

Valuation Pulse – IT and ITeS industry

Q4 FY19



Foreword



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We are pleased to present the Valuation Pulse for the fourth quarter of FY19.

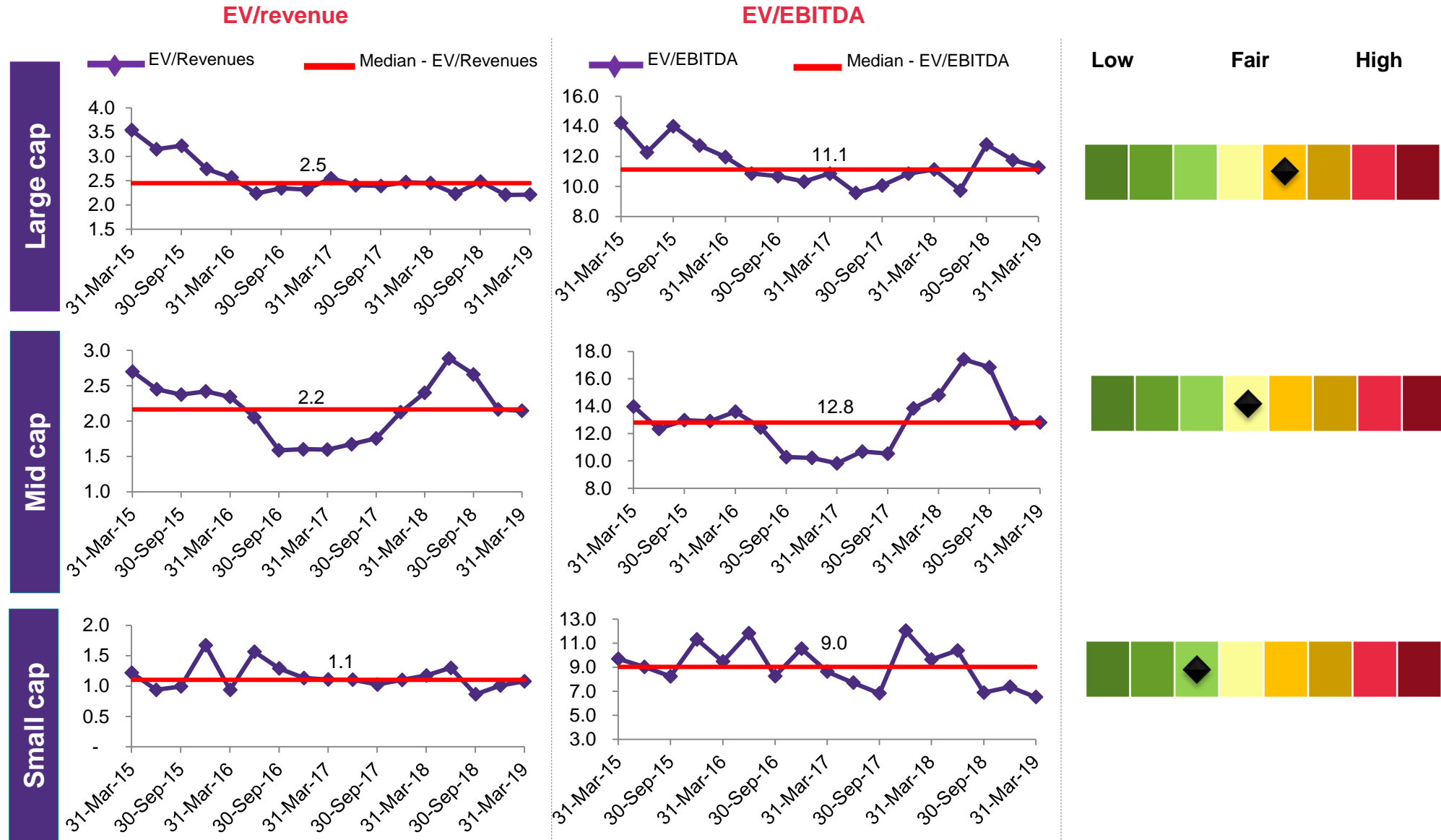
On a full year basis, fiscal year ending March 2019 saw most of the IT companies demonstrating a healthy growth and improved margins compared to FY18 on the back of improved global growth, rupee depreciation and increasing share of digital services. However, in the most recent quarter, i.e., Q4 of FY19, most of the IT companies witnessed sluggish growth, margin erosion due to increased localisation, attrition, etc., and muted forecast due to macroeconomic headwinds and concerns in the BFSI segment. This led to some softening in the valuation multiples of the IT companies, with most of the companies trading at or below their long-term average valuation multiples.

Engineering services companies also witnessed a decline in valuation multiples in Q4 due to a demand pushout in the aerospace vertical.

On the deals front, in FY19, IT companies continued their quest for acquiring digital capabilities through acquisitions. Tech Mahindra led the pack with the most number of acquisition in FY19, while HCL led in value terms. The SaaS, software solutions, predictive analytics and digital payments segments witnessed the most transaction activity in the last 12 months in volume terms. Further, FY19 saw some marquee transactions including HCL's acquisition of IBM's software products, which is the largest acquisition by an Indian IT company till date.

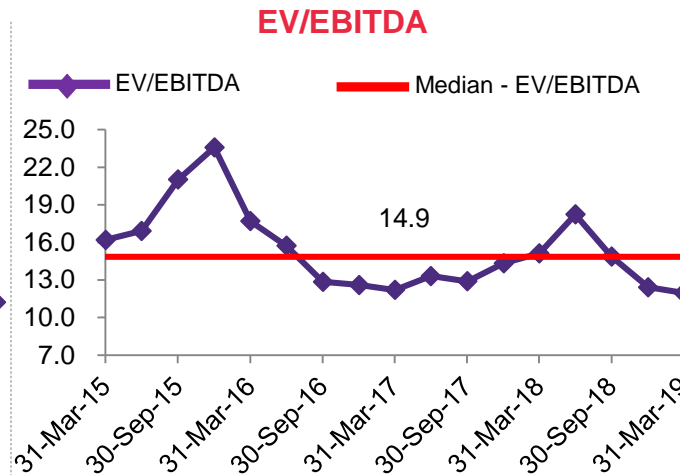
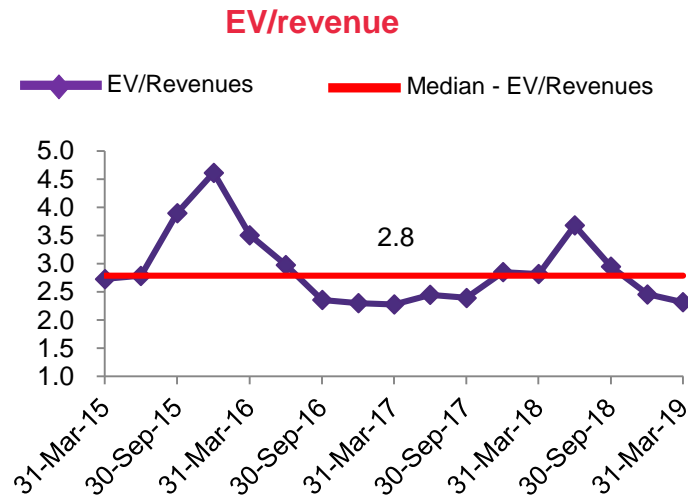
We hope you will find this publication insightful and informative.

Executive summary – Large, mid and small cap IT services



Executive summary – Other IT and ITeS segments

Engineering services



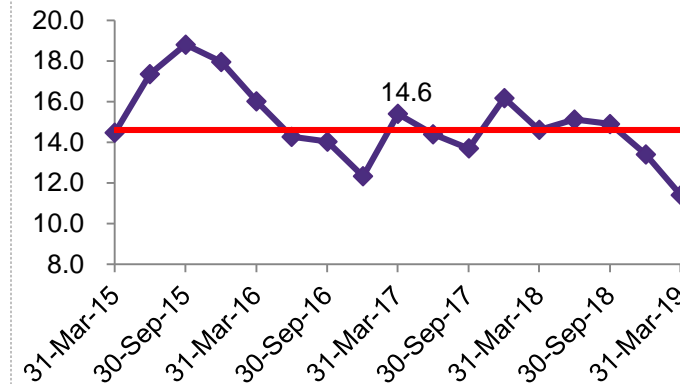
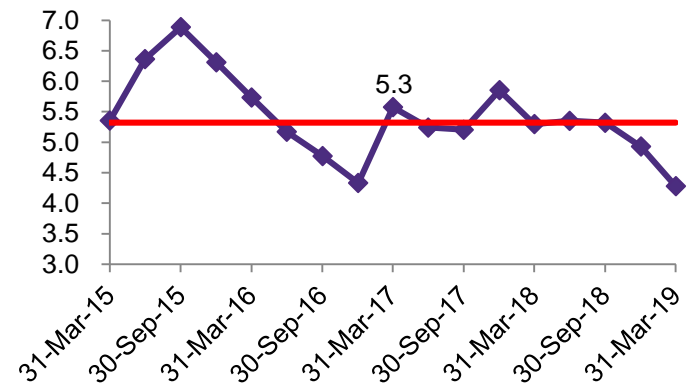
Low

Fair

High



Software products



Executive summary – Deal scenario: FY19

- The deal value in the IT and ITeS sector during April 2018 to March 2019 increased to \$5.5 billion with 106 transactions compared to \$3.4 billion with 120 transactions in FY18. In Q4 FY19, the deal value was recorded at \$1.3 billion with 35 transactions.
- Increase in the importance of cloud computing and cloud-based technologies has reflected in recent deal activity. SaaS and software solutions firms saw the most transaction activity in Q4 FY19 in volume terms followed by the IT consultancy, HR solutions and predictive analysis/AI segments. Q4 FY 19 also witnessed two investments in the niche area of blockchain technology.
- With an increase in the digital footprint and IT spending by clients, IT companies have shown an interest in acquiring design studios to further enhance their digital offerings and provide interactive customer experiences, which is evident from Wipro's acquisition of Syfte, TCS making its first digital acquisition (W12 Studios), Infosys's acquisition of Wongdoody and Ernst & Young LLP's acquisition of Fortune Cookie UX Design.
- Among the large cap IT companies, we observed that Tech Mahindra made the highest number of transactions in FY19
- HCL's acquisition of IBM's software products in Q3 FY19 for \$1.8 billion is the largest acquisition by an Indian IT company.

Executive summary – Other observations

- Historically, TCS has been the market leader and always traded at premium valuation multiples compared to its peers. One of the reasons for this premium is TCS's strategy of locally hiring skilled employees way before its peers to combat the problems of supply constraints.
- TCS, Infosys, Wipro and Tech Mahindra led the way with 31%-35% of their total revenues coming from digital offerings in Q4 FY19. In case of HCL Technologies, the digital revenues are classified differently when compared with its peers. Accordingly, based on the Mode 2, Next-Generation Services segment of HCL Technologies, the share of digital offering is around 19% of its revenues.
- Unlike other peer IT companies which are majorly focusing on increasing their digital footprint through acquisitions, HCL Technologies is following a different strategy by majorly investing in software products and IT services companies, which is reflected in its recent acquisitions in FY19 and its digital revenue mix.
- Most of the large cap companies witnessed a double-digit growth rate in FY19, reflecting a reviving outlook for the IT sector when compared with the single digit stagnated growth rate witnessed by these companies for the last two financial years.
- Though on an annual basis, the BFSI segment continued to record a higher growth rate, in Q4 FY19 there was sluggish growth for most of the large cap companies in the sector due to client-specific issues.

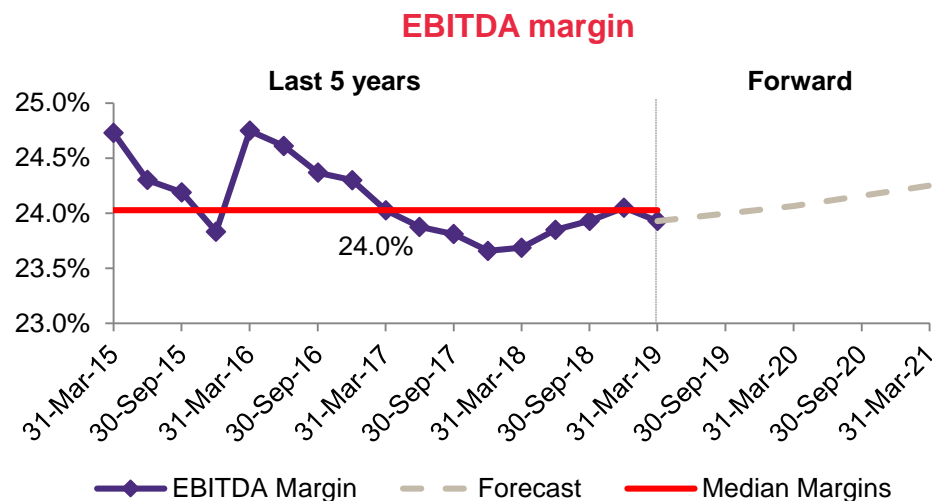
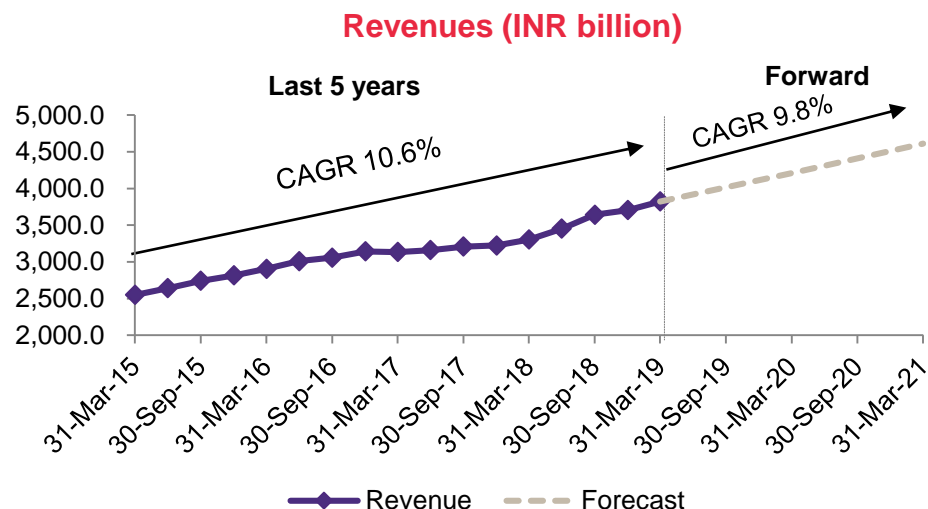
IT and ITeS industry – IT services

