

Valuation Pulse – IT and ITeS industry

Q4 FY20



Foreword



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We are pleased to present **Valuation Pulse** for the financial year ending 2019-2020 (FY20).

The COVID-19 pandemic has impacted the entire world, including Indian IT companies that have considerable exposure to global economies such as the United States of America (USA) and Europe. However, the valuations of tech companies globally, and in India, have seen resilience and outperformed the larger stock market. In India, despite Nifty IT dropping by 18.5% during the period between 31 December 2019 and 31 March 2020, it outperformed Nifty 50 by ~10%. The global tech companies have performed even better with the S&P 500 IT dropping by 12.2% during the same period versus 20.0% decline in the S&P 500.

Some resilience from the Indian IT companies compared with the overall Nifty index can be explained by ~5% depreciation in INR versus USD (between 31 December 2019 and 31 March 2020) and also expectations from certain core verticals, such as healthcare, utilities and telecom, to drive the growth in H1 FY21.

The decline in valuation multiples of IT companies in the recent quarter is primarily on account of:

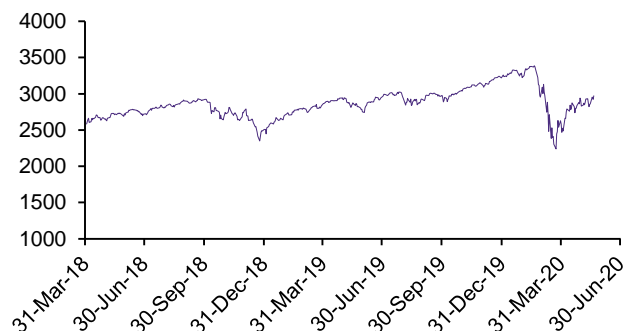
- Loss in revenue, primarily in March 2020, due to lockdown in India and globally
- Inability to ramp-up projects due to employee utilisation issues caused by work from home policy implemented during the later stages of Q4 FY20
- Segments, BFSI, manufacturing, retail, aerospace and automobile, witnessing severe impact due to COVID-19

On the transactions front (M&A and funding), in FY20, the transaction activity in the IT sector improved marginally compared with FY19, both in volume and value terms (after adjusting for HCL-IBM transaction in FY19 which was an outlier). Among large-cap companies, Tech Mahindra made the highest number of acquisitions in FY20, followed by Infosys and Wipro. As expected, COVID-19 put a pause on transaction activity in April. However, in May, the transaction volume increased to a near-normal monthly run rate. Further, the current pandemic has increased the reliance on technology that is expected to result in higher transaction activity in the sector once things normalise.

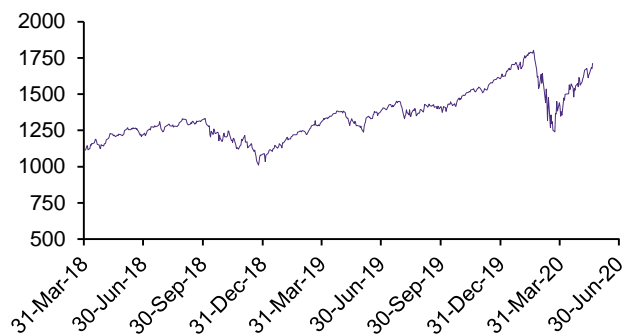
We hope you will find this publication insightful and informative.

Executive summary – market indices

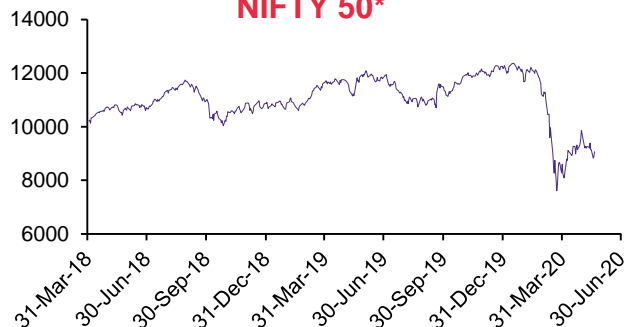
S&P 500*



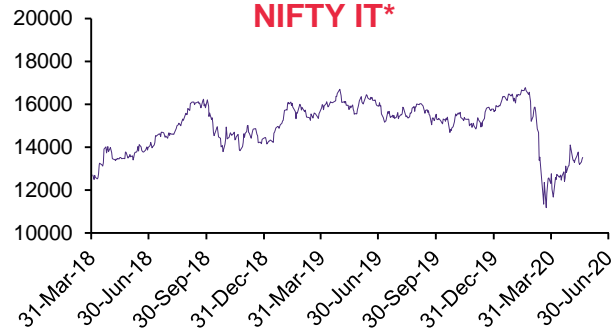
S&P 500 IT*



NIFTY 50*



NIFTY IT*



% change in market indices

| Market Index | 31 December 19 to 31 March 2020 | 31 December 19 to 20 May 2020 |
|--------------|---------------------------------|-------------------------------|
| S&P 500 | -20.0% | -8.0% |
| S&P 500 IT | -12.2% | 6.2% |
| NIFTY 50 | -29.3% | -25.5% |
| NIFTY IT | -18.5% | -13.6% |

