to lower revenue and decline in utilization which is partly offset by INR depreciation, lower travel costs. Companies providing ER&D Services (Cyient, HCL Tech) are likely to hit harder, because of the discretionary nature of their business.

Key Monitarables: Management commentary on visibility going ahead on various issues viz, 1) delayed ramp up on new deal wins 2) Suspension of H1B visas in North America 3) Rising subcontractor cost. 4) Pricing pressure on realization.

Sector and companies expectations in Q1FY21: We are expecting large cap IT companies to report lower negative impact due to healthy deal wins, large active number of clients. On the other hand Mid-cap IT companies are likely to face higher adverse impact higher than large cap IT companies due to higher dependency.

TCS: We are expecting TCS to report a revenue decline of 6% QoQ in CC terms and 2.1% QoQ decline in INR terms, Operating margins to decline by 101 bps. Key things to watch are deal TCV/pipeline, pricing scenario, and outlook on growth/margins/DSO days.

Infosys: We expect revenue decline of -5.1% in CC terms. Margins are expected to contract by 120bps QoQ. We do NOT expect Infosys to provide FY21 revenue growth/margin guidance while we watch for deal TCVs and pipeline, pricing scenario, attrition and outlook on growth/margins/DSO days.

HCL Tech: We are expecting HCL Tech to report a revenue decline of 8% QoQ in CC terms and 3.7% QoQ decline in INR terms. We are expecting operating margins to decline by 64 bps. Key things to watch are deal TCV/ deal pipeline, pricing scenario, and outlook on growth/margins/DSO days.

Tech Mahindra: We expect Tech M to report revenue decline of -8% in CC terms. Margins are expected to contract by 83bps QoQ. Watch out for deal TCVs and pipeline from communication vertical, pricing scenario, attrition, Commentary on growth outlook on margins/DSO day and 5G rollout.

L&T Infotech: We are expecting LTI to report revenue decline of 4.5% QoQ in CC terms and 2.4% QoQ decline in INR terms. We are expecting operating margins to decline by 15 bps. Key things to watch are on vertical commentary on E&U and Manufacturing verticals.

Cyient: We expect revenue decline of -12% in CC terms. Margins are expected to contract by 50bps QoQ. Key things to watch are vertical commentary on Aerospace & Defence and DLM business.

Affle Ltd: We are expecting Affle to report revenue decline of 2.5% QoQ in CC terms. We are expecting operating margins to decline by 25 bps. Mobile ad spends will be key moniterables going ahead.

Zensar Technologies: We are expecting Zensar to report revenue decline of 5.2% on QoQ in CC terms and 3.1% QoQ decline in rupee terms. We are expecting operating margins to decline by 93 bps. Watch out for deal TCVs and pipeline, pricing scenario, attrition and outlook on growth/margins/DSO days.

The key are as follows:

- **Our top positive plays: TCS, Infosys, L&T Infotech, Mindtree**
- **Our top negative plays: Cyient, Zensar Technologies**

Information Technology

Year end March (INR cr.)	Q1FY21E	Q4FY20	QoQ (%)	Q1FY20	YoY (%)	Result expectations
TCS						
Revenues	39,100	39,946	-2.1%	38,172	2.4%	<ul style="list-style-type: none"> → We are expecting decline in top line due to global lockdown in the month of April and May. → Margins may be impacted largely due to pricing pressure → Management commentary on new deal ramp up and visibility going ahead is key thing to watch
EBITDA	10,350	10,976	-5.7%	10,037	3.1%	
EBITDA margin (%)	26.5	27.5	-101	26.3		
PAT	7,920	8,049	-1.6%	8,131	-2.6%	
EPS (INR)	20.4	21.5	-5.1%	21.7	-6.0%	
Infosys						
Revenues	22,700	23,267	-2.4%	21,803	4.1%	<ul style="list-style-type: none"> → We are expecting revenue to impact due to global lockdown and uncertainty → Margins may be impacted largely due to pricing pressure & Lower utilization → One can expect flat or no new deal closure due to COVID 19 outbreak.
EBITDA	5,250	5,676	-7.5%	5,152	1.9%	
EBITDA margin (%)	23.1	24.4	-127	23.6		
PAT	3,950	4,321	-8.6%	3,798	4.0%	
EPS (INR)	9.5	10.5	-9.5%	9.4	1.1%	
HCL Tech						
Revenues	17,900	18,590	-3.7%	16,425	9.0%	<ul style="list-style-type: none"> → Delay in ramp up of new projects, Lower ER&D business likely to impact on the top line, → Operating margins may declined due to pricing pressure but partly offset by INR depreciation , lower travel cost → One can expect new deal closure to be remain low due to COVID 19 outbreak. → Management commentary on business uncertainty is key thing to watch
EBITDA	4,430	4,720	-6.1%	3,400	30.3%	
EBITDA margin (%)	24.7	25.4	-64	20.7		
PAT	2,900	3,153	-8.0%	2,220	30.6%	
EPS (INR)	10.3	11.2	-8.0%	9.5	8.4%	