- We have analysed the valuation multiples of IT services companies and have segregated the companies into large, mid and small cap categories based on their current market capitalisation:

Large cap	Mid cap	Small cap
<ul style="list-style-type: none">• Tata Consultancy Services• Infosys• Wipro• HCL Technologies• Tech Mahindra	<ul style="list-style-type: none">• Mphasis• WNS (holdings)• Mindtree• Hexaware Technologies• Persistent Systems• eClerx Services	<ul style="list-style-type: none">• Sonata Software• Firstsource Solutions• Accelya Kale Solutions• Hinduja Global Solutions• NIIT• Mastek• Rolta India• Genesys International Corporation• Datamatics Global Services• Cigniti Technologies• Xchanging Solutions• Kellton Tech Solutions• Expleo Solutions• R Systems International

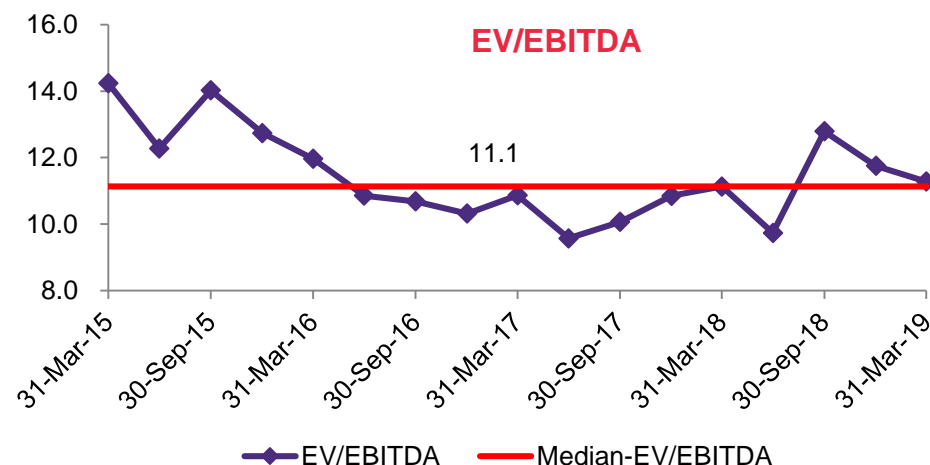
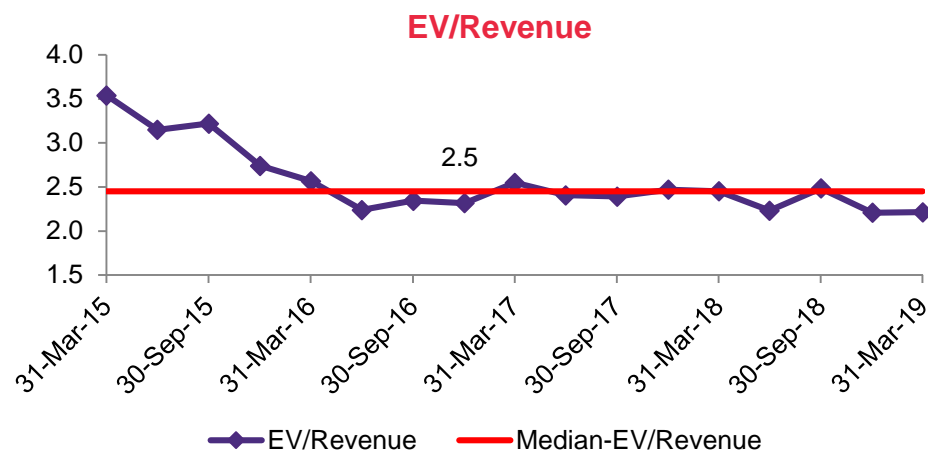
- For analysing companies for a period of five years, we have considered only those companies which were listed before 2014. Further, we have removed certain outlier companies based on various parameters.
- We have carried out the analysis based on the financial numbers of these companies in reported rupee currency. Further, for comparison purposes, we have presented the corresponding dollar numbers which are converted based on the 31 March 2019 exchange rate and do not represent reported dollar financial numbers.

Large cap – Revenue and EBITDA margin trend

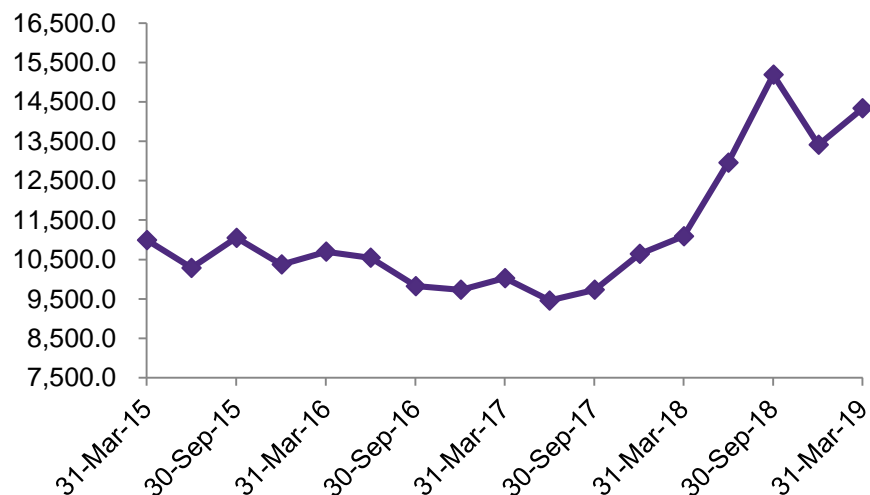


- On a quarterly basis, the revenues increased from INR 974.4 billion (\$14.0 billion) in December 2018 to INR 998.7 billion (\$14.4 billion) in March 2019 at a growth rate of 2.5%. However, for the same period, EBITDA margins decreased from 24.6% to 23.8%.
- On an annual basis, the revenues increased from INR 3,305.5 billion (\$47.5 billion) in March 2018 to INR 3,822.7 billion (\$55.0 billion) in March 2019 at a growth rate of 15.6%. Further, the EBITDA margins increased from 23.7% to 23.9% in the same period.
- The revenues are projected to increase to INR 4,611.9 billion (\$66.3 billion) by March 2021 at a CAGR of 9.8%. Based on the forward EBITDA estimates, EBITDA margins are expected to reach 24.2% by March 2021.
- On an annual basis, most of the large cap companies witnessed a double-digit growth rate (in rupee terms) for FY19. Driving the overall industry's trend, large companies are majorly benefiting from the increased spend by clients on digitisation/automation, which reflects a reviving outlook for the IT sector when compared with single digit stagnated growth rates recorded by these companies for the last two financial years.

Large cap – Historical multiples



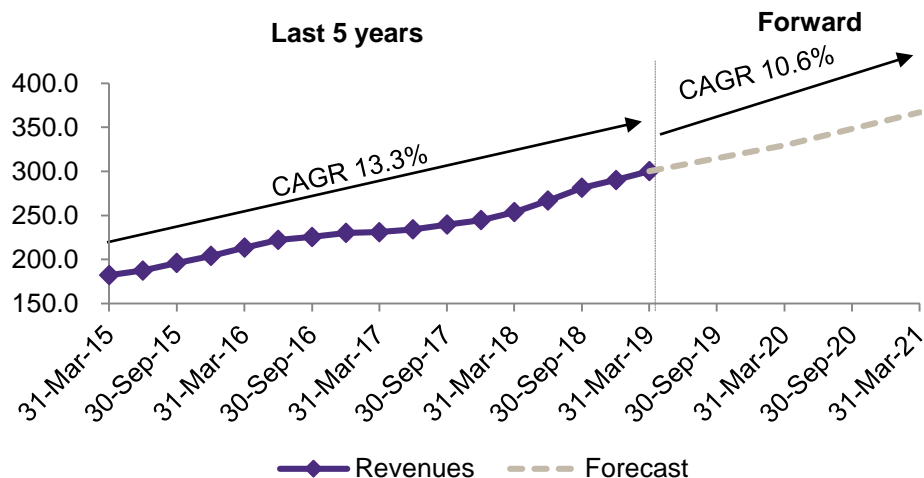
Market cap (INR billion)



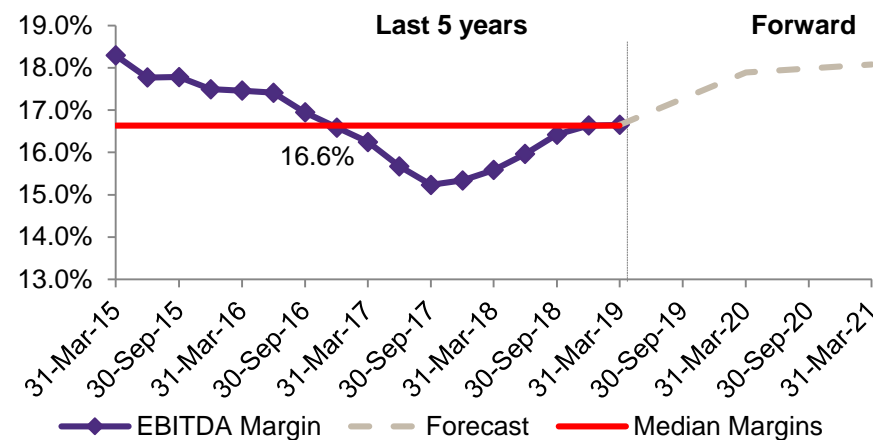
- The valuation multiples showed some softening in Q4 FY19 when compared with Q3 FY19 primarily on account of subdued QoQ revenue growth and lower EBITDA margins achieved in Q4 FY19. The pressure on margins in Q4 FY19 was mainly due to the following factors:
 - Sluggish growth in the BFSI sector for most of the large cap companies due to client-specific issues
 - Increase in sub-contracting costs and wage hikes to tackle rising attrition
 - Increased onsite mix, lack of skilled employees and continuing instability in H1B US Visa
- However, the overall industry is trying to tackle these challenges to improve or maintain the margin levels by taking measures such as focusing on overall cost optimisation by increasing the employee utilisation rates and automating the processes to the extent possible by increasing the usage of bots.

Mid cap – Revenue and EBITDA margin trend

Revenues (INR billion)

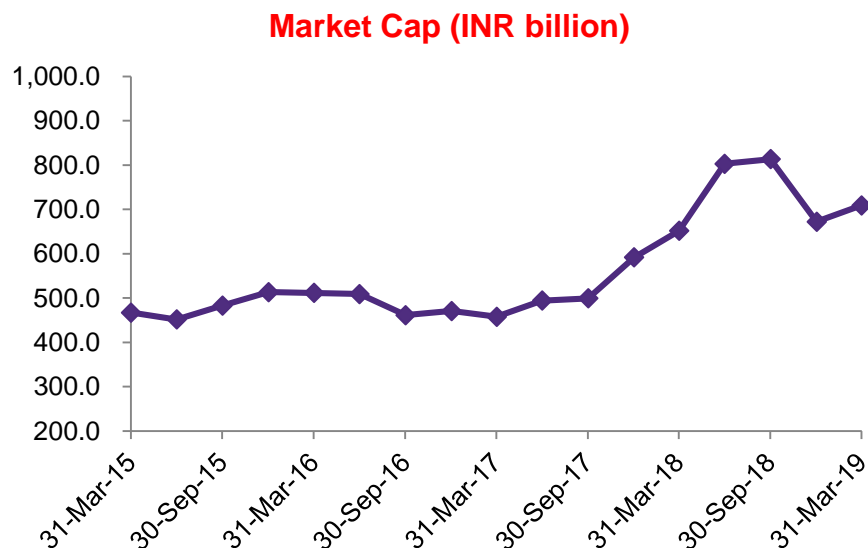
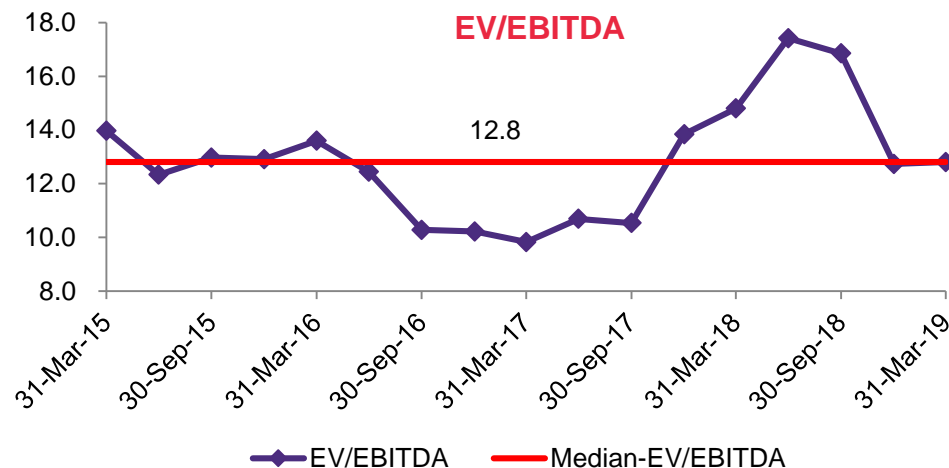
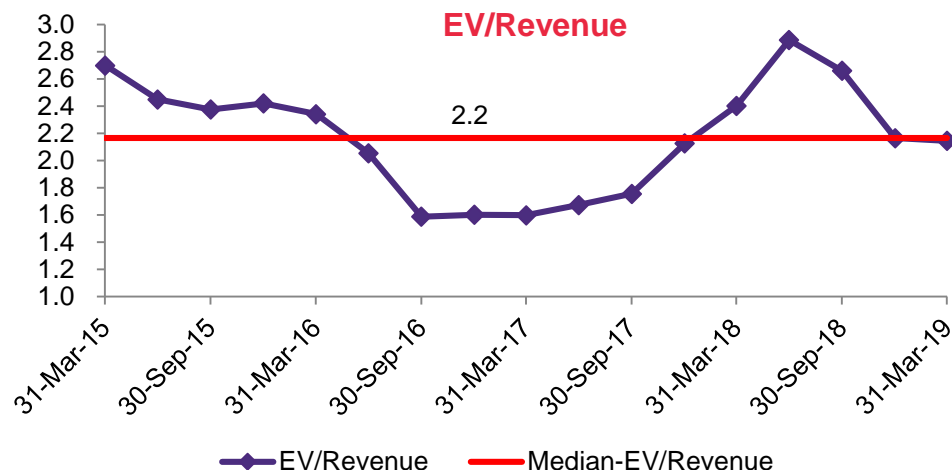