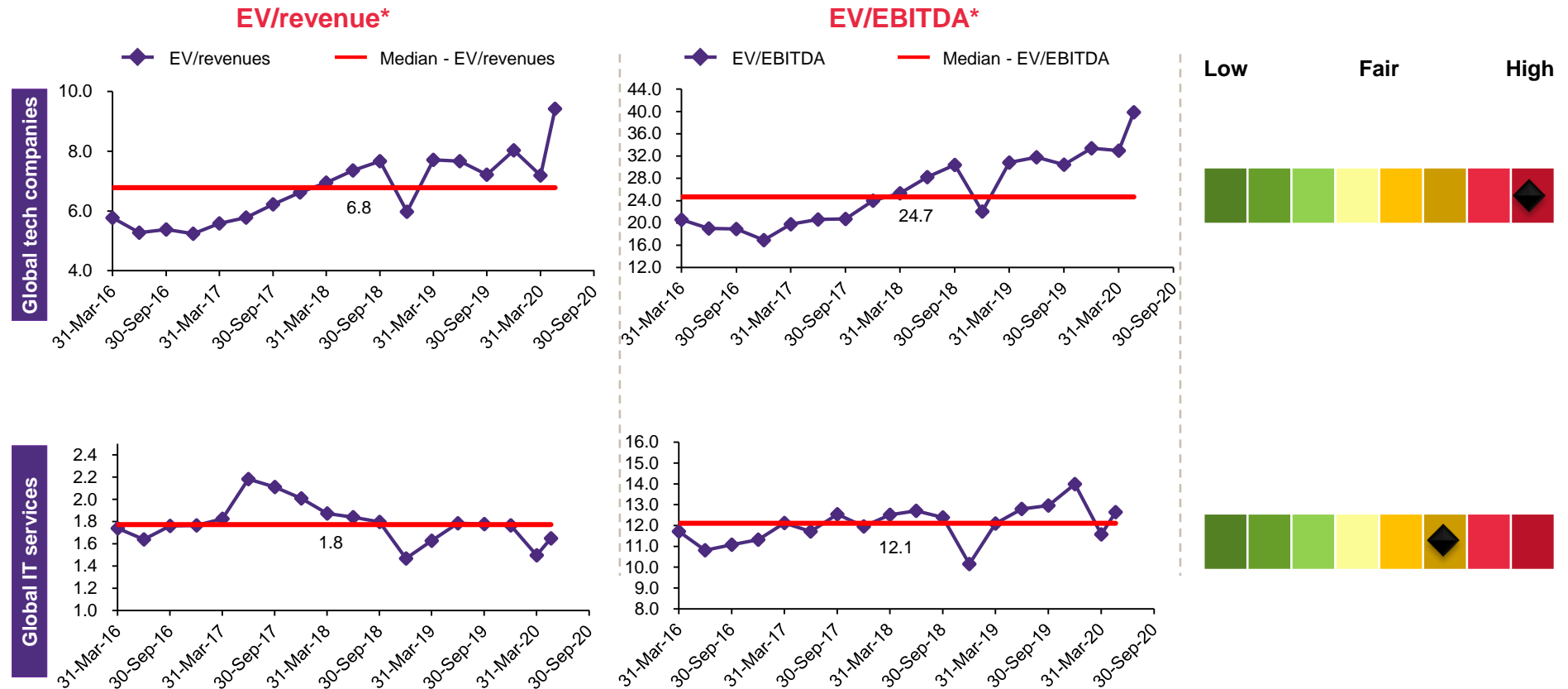
% change in market cap of segments#

| Segments | 31 December 19 to 31 March 2020 | 31 December 19 to 20 May 2020 |
|-----------------------|---------------------------------|-------------------------------|
| Global IT Services | -20.8% | -9.7% |
| Global Tech | -3.5% | 13.5% |
| Large Cap IT Services | -16.6% | -11.7% |
| Mid Cap IT Services | -22.9% | -12.9% |
| Small Cap IT Services | -33.7% | -23.6% |
| IT Engineering | -25.6% | -23.5% |
| Software | -27.2% | -16.2% |

*Closing prices have been presented till 20 May 2020 in order to capture the results of Q4 FY20.