Information Technology (Cont'd)

Year end March (INR cr.)	Q1FY21E	Q4FY20	QoQ (%)	Q1FY20	YoY (%)	Result expectations
Tech Mahindra						
Revenues	8,970	9,490	-5.5%	8,653	3.7%	
EBITDA	1,200	1,348	-11.0%	1,314	-8.7%	→ We are expecting de growth in revenue because of the global lockdown and larger exposure in Europe
EBITDA margin (%)	13.4	14.2	-83	15.2		→ Operating margins may affect marginally due to lower utilization
PAT	910	1,021	-10.9%	929	-2.0%	→ Management commentary on European spending and 5G rollout
EPS (INR)	12.1	13.1	-7.6%	12.8	-5.5%	
LTI						
Revenues	2,940	3,012	-2.4%	2,485	18.3%	→ We are expecting de growth in revenue because of the global lockdown
EBITDA	560	578	-3.1%	458	22.3%	→ Operating margins can expand due to rupee Depreciation, lower travel cost.
EBITDA margin (%)	19	19.2	-15	18.4		→ Vertical commentary in manufacturing and E&U should be key things to see
PAT	395	427	-7.6%	356	11.1%	
EPS (INR)	22.5	24.3	-7.4%	20.7	8.6%	
Cyient Ltd.						
Revenues	928	1,074	-13.6%	1,089	-14.8%	
EBITDA	115	138	-16.8%	145	-20.5%	→ We are expecting muted growth in ER&D and DLM business growth
EBITDA margin (%)	12.4	12.9	-4803.0%	13.3		→ AR&D business will likely to report de-growth due to lockdown
PAT	48	45	6.2%	91	-47.0%	→ Operating margins likely to decline due to overall pricing pressure
EPS (INR)	4.4	4.1	6.3%	8.1	-46.2%	

Information Technology (Cont'd)

Year end March (INR cr.)	Q1FY21E	Q4FY20	QoQ (%)	Q1FY20	YoY (%)	Result expectations
Zensar Technologies						
Revenues	986	1,018	-3.10%	1,066	-7.50%	<ul style="list-style-type: none"> → We are expecting 3.1% QoQ de-growth in revenue , we are also expecting recovery in digital business → Operating margins may affect marginally due to lower utilization → One can expect flat or no new deal closure due to COVID 19 outbreak.
EBITDA	128	142	-9.6%	151	-15.4%	
EBITDA margin (%)	13	13.9	-93	14.2		
PAT	105	114	-7.6%	89	17.8%	
EPS (INR)	16.7	18.2	-8.2%	14.4	16.0%	
SIS						
Revenues	2,420	2,210	9.5%	2,008	20.5%	<ul style="list-style-type: none"> → Strong demand for sanitation and security guards will help to post better results → Margins are likely to impact due to lower utilization → One must see how they are ramp up International business and domestic business
EBITDA	150	138	8.7%	125	20.0%	
EBITDA margin (%)	6.2	6.2	-4.6	6.2		
PAT	115	107	7.1%	75	53.3%	
EPS (INR)	10.2	7.3	39.7%	10	1.7%	
Take Solutions						
Revenues	365	371	-1.50%	582	-37.3%	<ul style="list-style-type: none"> → lower Clinical trials will impact top line of the Take solutions → Management commentary on the clinical trials should be key thing to watch
EBITDA	62	-155	-1.4	110	-43.4%	
EBITDA margin (%)	17	-42	5,878	19		
PAT	25	-159	-115.7%	46	-45.7%	
EPS (INR)	2.8	-10.8	-125.9%	3.1	-9.1%	

Information Technology (Cont'd)

Year end March (INR cr.)	Q1FY21E	Q4FY20	QoQ (%)	Q1FY20	YoY (%)	Result expectations
Affle Ltd						
Revenues	78	80	-2.5%	74	5.4%	<ul style="list-style-type: none"> ➔ Affle to report de- growth mainly due to lower ad spend from retail clients ➔ Earnings growth will be in line with EBITDA growth ➔ Business visibility going ahead and AD spending in domestic as well as international markets are key things to watch.
EBITDA	20	20	-1.0%	18	10.0%	
EBITDA margin (%)	25	25	38.5	24		
PAT	15	15	-2.0%	13	13.1%	
EPS (INR)	5.9	6.1	-2.3%	5.4	10.0%	

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