EBITDA margin



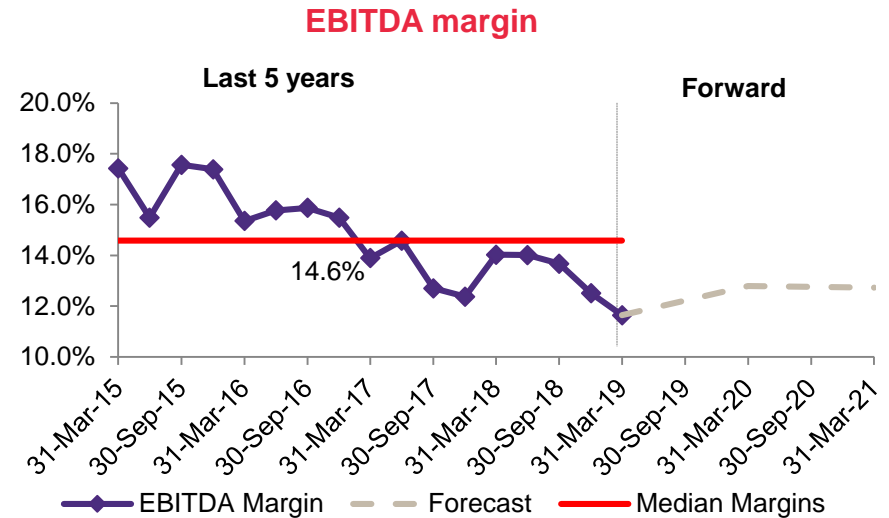
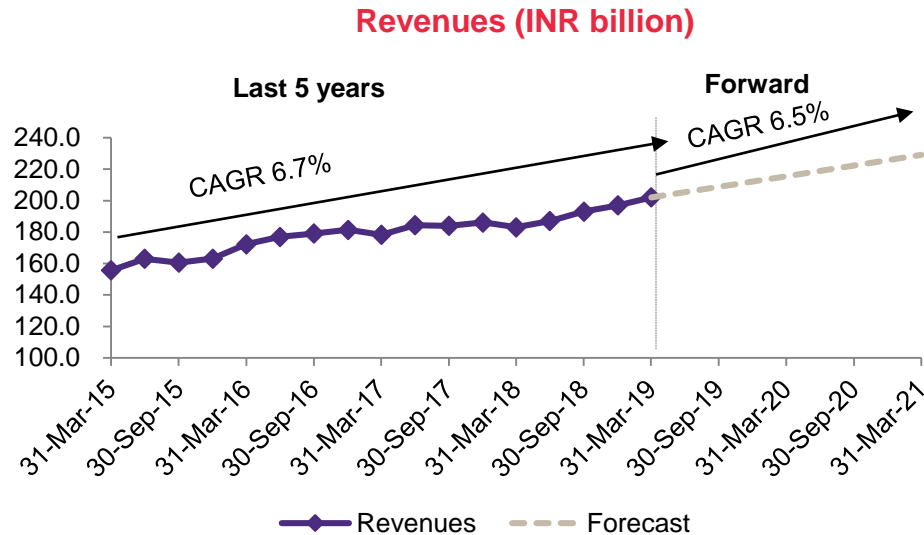
- On a quarterly basis, the revenues increased from INR 76.2 billion (\$1.10 billion) in December 2018 to INR 77.9 billion in March 2019 (\$1.12 billion) at a growth rate of 2.2%. However, for the same period, EBITDA margins decreased from 17.2% to 16.3%.
- On an annual basis, the revenues increased from INR 253.7 billion (\$3.6 billion) in March 2018 to INR 300.2 billion in March 2019 (\$4.3 billion) at a growth rate of 18.3%. Further, the EBITDA margins increased from 15.6% to 16.6%.
- Compared to revenues of large cap companies, the mid cap revenues are expected to increase at a faster pace of 10.6% and reach INR 367.1 billion (\$5.3 billion) by March 2021. Between March 2019 and March 2021, the margins are expected to improve by 1.4%, which is higher as compared to the 0.3% expected improvement for large cap companies.
- On an annual basis, mid cap companies saw the highest growth in revenue and EBITDA margins among all other IT and ITeS segments for FY19.

Mid cap – Historical multiples



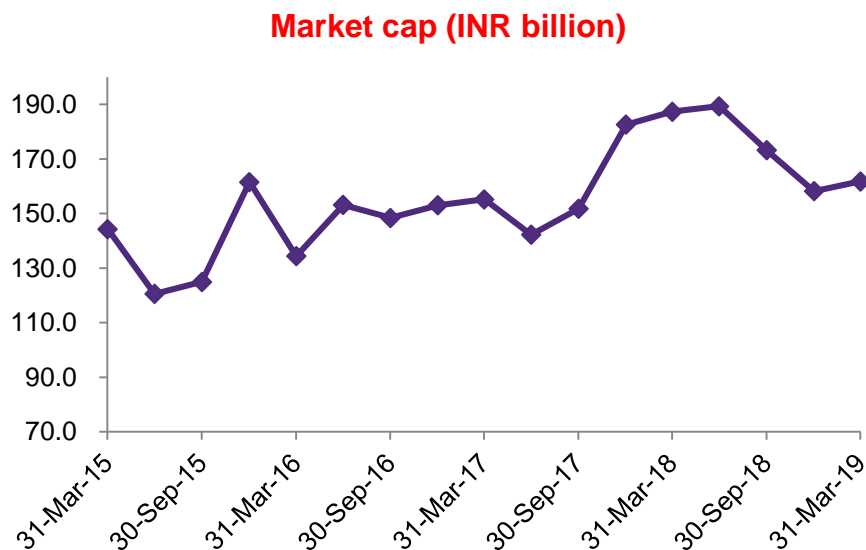
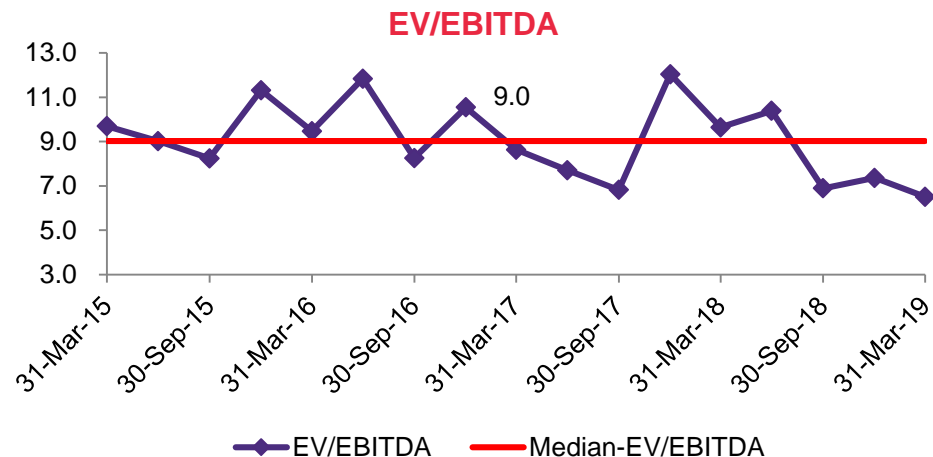
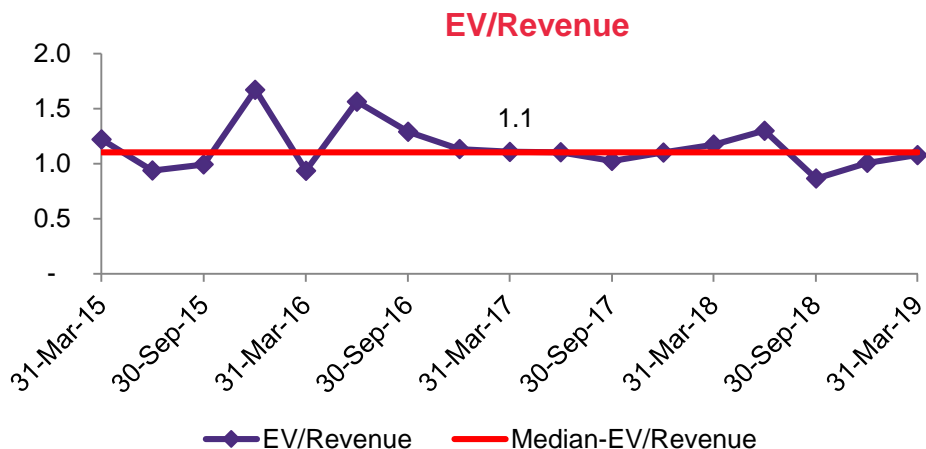
- EV/Revenue and EV/EBITDA multiples witnessed a flattish trend in Q4 FY19 due to reasons affecting large cap companies such as increase in sub-contracting cost and softening in one of the vital verticals (BFSI) due to some client-specific issues.
- The lower historical EBITDA margins of mid cap companies as compared to large cap ones are getting reflected in a lower median EV/Revenue multiple of 2.2x as compared to the median EV/Revenue multiple of 2.5x of large cap companies.
- As per the forward estimates, mid cap companies are expected to record a higher revenue growth and margin improvement compared to large cap and small cap companies.

Small cap – Revenue and EBITDA margin trend



- On a quarterly basis, the revenues decreased from INR 52.3 billion (\$0.8 billion) in December 2018 to INR 51.4 billion (\$0.7 billion) in March 2019, at a de-growth rate of -1.5%. Further the EBITDA margins decreased from 9.6% to 9.5% during the same period.
- On an annual basis, the revenues increased from INR 183.1 billion (\$2.6 billion) in March 2018 to INR 202.1 billion (\$2.9 billion) in March 2019, at a growth rate of 10.4%. Further, the EBITDA margins decreased from 14.0% to 11.6% in the same period.
- Revenues are expected to increase at a CAGR of 6.5% and reach approximately INR 229.1 billion (\$3.3 billion) in March 2021. The margins are expected to increase by approximately 1.1% in the next couple of years and reach a level of 12.7% by March 2021.

Small cap – Historical multiples



- In Q4 FY19, small cap companies recorded a de-growth in revenue as compared to the positive revenue growth recorded by large cap and mid cap companies.
- Further, apart from the challenges faced by large cap and mid cap companies, small cap companies are also witnessing margin pressures due to increased competition from other companies in the industry.
- The lower historical EBITDA margin and revenue growth of small cap companies compared to large cap and mid cap companies are getting reflected in a lower median EV/revenue multiple of 1.1x and EV/EBITDA multiple of 9.0x.

IT and ITeS industry – Engineering and software products

- We have analysed the valuation multiples of listed engineering and software products companies in India over the last five years.