#Refer Appendix 1 to 3 for the list of IT companies considered for our analysis in each of the segment

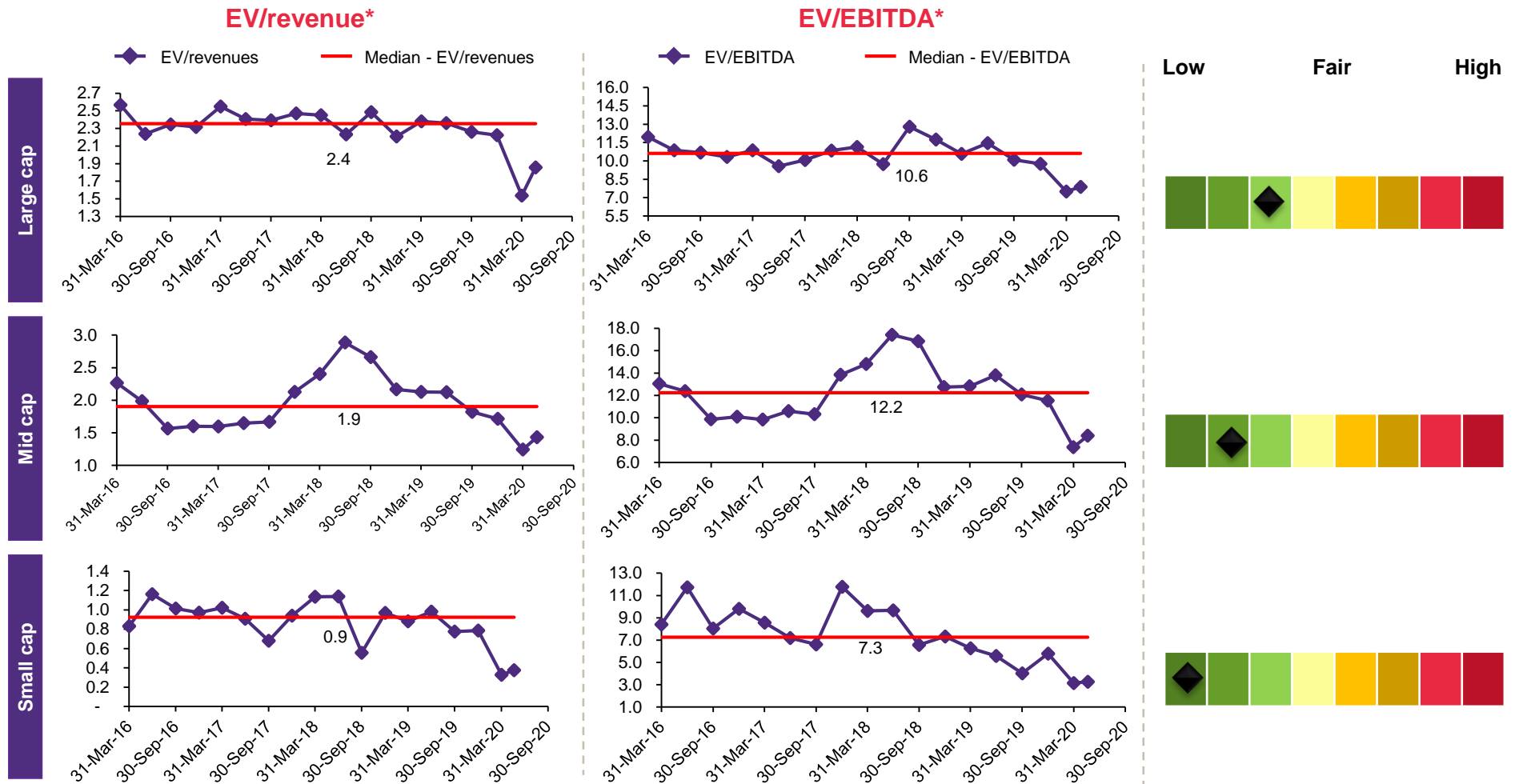
Executive summary – global IT services and global technology



*Multiples have been presented till 20 May 2020 in order to capture the results of Q4 FY20.

** Please refer Appendix 3 for the list of companies considered

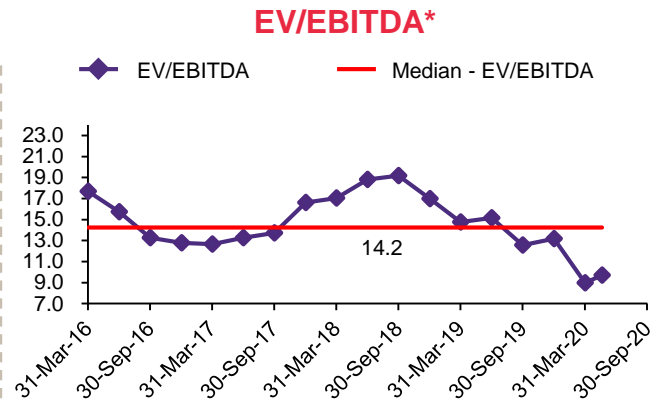
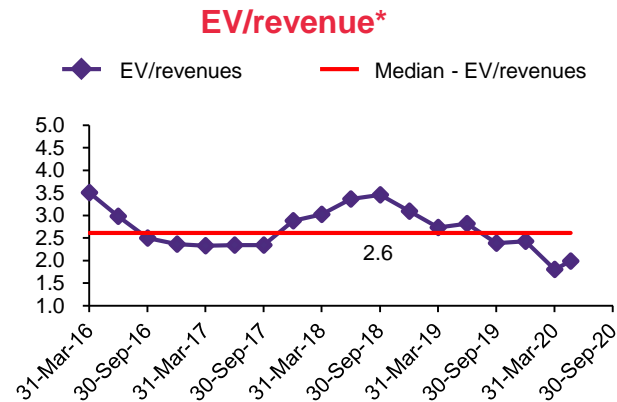
Executive summary – large, mid and small cap IT services



* Multiples have been presented till 20 May 2020 in order to capture the results of Q4 FY20.

Executive summary – other IT and ITeS segments

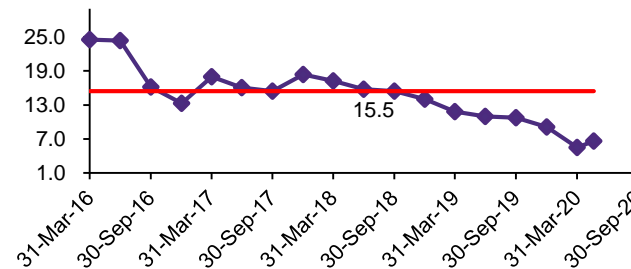
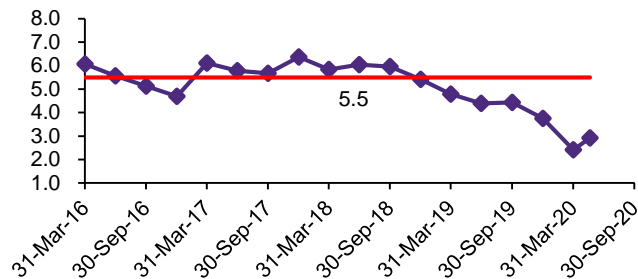
Engineering services