IT engineering companies*/**

- Tata Elxsi Limited
- Cyient Limited

Software product companies*/***

- 8K Miles Software Services Limited
- ABM Knowledgeware Limited
- AurionPro Solutions Limited
- Nucleus Software Exports Limited
- Sankhya Infotech Limited
- Zensar Technologies Limited
- Oracle Financial Services Software Limited
- TAKE Solutions Limited

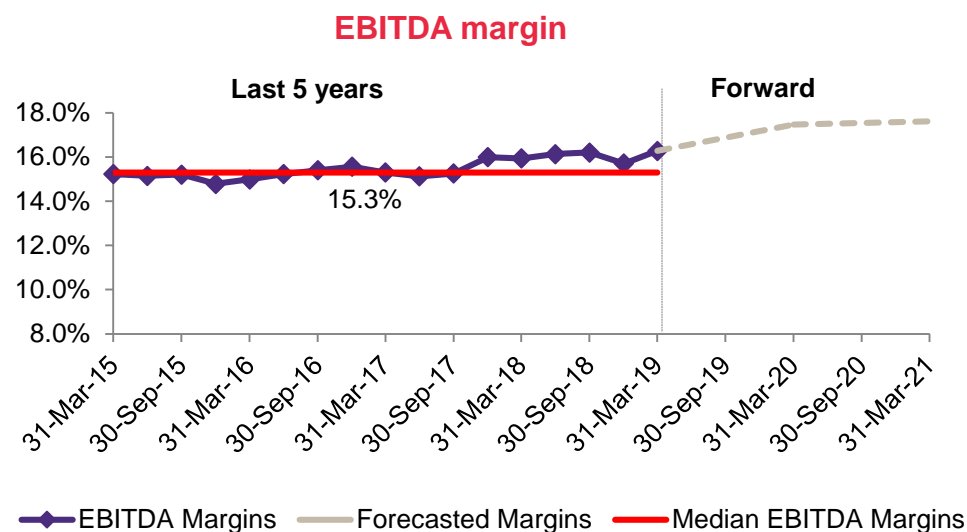
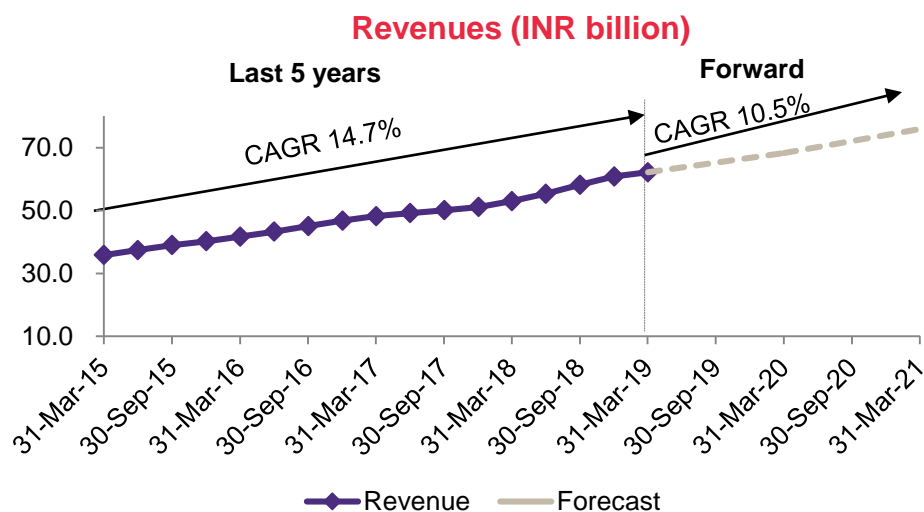
*For analysing companies for a period of five years, we have considered only those companies which were listed before 2014. Further, we have removed certain outlier companies based on various parameters.

**KPIT Technologies Limited (engineering (primarily) and IT consulting businesses) was amalgamated with Birlasoft (India) Limited (IT consulting business) on 29 November 2018. Post acquisition, the merged entity now known as Birlasoft Limited has further demerged the engineering business into KPIT Technologies Limited w.e.f. 01 January 2019 and was listed on 22 April 2019 and operates independently of Birlasoft Limited. In order to be consistent and due to lack of historical engineering business segment data, we have not considered the new demerged entity, KPIT Technologies Limited, for our analysis of the engineering segment.

***Companies primarily into developing software products.

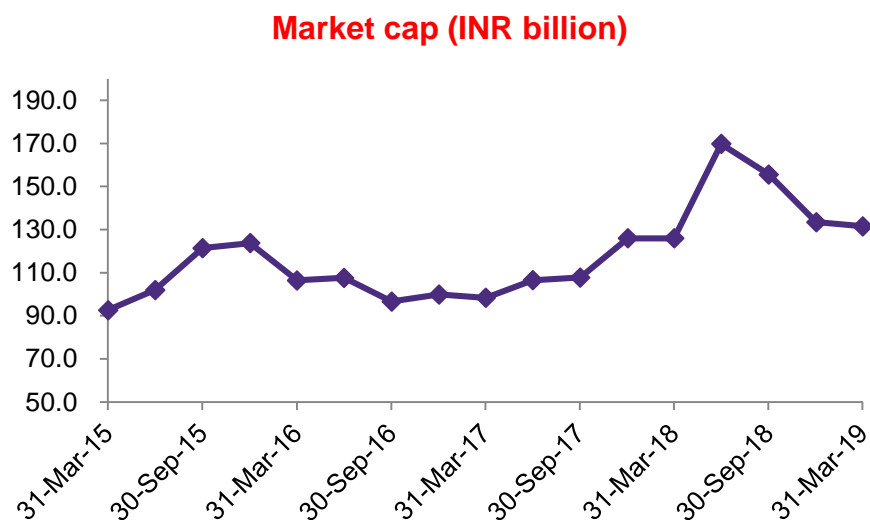
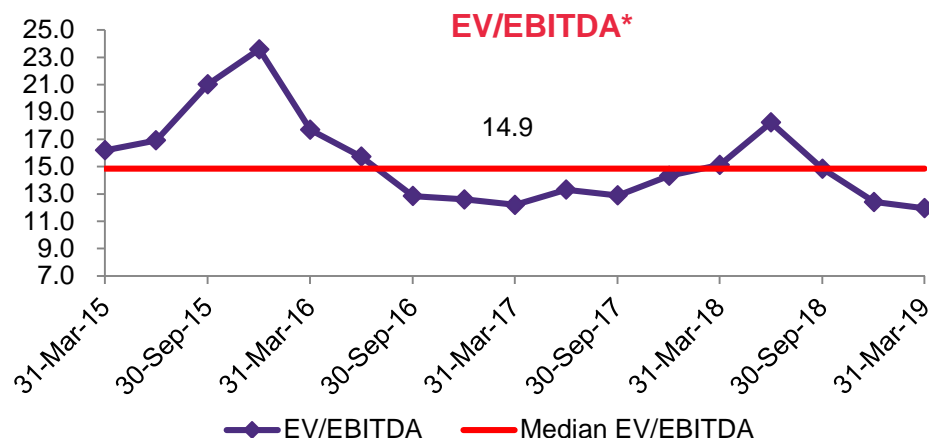
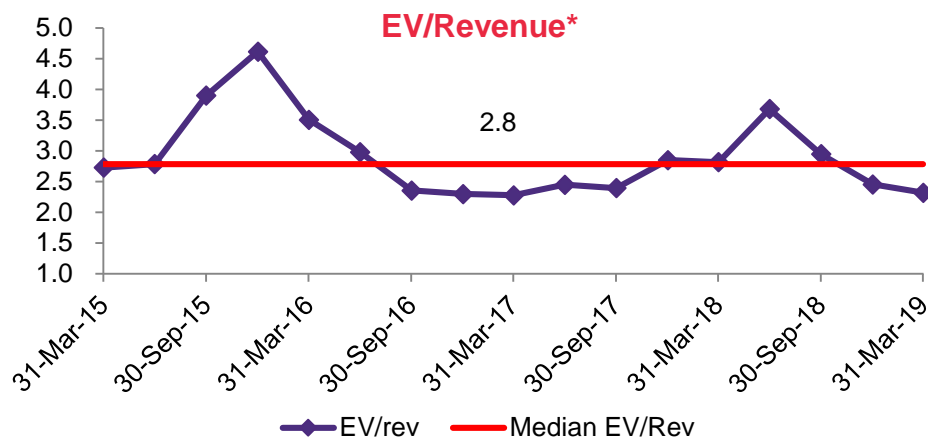
We have carried out the analysis based on the financial numbers of these companies in reported rupee currency. Further, for comparison purposes, we have presented the corresponding dollar numbers which are converted based on the 31 March 2019 exchange rate and do not represent reported US dollar financial numbers.

IT engineering – Revenue and EBITDA margin trend



- On a quarterly basis, revenues decreased from INR 15.9 billion (\$0.229 billion) in December 2018 to INR 15.7 billion (\$0.225 billion) in March 2019 at a de-growth rate of -1.7%. During the same period, EBITDA margins fell from 16.7% to 16.4%.
- On an annual basis, revenues increased from INR 53.0 billion (\$0.8 billion) in March 2018 to INR 62.1 billion in March 2019 (\$0.9 billion) at a growth rate of 17.2%. EBITDA margins increased as well from 15.9% to 16.3%.
- Revenues are expected to increase at a CAGR of 10.5% and reach approximately INR 75.9 billion (\$1.1 billion) in March 2021. Margins are expected to increase by approximately 1.3% in the next couple of years and reach a level of 17.6% by March 2021.
- Engineering companies are expected to witness higher demand in upcoming years, fueled mainly by 5G deployment, convergence of engineering services with new technologies such as digital, IoT and analytics for product development, and increased spend in digital engineering.

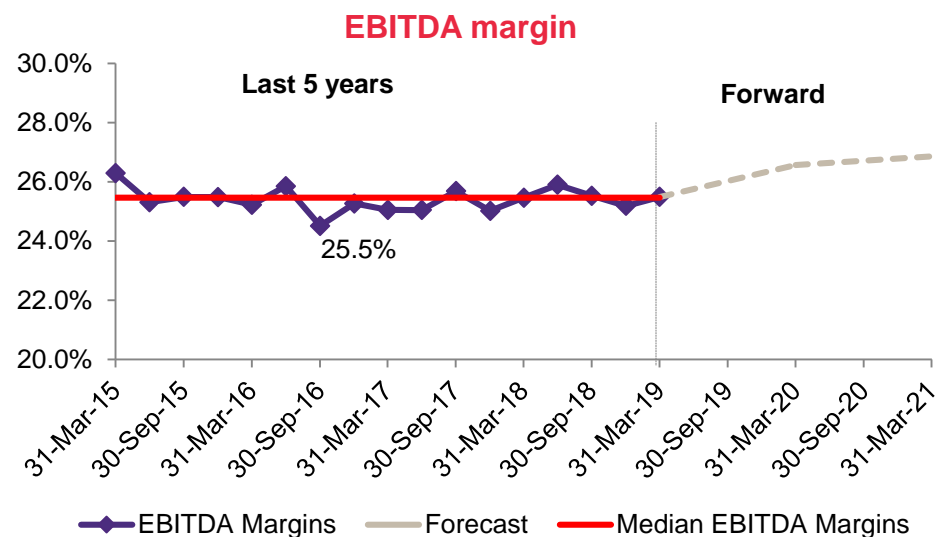
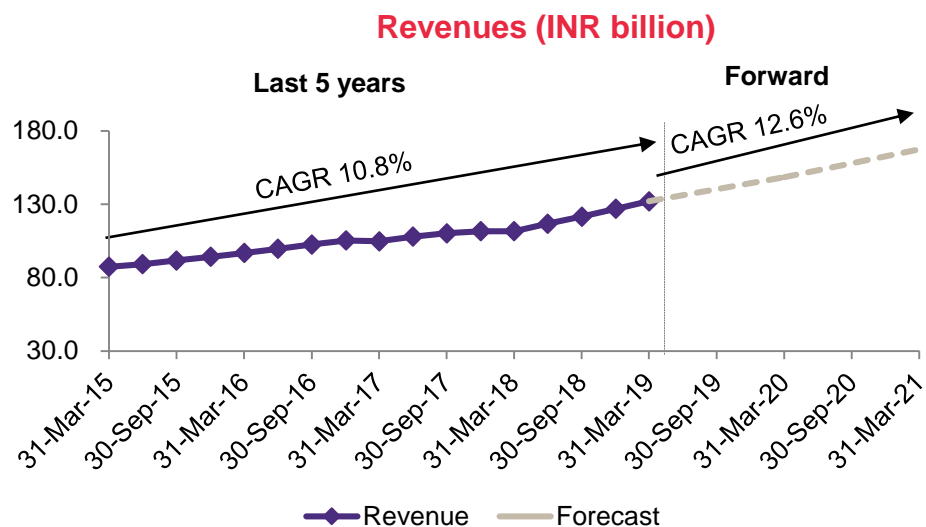
IT engineering – Historical multiples



- EV/revenue and EV/EBITDA multiples declined on a sequential basis due to a decline in revenue and EBITDA in Q4 FY19 when compared with Q3 FY19.
- The decline in revenue and EBITDA was mainly attributable to the demand pushouts in the aerospace vertical, which is one of the vital business verticals for IT engineering companies. Aerospace companies have recorded a slower than expected recovery from the headwinds faced in the last few quarters such as grounding of planes and capacity issues, which led to demand pushouts. Another reason for the lower revenue is renegotiation with large customers in Q4, which is expected to reap benefits in the upcoming quarters. Supply constraint was another prime issue faced by these companies, mainly on account of difficulty in finding skilled employees.