Low Fair High



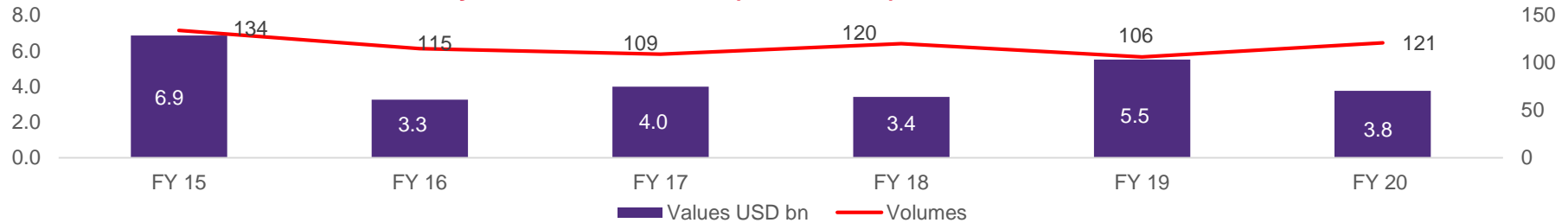
Software products



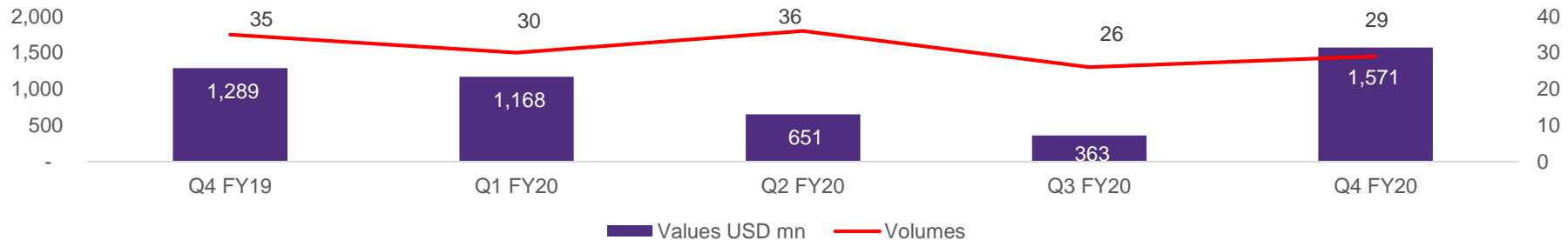
* Multiples have been presented till 20 May 2020 in order to capture the results of Q4 FY20.

Executive summary – transactions

Yearly transaction values (USD billion) and volumes for FY15-FY20

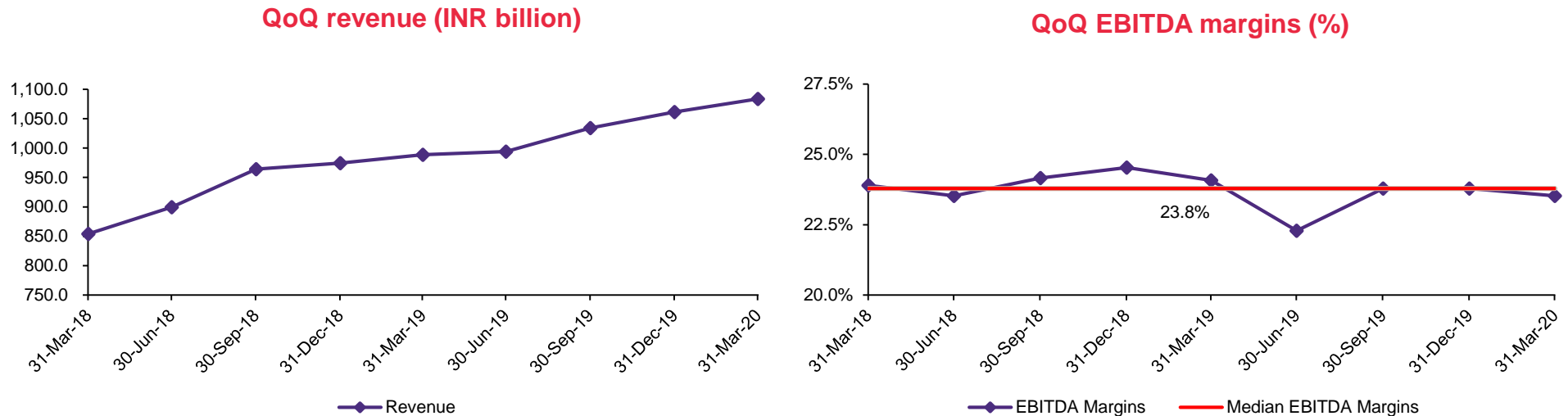


Quarterly transaction values (USD million) and volumes from Q4 FY19 to Q4 FY20



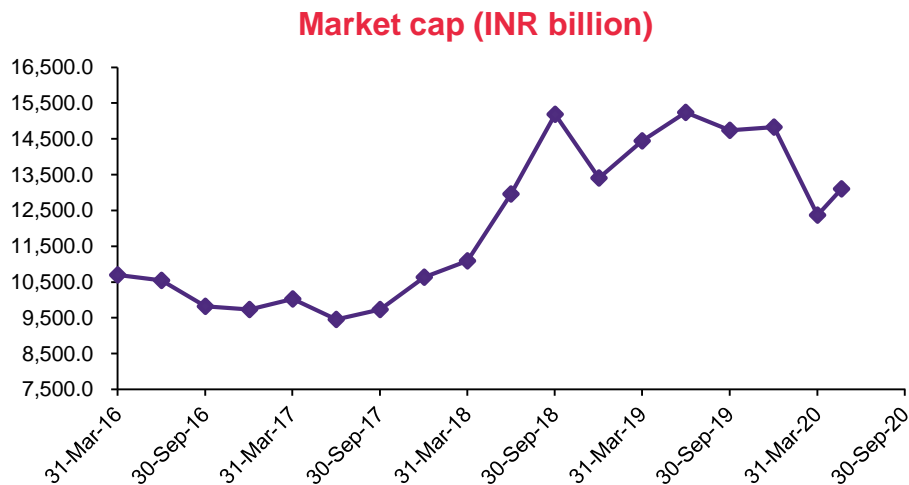
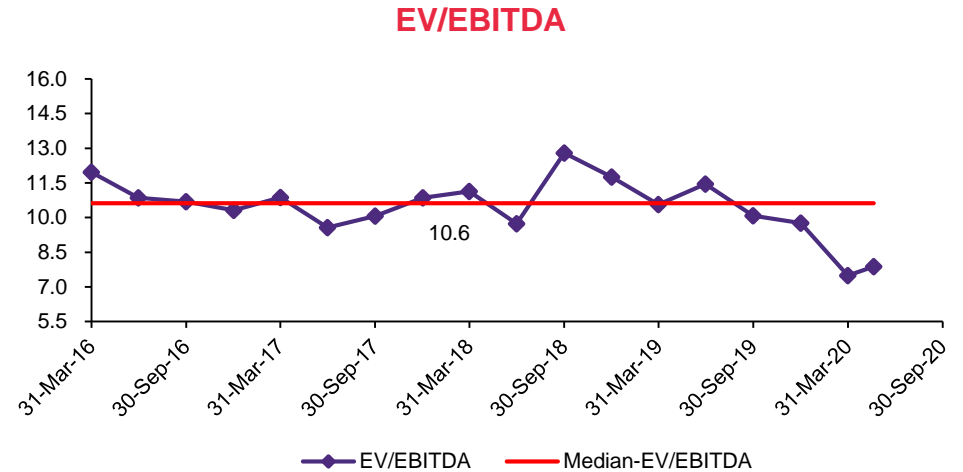
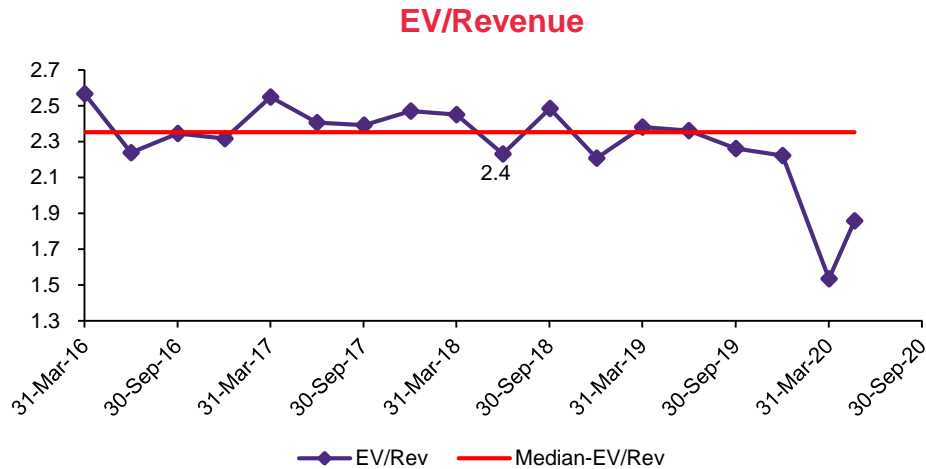
- FY19 was a year of digital transformation for a lot of Indian IT companies, which was reflected in a steady rise in percentage of digital revenues and transaction activity. Transaction activity involving new age technologies such as blockchain technology, digital design and marketing studios, IOT, cyber security, drone technology etc. had increased in FY19. However, FY20 saw lesser number of transactions in these areas.
- Increase in usage of technology in every sector has prompted IT companies to acquire engineering and design companies. IT industry has seen few marquee transactions made by large cap and mid cap companies in FY19 and same trend continued in FY20 as well.
- With data becoming an important tool for all businesses, IT companies, which provide Predictive analytics, have gained traction and significant number of transactions have happened in this segment in FY20.