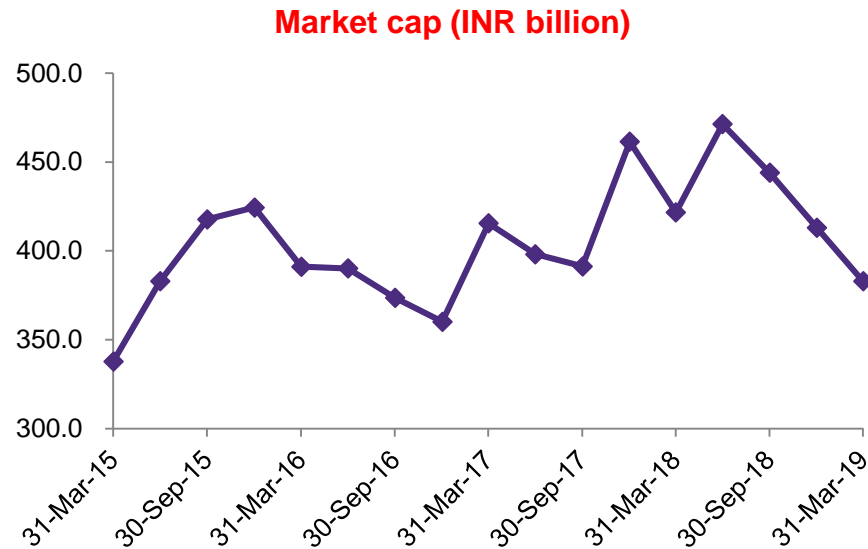
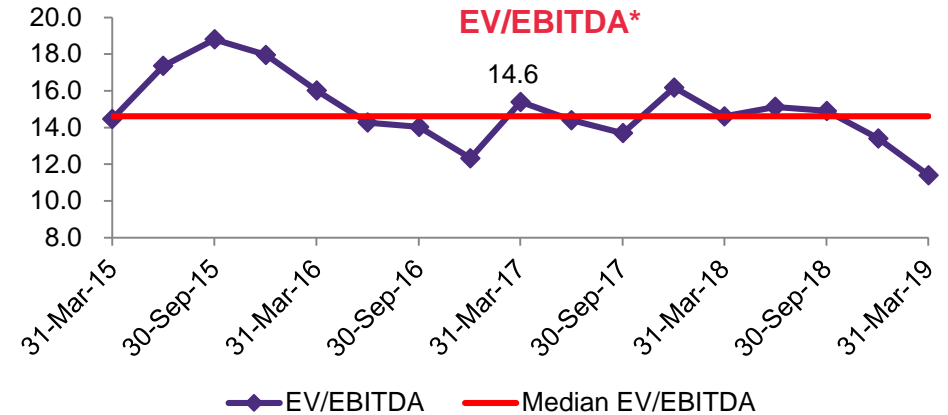
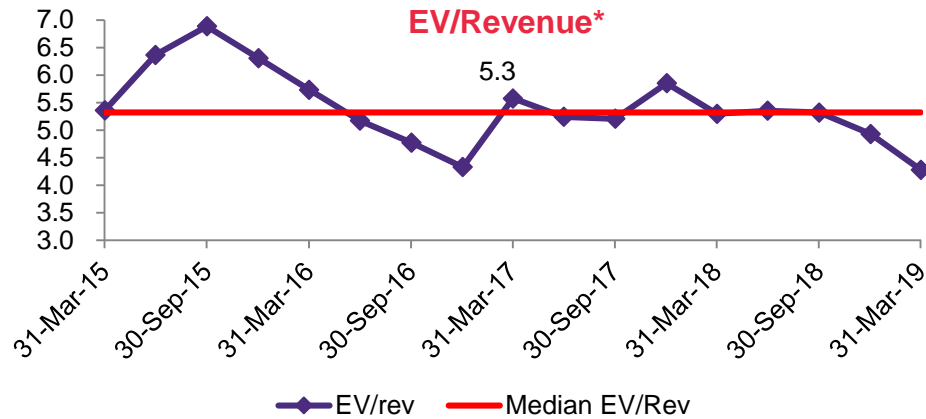
* Weighted average multiples based on market capitalisation of engineering companies.

Software products – Revenue and EBITDA margin trend



- On a quarterly basis, revenues increased from INR 33.0 billion (\$0.47 billion) in December 2018 to INR 33.6 billion (\$0.48 billion) in March 2019 at a growth rate of 2.0%. EBITDA margins marginally increased from 24.0% to 24.3% during the same period.
- On an annual basis, revenues increased from INR 111.7 billion (\$1.6 billion) in March 2018 to INR 132.0 billion (\$1.9 billion) in March 2019 at a growth rate of 18.2%. Further, EBITDA margins remained at around the same level of 25.5%.
- Revenues are expected to increase at a CAGR of 12.6% and reach approximately INR 167.4 billion (\$2.4 billion) in March 2021. Margins are expected to increase by approximately 1.4% in the next couple of years and reach 26.9% by March 2021.

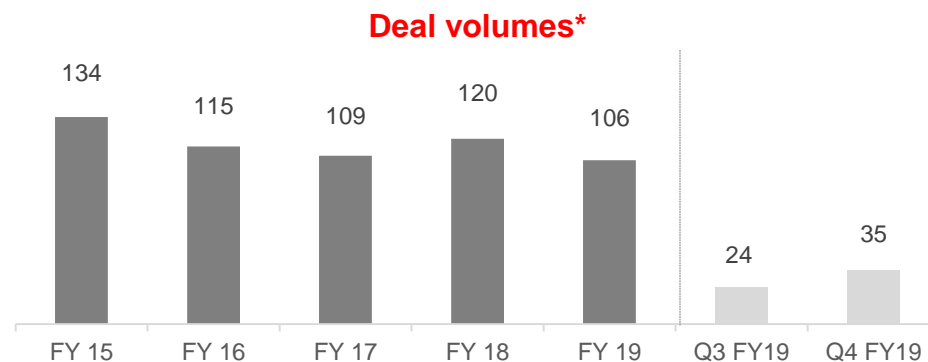
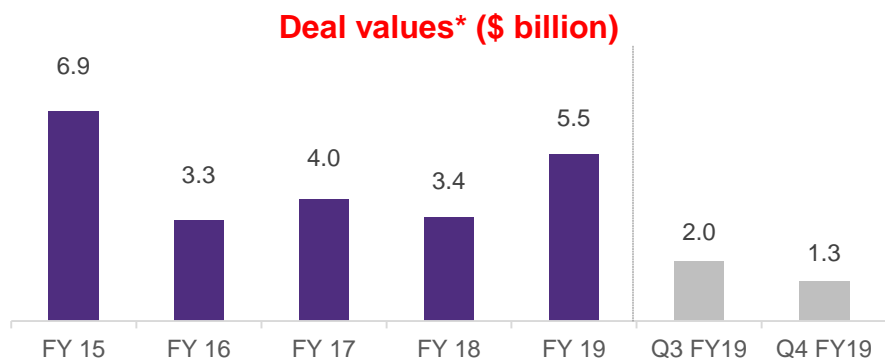
Software products – Historical multiples



- Despite an increase in revenue growth and EBITDA margins in Q4 FY19 on a sequential basis, EV/revenue and EV/EBITDA multiples saw a decreasing trend in the same period, primarily on account of non-alignment of actual metrics with the guidance estimates.
- As an increasing trend, software companies are betting on emerging technologies considering the increased movement of customers to cloud options, which is also reflected in the higher transaction activity in the SaaS and software solutions segments in Q4 FY19.
- However, software companies are expected to face certain core challenges in the upcoming quarters such as low conversion rates of pipeline revenue due to competition and supply constraints such as lack of skilled employees and increase in onsite mix and sub-contracting cost.

* Weighted average multiples based on market capitalisation of engineering companies.

Deals – IT and ITeS industry



* The above data covers deals which have happened in all sub-segments of the IT and ITeS industry such as IT solutions, product development, analytics and business intelligence companies.

Break-up of the above deal values and deal volumes for FY15-FY19, Q3 FY19 and Q4 FY19

Deal values (\$ billion)

Year	Domestic	Merger and internal restructuring	Inbound	Outbound	PE/VC
FY15	0.2	0.5	1.6	3.9	0.6
FY16	0.1	-	0.9	1.4	0.8
FY17	0.4	-	1.3	1.0	1.4
FY18	0.2	0.7	1.2	0.3	1.1
FY19	0.8	-	1.2	2.5	0.9
Q3 FY19	0.01	-	0.03	1.9	0.03
Q4 FY19	0.6	-	0.1	0.1	0.5

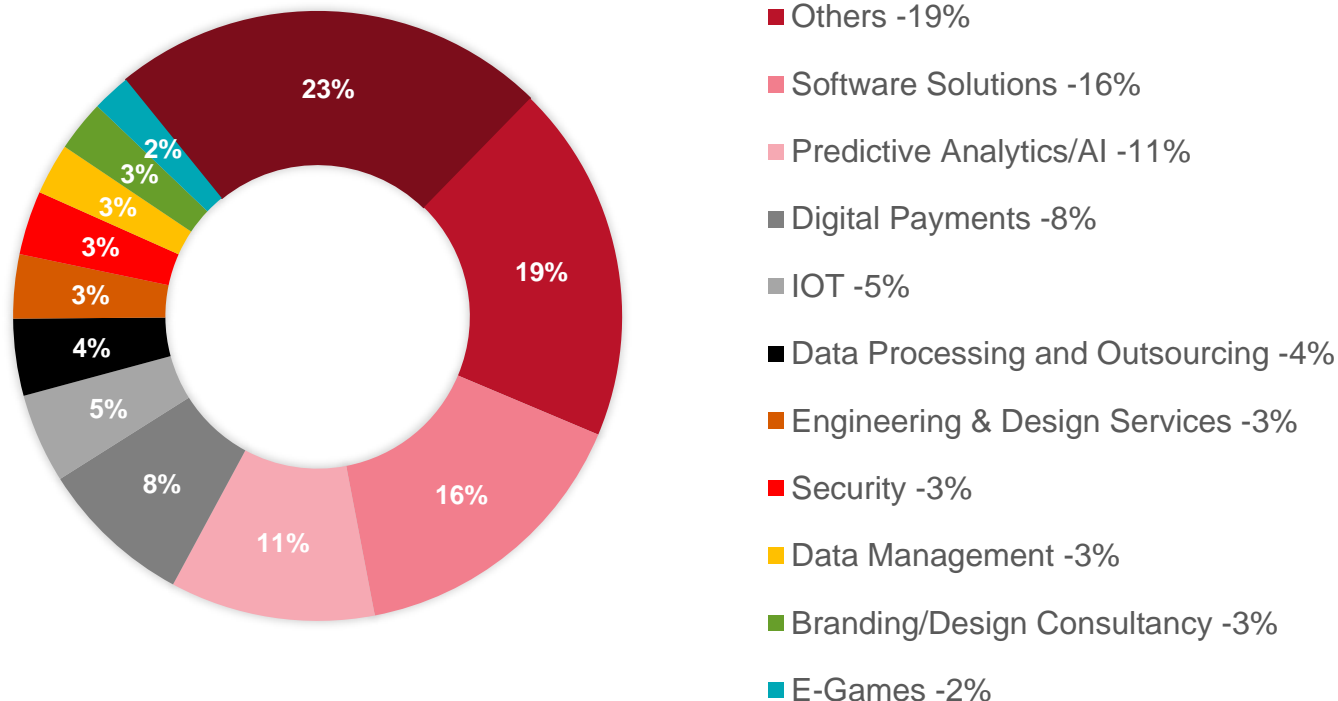
Deal volumes

Year	Domestic	Merger and internal restructuring	Inbound	Outbound	PE/VC
FY15	19	4	20	34	57
FY16	19	-	14	37	45
FY17	23	-	14	22	50
FY18	24	2	16	22	56
FY19	27	-	19	29	31
Q3 FY19	2	-	6	10	6
Q4 FY19	14	-	6	5	10

Deals – IT and ITeS industry: Areas of interest (FY19)

In the recent past, there has been a surge in acquisitions in the Indian IT and ITeS industry. We have carried out an analysis of the majority of deals which took place during April 2018 to March 2019 and categorised them into the following key IT sub-segments to understand the deal scenario:

MAJOR SECTORS WHERE IT INDUSTRY IS INVESTING



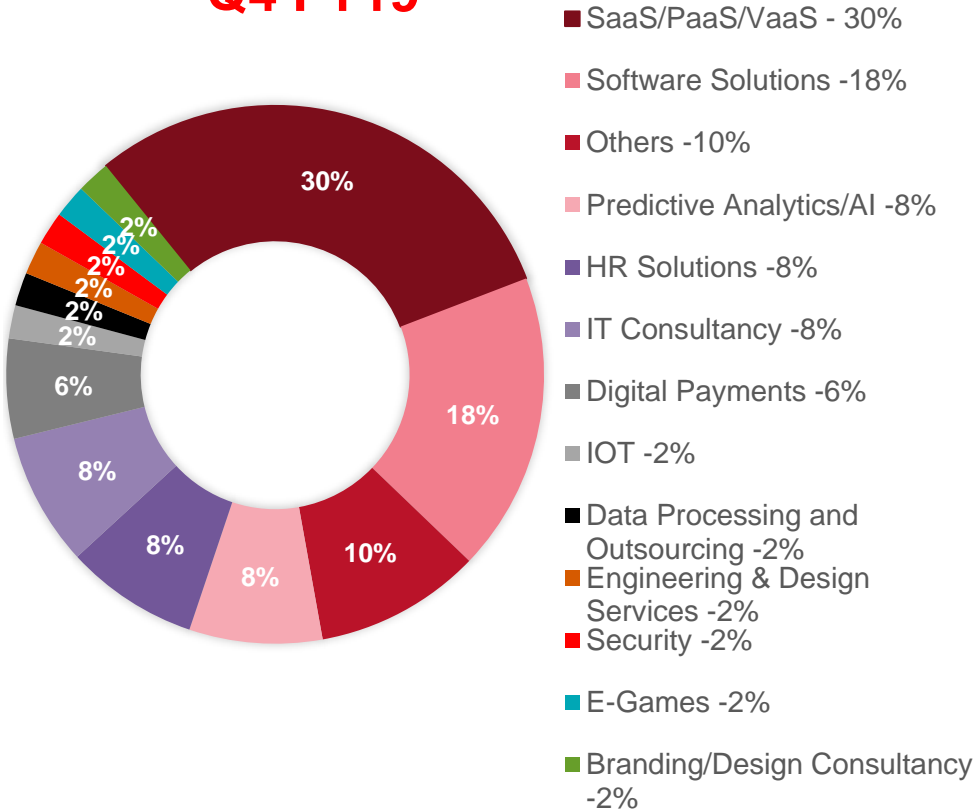
* 'Others' majorly includes deals which took place in sub-segments such as IT consultancy, blockchain technologies, HR solutions, system software, cloud communications, drone technology, network solutions and implementation services.

** The above deals include both merger and acquisition and private equity transactions.

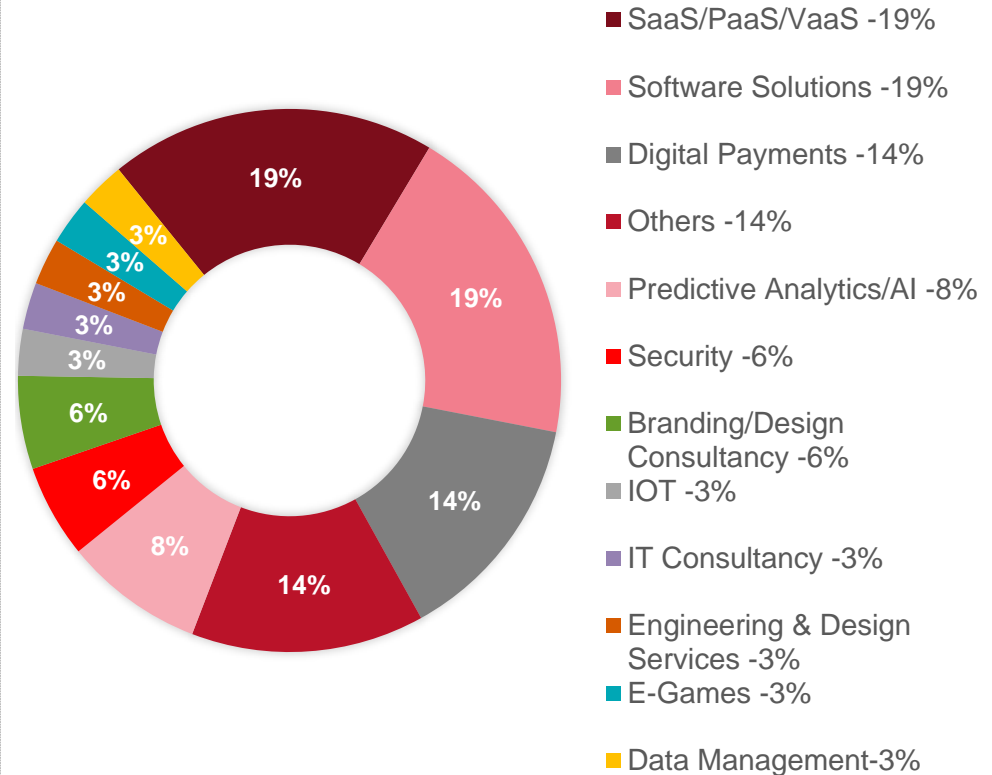
Deals – IT and ITeS industry: Areas of interest (QoQ)

MAJOR SECTORS WHERE IT INDUSTRY IS INVESTING

Q4 FY19



Q3 FY19



* 'Others' majorly includes deals which took place in sub-segments such as blockchain technologies, network solutions, drone technology, social media and software automation. The colour code is kept consistent with the FY19 transaction chart presented in slide 20.

** The above deals include both merger and acquisition and private equity transactions.

Deals – IT and ITeS industry: Areas of interest

Based on our analysis of the deals which took place during April 2018 to March 2019, we have noted the following:

- The average deal size recorded in FY19 was around \$51.9 million, whereas the average deal size recorded in Q3 FY19 and Q4 FY19 was around \$81.5 million and \$36.8 million respectively.
- The large deal values in the last couple of quarters are mainly due to a few large-ticket transactions (refer slide 24) such as HCL Technologies acquiring eight software products from IBM for \$1.8 billion to boost its revenue inorganically and Larsen & Toubro Limited acquiring a stake in Mindtree to attain higher scale of operations in the IT services industry.
- With the advent of digital technologies such as big data analytics, cloud computing, machine learning, IoT, cyber security, etc, the IT and ITeS industry is witnessing a paradigm shift from traditional offerings such as outsourcing services to digital offerings, which is reflected in an increased number of deals/investments in these sectors.
- An increase in the importance for cloud computing and cloud-based technologies has reflected in recent deal activity. SaaS and software solutions firms saw the most transaction activity in Q4 FY19 in volume terms followed by IT consultancy, HR solutions and predictive analysis/AI segments. Q4 FY19 also witnessed two investments in the niche area of blockchain technology.

Deals – IT and ITeS industry: Areas of interest

- With an increase in smartphone penetration and internet usage, there has been a spur in the demand for mobile games, e-sports tournaments and mobile value-added services, which is reflected in the recent deals in the e-games segment.
- Also, we have seen a surge in acquisitions of technology solutions used for real-time monitoring or pricing analysis with respect to agriculture/farm management, smart city, retail and logistics sectors in Q4 FY19.
- With an increase in digital footprint and IT spending by clients, IT companies have shown an interest in acquiring design studios to enhance their digital offerings and provide interactive customer experiences, which is evident from Wipro's acquisition of Syfte, TCS's first digital acquisition (W12 Studios), Infosys's acquisition of Wongdoody and Ernst & Young LLP's acquisition of Fortune Cookie UX Design.

Deals – IT and ITeS industry: April 2018 to March 2019

The following are some of the few big-ticket transactions which happened in FY19:

Deal month	Acquirer	Country (Acquirer)	Target	Country (Target)	Segment	Deal type	Transaction value (\$ million)
December 2018	HCL Technologies	India	Eight software products of IBM	US	Software solutions	Acquisition	1,800.0
August 2018	Teleperformance	France	Intelenet Global Services Private Ltd.	India	Data processing and outsourcing	Acquisition	1,000.0
March 2019	Larsen & Toubro Ltd.	India	Mindtree Ltd.	India	IT consultancy	Minority stake	476.0 ^{**}
April 2018	HCL Technologies Ltd & Sumeru Equity Partners	India	Action Corporation Inc.	US	Data management	Acquisition	330.0
August 2018	Berkshire Hathaway Inc.	US	One97 Communications Limited	India	Value-added services	PE investment	300.0
January 2019	Apax Partners	NA*	Fractal Analytics Ltd.	India	Predictive analytics/AI	PE investment	200.0
February 2019	Goldman Sachs Asset Management, L.P.	US	Ver se' Innovation Pvt. Ltd.	India	SaaS/PaaS/VaaS	PE investment	173.0
June 2019	Multiple Funds	NA*	Zinka Logistics Solutions Private Limited	India	Software solutions	PE investment	150.2
June 2018	Temasek and PayPal Holdings Inc.	NA*	Pine Labs Pvt. Ltd.	India	Digital payments	PE investment	125.0
July 2018	Wipro Ltd.	India	Alight HR Services India Pvt. Ltd.	India	Data processing and outsourcing	Acquisition	117.0
February 2019	Tech Mahindra and other funds	NA*	AltioStar Network Inc.	US	Network solutions	PE investment	114.0
March 2019	Alight Solutions LLC	US	Wipro Ltd- Workday and Cornerstone OnDemand businesses	India	HR solutions	Acquisition	110.0

*NA: Not applicable

** Additionally, Larsen& Toubro Ltd. has floated an open offer to acquire up to 31% stake at INR 980 per share in Mindtree.

Deals – IT and ITeS industry: Large cap

A. TCS

Deal month	Target	Country	Segment	Transaction value (\$ million)
November 2018	W12 Studios	UK	Branding/Design consultancy	Not disclosed
November 2018	Assets of BridgePoint Group, LLC	US	Management consulting services	Not disclosed

B. Infosys

Deal month	Target	Country	Segment	Transaction value (\$ million)
October 2018*	Waterline Data, Inc.	US	Data management	14.5
September 2018	Fluidio	Finland	Implementation services of salesforce	75.8
September 2018	TidalScale Inc.	US	Predictive analytics/AI	1.5
May 2018	Wongdoody Holding Company Inc.	US	Branding/design consultancy	75.0

* Infosys through its investment arm has invested in Waterline Data, Inc. along with Menlo Ventures, Partech Partners, Jackson Square Ventures;

Deals – IT and ITeS industry: Large cap

C. Wipro

Deal month	Target	Country	Segment	Transaction value (\$ million)
December 2018*	Syfte	Australia	Branding/design consultancy	Not disclosed
August 2018**	Avaamo	US	Predictive analytics/AI	14.2
July 2018	Alight HR Services India Pvt. Ltd.	India	Data processing and outsourcing	117.0
May 2018***	Talena, Inc.	US	Data management	13.5

*Acquired by Wipro's subsidiary Designit A/S.

**Wipro Ventures has invested in Avaamo along with WI Harper Group, Intel Capital, Mahindra Partners and Ericsson Ventures.

*** Wipro Ventures has invested in Talena, Inc. along with Canaan Partners, Onset Ventures and Intel Capital.

D. Tech Mahindra

Deal month	Target	Country	Segment	Transaction value (\$ million)
March 2019*	K-Vision Co.	Japan	Network solutions	1.5
March 2019	RYFF Inc.	US	Predictive analytics/AI	3.6
February 2019	Dynacommerce Holding B.V.	Netherlands	Software solutions	18.2
February 2019**	Altiostar Networks, Inc.	US	Network solutions	114.0
August 2018	Inter-Informatics Spol.	Czech Republic	Engineering and design services	6.2
June 2018***	TradelX Ltd.	UK	Blockchain technology	16.0

*Acquired through Tech Mahindra subsidiary, Mahindra Engineering Services (Europe) Limited.

**Tech Mahindra has invested in Altiostar Networks along with Qualcomm Ventures; Rakuten Inc.

***Tech Mahindra has invested in TradelX along with Kistefos A.S.; BNP Paribas, investment arm; and ING Ventures

Deals – IT and ITeS industry: Large cap

E. HCL Technologies

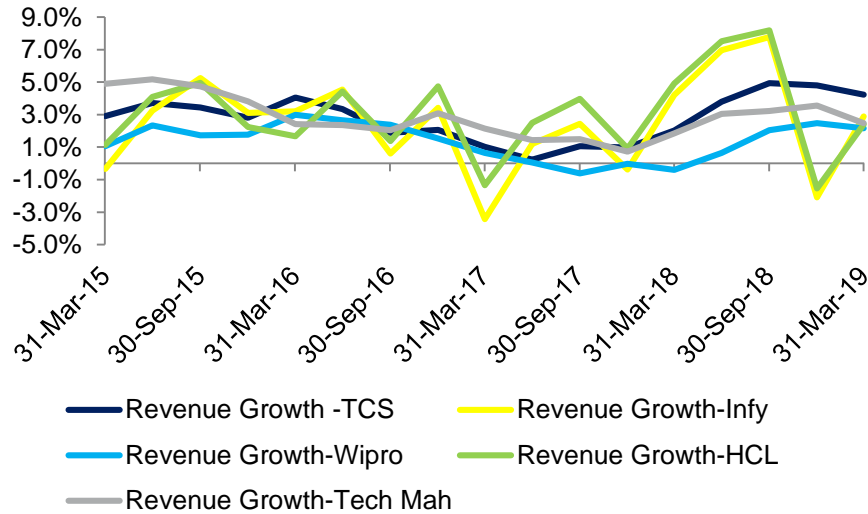
Deal month	Target	Country	Segment	Transaction value (\$ million)
March 2019	Strong-Bridge Envision*	US	IT consultancy	45.0
December 2018	Eight software products of IBM	US	Software solutions	1,800.0
July 2018	H&D International Group	Germany	Engineering and design services	35.0
April 2018	Telerx Marketing, Inc- C3i Solutions	US	Data processing and outsourcing	60.0
April 2018	Action Corporation Inc.	US	Data management	330.0

*Acquired by HCL Technologies' subsidiary HCL Technology, Inc.

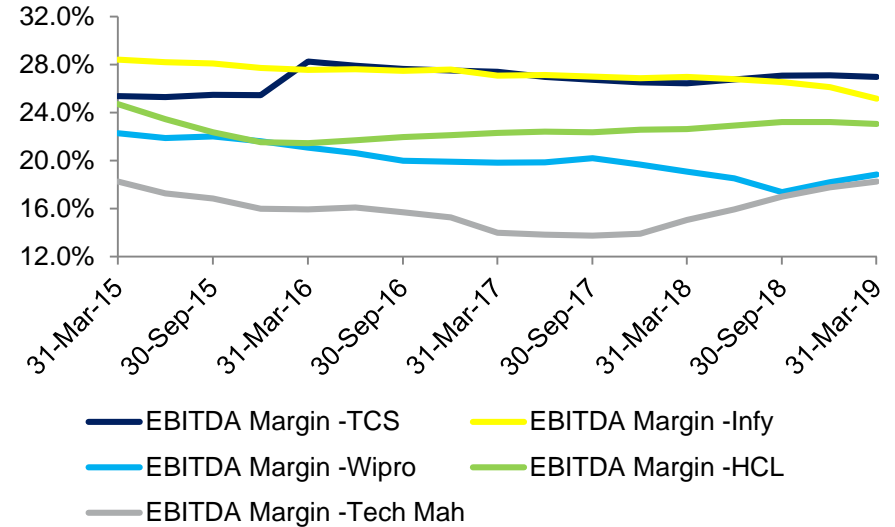
- HCL Technologies' acquisition of eight software products from IBM in December 2018 skewed the overall deal value of Q3 FY19. This transaction has been noted as the largest transaction made by an Indian IT company till date, followed by Tech Mahindra's acquisition of Satyam Computer Services for \$1.2 billion in March 2012.
- Unlike other peer IT companies which are majorly focusing on increasing their digital footprint through acquisitions, HCL Technologies is following a different strategy by majorly investing in software products and IT services companies, which is reflected in its recent acquisitions in FY19 and its digital revenue mix.