Large cap – revenue and EBITDA margin trend



- On a sequential basis, the revenues increased from INR 1,061.6 billion (USD 14.1 billion) in Q3 FY20 to INR 1,083.7 billion (USD 14.4 billion) in Q4 FY20 at a growth rate of 2.1%. However, for the same period, the EBITDA margins declined from 23.8% to 23.5%.
- On a year-on-year (y-o-y) basis, the revenues increased from INR 988.8 billion (USD 13.1 billion) in Q4 FY19 to INR 1,083.7 billion (USD 14.4 billion) in Q4 FY20 at a growth rate of 9.6%. However, for the same period, the EBITDA margins decreased from 24.1% to 23.5%.
- In Q4 FY20, all large cap companies have witnessed either a degrowth or only a marginal increase in revenue on a constant currency basis due to impact of COVID-19 on majority of their business segments, such as banking and financial services (BFSI), retail, manufacturing. However, on a reported currency basis, they had a positive revenue growth due to favorable rupee fluctuations.
- Large cap companies have been agile to move towards work from home (WFH) model in a short span of time. Considering that WFH has become the new normal, companies have been constantly trying to cope up with productivity and execution issues.
- IT companies witnessed minimal impact on Q4 FY20 deals due to COVID-19. However, the prevailing uncertainty and possibility of resurgence of COVID-19 in FY21, would lead to reduction in IT budgets by their clients, which will have a direct impact on future deals.

Large cap – historical multiples



* Market cap and multiples have been presented till 20 May 2020 in order to capture the reported results of Q4 FY20.

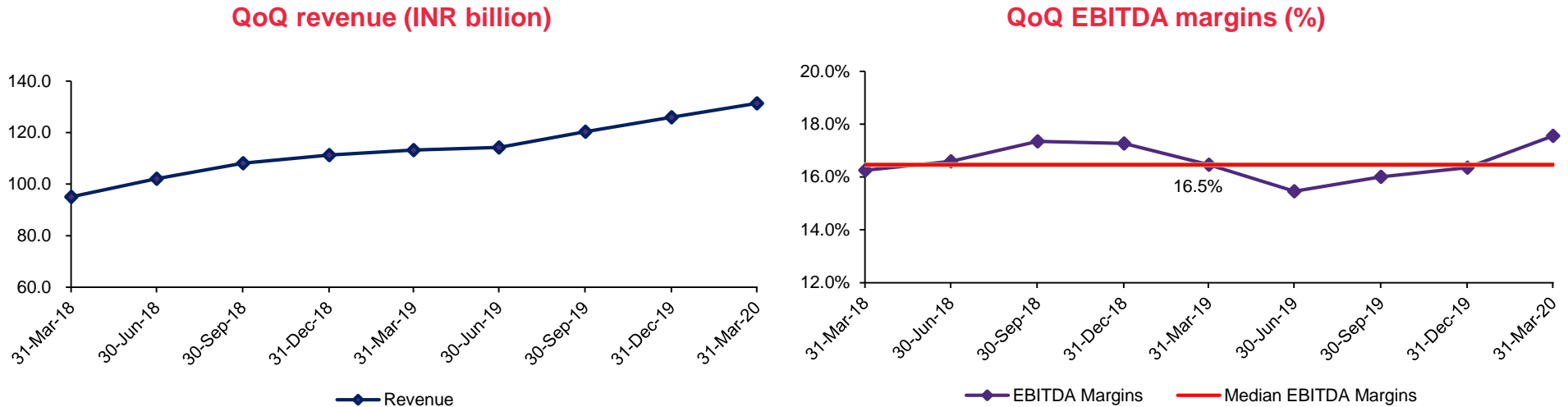
** Please refer Appendix 1 for the list of companies considered.

The valuation multiples have plunged in March 2020 to their lowest levels in the last five years. However, in line with the global and Indian stock markets, the valuations recovered slightly in April and May.

Recovery in valuations also stems from the following opportunities which the IT companies are witnessing due to the current WFH model:

- As WFH is the new normal globally, companies expect an acceleration in digitisation and cloud adoption by their customers.
- Cyber security will emerge as a key segment considering the current work environment.
- Gain in market share due to vendor consolidation.

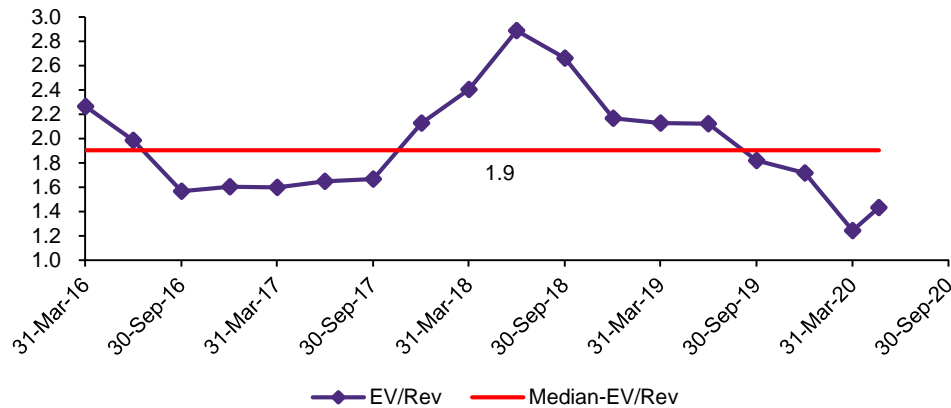
Mid cap – revenue and EBITDA margin trend