Company-specific analysis of large cap companies

Quarter-wise revenue growth (%)



EBITDA margins (%)

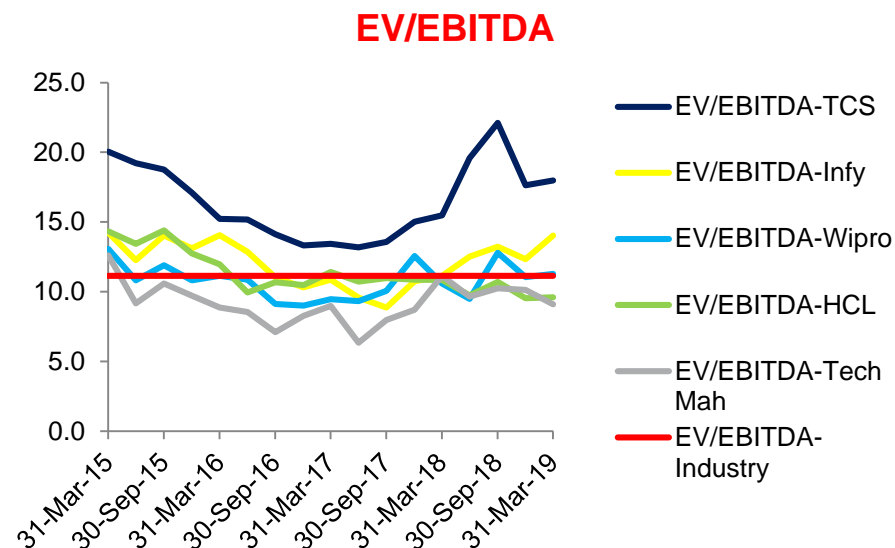
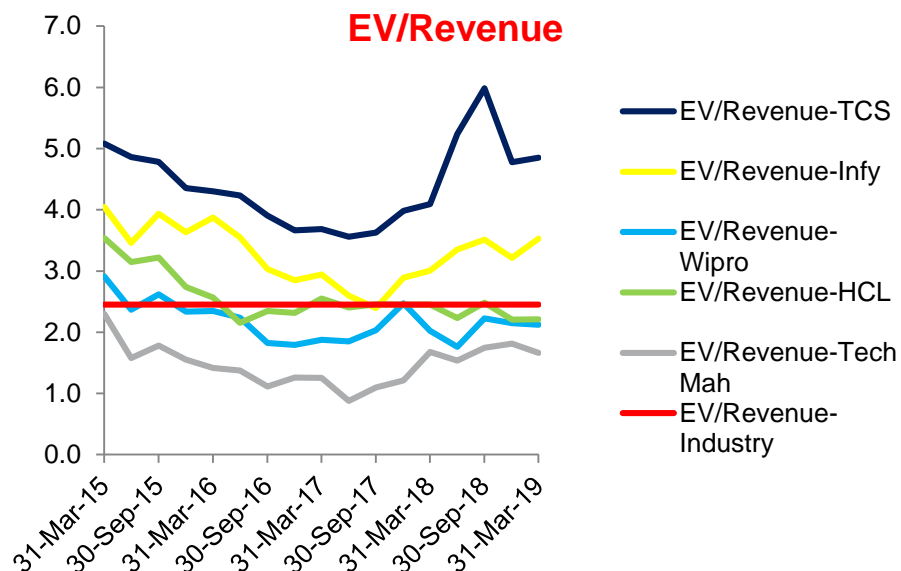


Company	Five-year CAGR (%)	Five-year median margins (%)
TCS	11.5%	27.0%
Infosys	11.0%	27.1%
HCL	13.2%	22.4%
Wipro	5.7%	19.9%
Tech Mahindra	11.3%	15.9%

TCS and HCL Technologies recorded the highest revenue growth in FY19 (in rupee terms), whereas Wipro recorded the least revenue growth rate in the same period.

In terms of EBITDA margins, TCS and Infosys, being the market leaders, largely dominated the IT services sector and recorded the highest EBITDA margins in FY19. The lowest EBITDA margin was recorded by Tech Mahindra despite showing a better revenue growth as compared to other large cap companies.

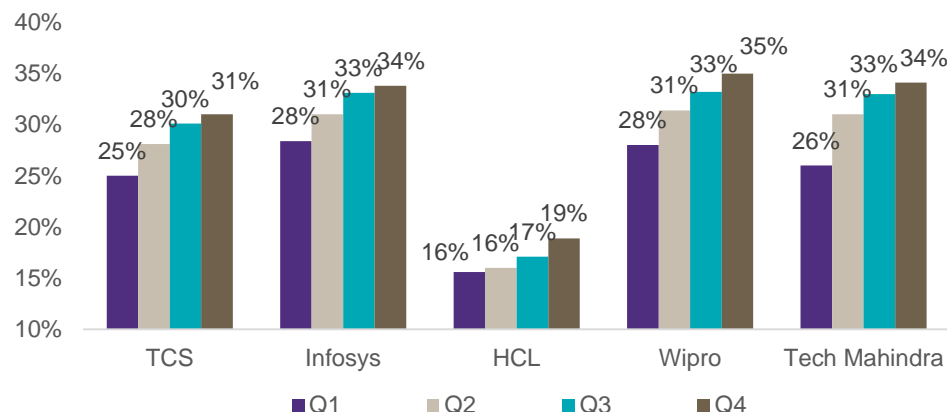
Company-specific analysis of large cap companies



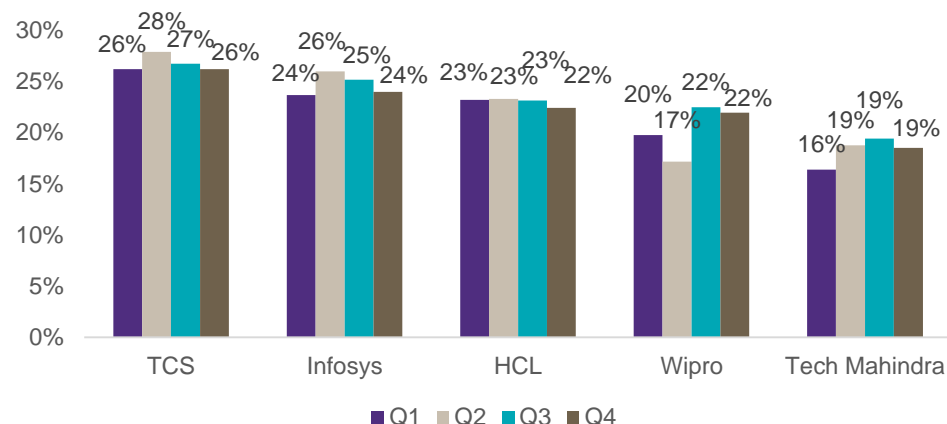
	5-year median EV/Rev	Premium/ (Discount) on 2.5x	EV/ LTM Rev	EV/one -year forward Rev	EV/Two- year forward Rev	5-year median EV/EBITDA	Premium/ (Discount) on 11.1x	EV/LTM EBITDA	EV/LTM one-year forward EBITDA	EV/LTM two- year forward EBITDA
Large cap companies	2.5x					11.1x				
TCS	4.3x	75.6%	4.9	4.4	4.0	15.5x	39.1%	18.0	16.2	14.7
Infosys	3.3x	36.6%	3.5	3.2	2.9	12.3x	10.7%	14.0	13.1	11.7
HCL	2.5x	-	2.2	1.9	1.7	10.8x	(2.7)%	9.6	8.3	7.6
Wipro	2.1x	(12.4)%	2.1	2.0	1.9	10.8x	(2.8)%	11.3	9.8	9.2
Tech Mahindra	1.5x	(37.2)%	1.7	1.5	1.4	9.1x	(18.4)%	9.1	8.4	7.7

Company-specific analysis of large cap companies

Quarter-wise share of digital revenue (%) in FY19



Quarter-wise EBITDA margins in FY19

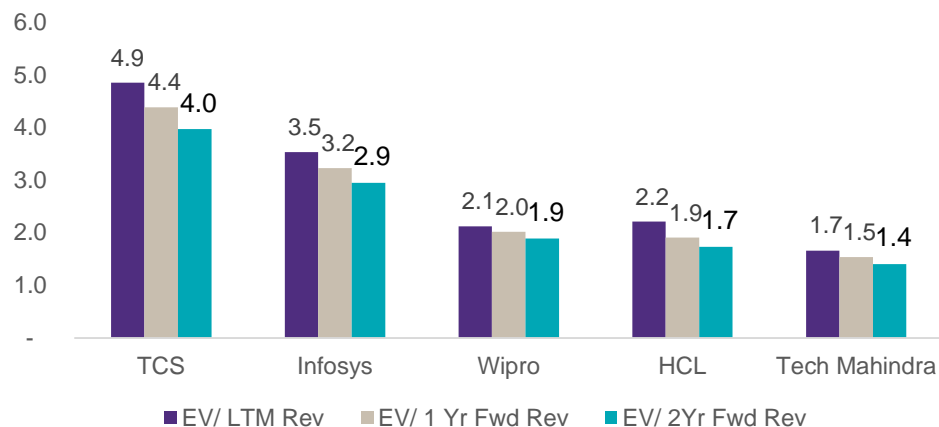


Company	Contract value won in Q1 FY19	Contract value won in Q2 FY19	Contract value won in Q3 FY19	Contract value won in Q4 FY19
TCS	\$4.9 billion	\$4.9 billion	\$5.9 billion	\$6.2 billion
Infosys	\$1.1 billion	\$2.0 billion (from 12 large deals)	\$1.6 billion (from 14 large deals)	\$1.6 billion (from 13 large deals)
HCL	27 transformational deals signed in Q1 FY19*	17 transformational deals signed in Q2 FY19*	17 transformational deals signed in Q3 FY19*	17 transformational deals signed in Q4 FY19*
Wipro	-*	\$1.5 billion	-*	-*
Tech Mahindra	\$0.3 billion	\$0.6 billion	\$0.4 billion	\$0.4 billion

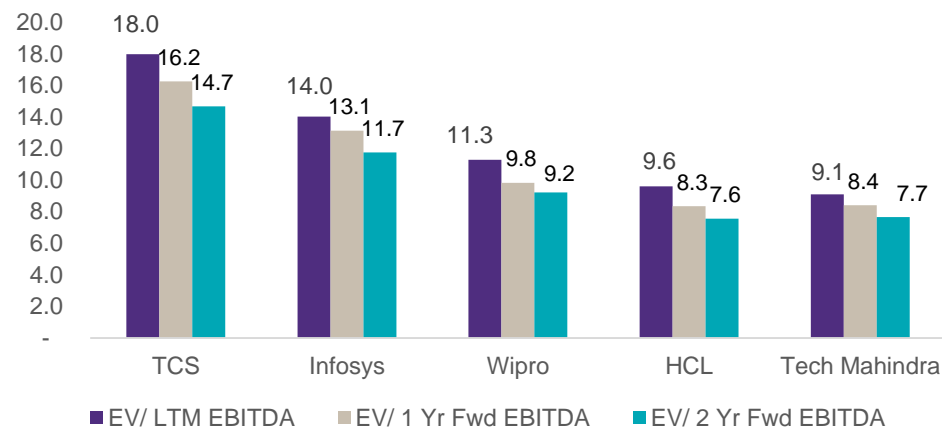
* Amount not disclosed by the company in the earnings call.

Forward estimates of large cap companies

LTM and forward EV/Revenue



LTM and forward EV/EBITDA



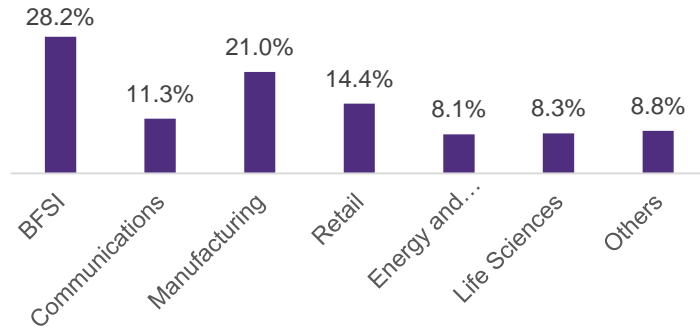
EV/revenue and EV/EBITDA multiples are estimated based on the following information:

- Enterprise value as on 31 March 2019
- Last 12-month (LTM) revenue and EBITDA as on 31 March 2019 (reported currency)
- One-year and two-year forward estimates of revenue and EBITDA as on 31 March 2019

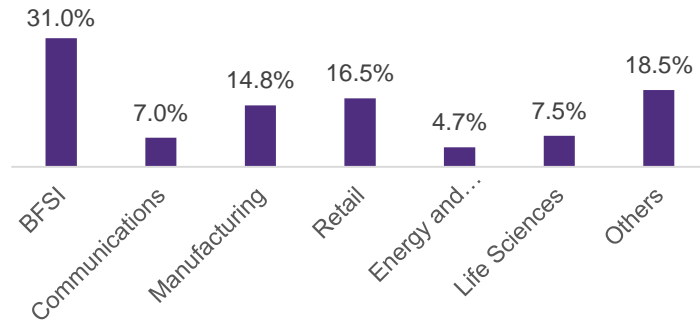
Revenue contribution and growth (reported US dollar currency) in verticals for FY19

Revenue contribution in verticals as for FY 19

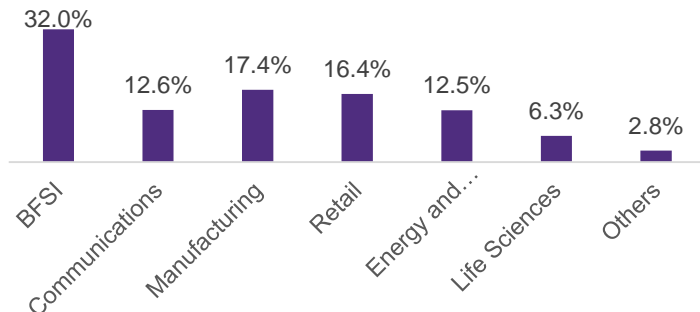
A Large cap



B TCS

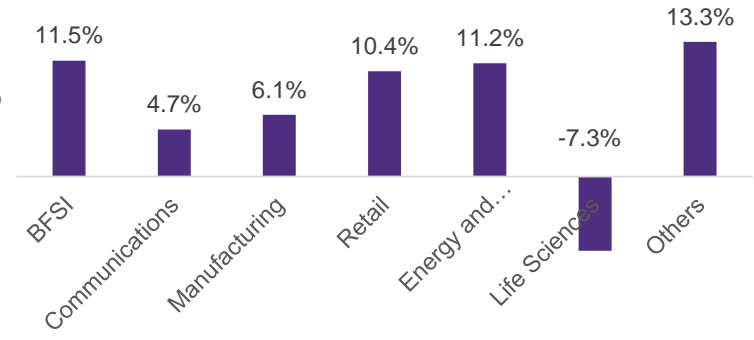


C Infosys

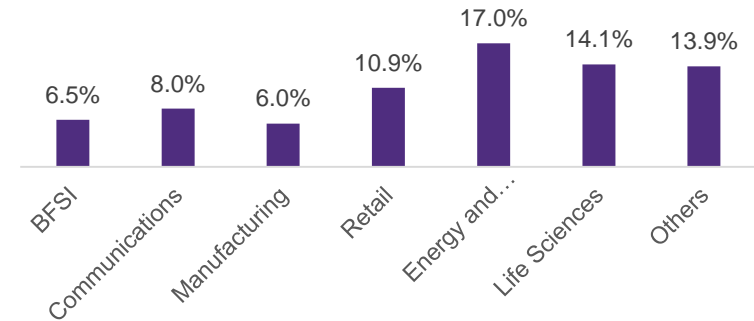


Revenue growth in verticals for FY19 (YoY %)

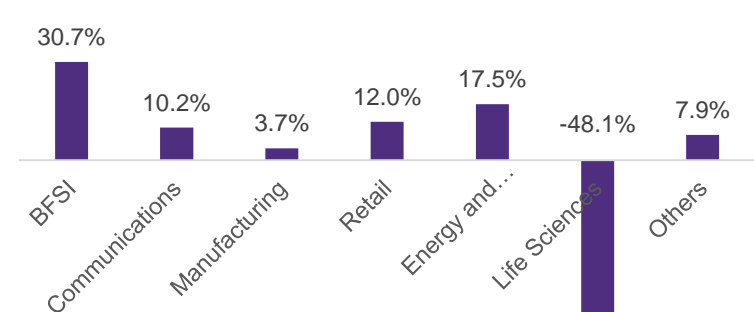
Large cap



TCS



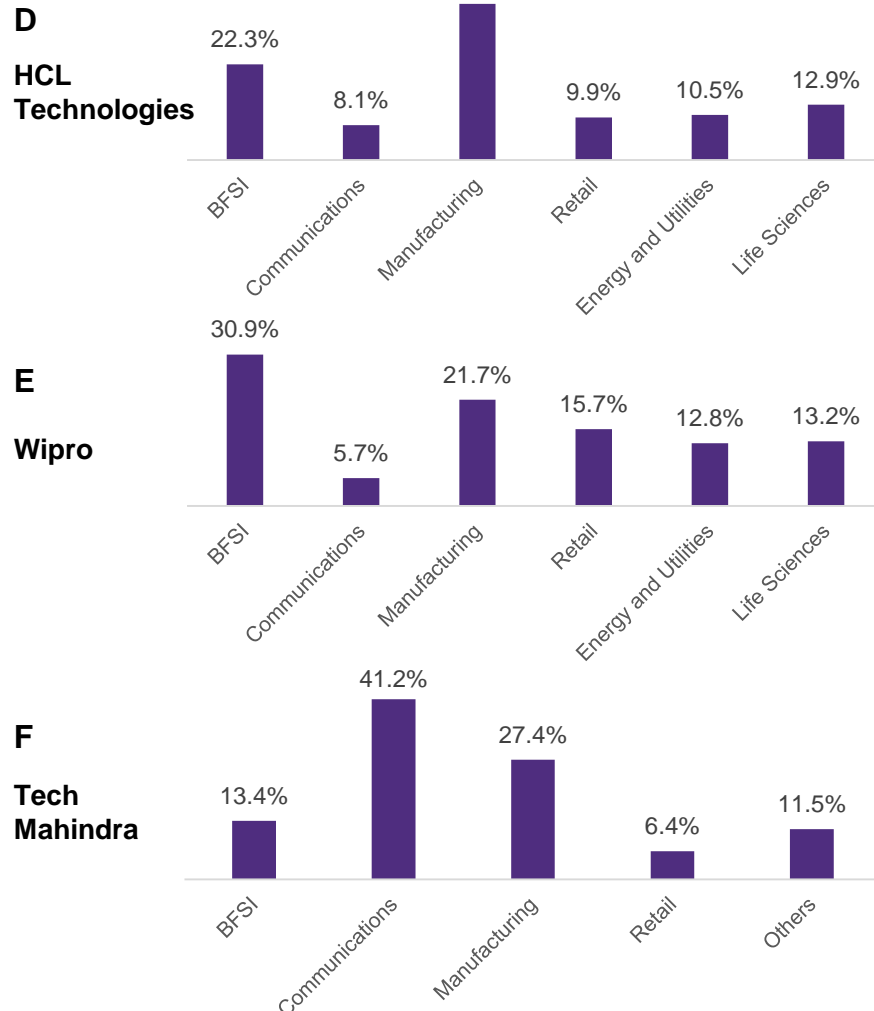
Infosys



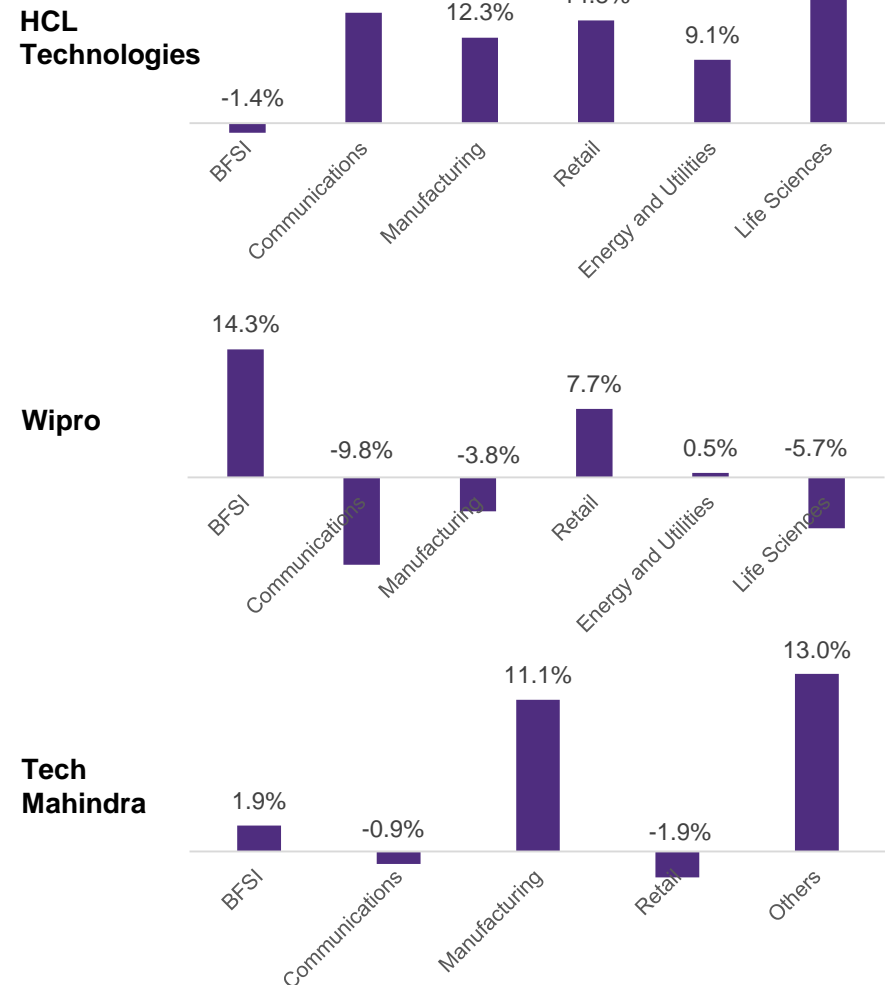
Segments: i) BFSI, ii) communications, iii) manufacturing and technology, iv) retail, v) energy and utilities, vi) life sciences, vii) others

Revenue contribution and growth (reported US dollar currency) in verticals as of FY19 (cont'd.)

Revenue contribution in verticals as for FY19



Revenue growth in verticals for FY19 (YoY %)



Segments: i) BFSI, ii) communications, iii) manufacturing and technology, iv) retail, v) energy and utilities, vi) life sciences, vii) others

Other observations – Large cap companies: Specific analysis

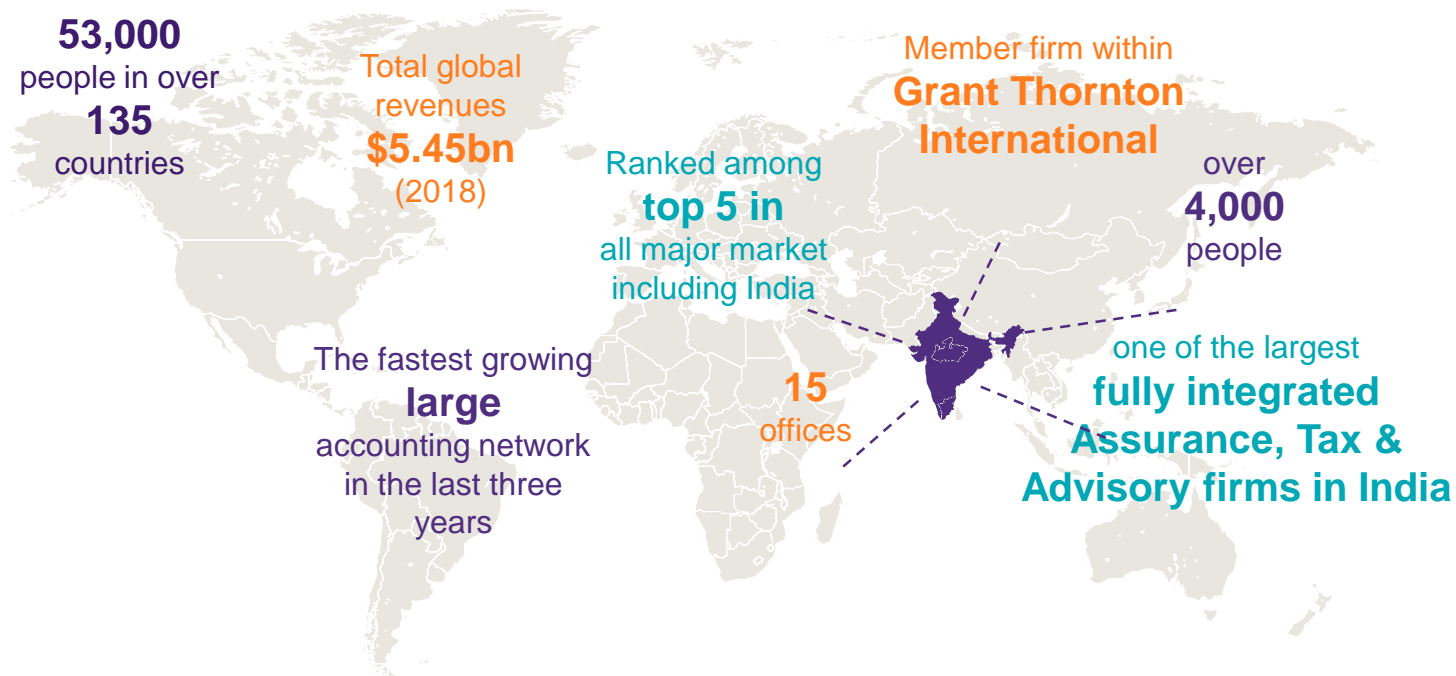
- TCS, Infosys, Wipro and Tech Mahindra led the way with 31%-35% of their total revenues coming from digital offerings in Q4 FY19. In case of HCL Technologies, the digital revenues are classified differently when compared with its peers. Accordingly, based on the Mode 2, Next-Generation Services segment of HCL Technologies, the share of digital offering is around 19% of its revenues.
- TCS's five-year median EV/revenue and EV/EBITDA multiples were trading at premiums of 75.6% and 39.1% respectively compared to the overall large cap median multiples. It had the highest premium among all the large cap companies.
- In FY19, the BFSI vertical contributed the maximum percentage to the overall revenues for all large cap companies except for Tech Mahindra and HCL, for whom the communications and manufacturing verticals respectively were the major contributors.
- Though on an annual basis, the BSFI segment continued to record a higher growth rate, in Q4 FY19 there was sluggish growth in the BFSI sector for most of the large-cap companies due to client-specific issues.
- The life sciences segment recorded a de-growth in FY19.

References

- S & P Capital IQ database
- Annual fillings of IT services companies
- Earnings call transcripts of IT services companies
- Deal Tracker published by Grant Thornton in India

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