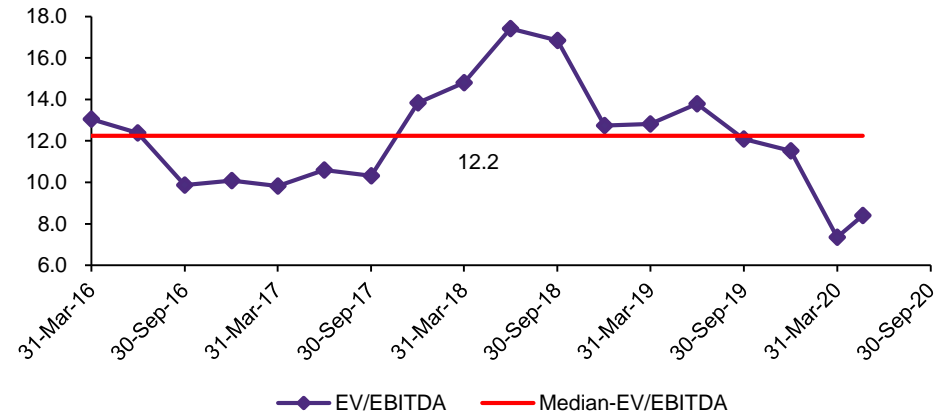
- On a sequential basis, the revenues increased from INR 126.0 billion (USD 1.67 billion) in Q3 FY20 to INR 131.4 billion in Q4 FY20 (USD 1.74 billion) at a growth rate of 4.3%. Further, the EBITDA margins increased by 16.4% to 17.6% in the same period.
- On a y-o-y basis, the revenues increased from INR 113.3 billion (USD 1.50 billion) in Q4 FY19 to INR 131.4 billion in Q4 FY20 (USD 1.74 billion) at a growth rate of 16.0%. EBITDA margins increased from 16.5% to 17.6% for the same period.
- It has been a mixed bag quarter for mid cap segment where the overall growth in revenue of the segment is led by few companies (L&T Infotech, WNS, Mindtree). On sequential basis, mid cap segment has recorded the highest growth when compared with other IT services and engineering segments. Further, the growth was mainly driven by the ramp up of deals in the first two months of Q4 FY20, which was slightly offset by COVID-19 headwinds in March 2020.
- On a sequential basis, margins for most companies in this segment remained flattish in Q4 compared with Q3 of FY20. However, the sudden uptick in the overall segment margins in Q4 is mainly due to one of the entities (Zensar) margin getting restored to a normal level in Q4 after a steep decline seen in Q3 margins due to some client specific issues.
- Even on full year basis, mid cap segment has recorded highest growth rate compared with the other segments.

Mid cap – historical multiples

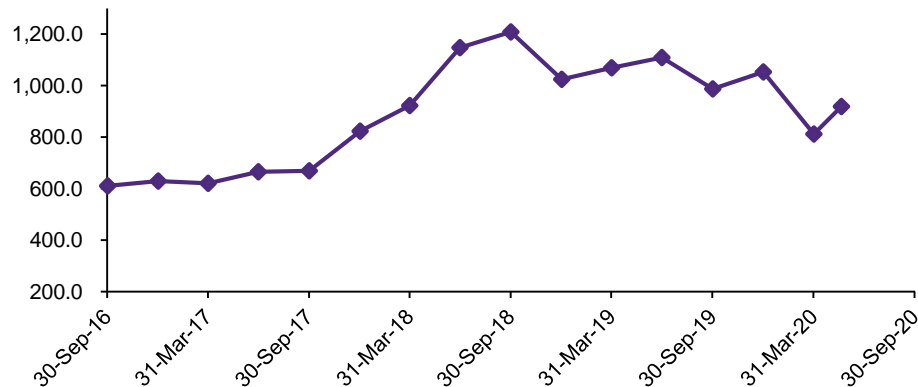
EV/revenue*



EV/EBITDA*



Market cap (INR billion)*



- Despite the positive revenue growth recorded by mid cap segment, the valuation multiples have plunged to a record low. However, in line with the global and Indian stock markets, the valuations recovered slightly in April and May.
- Mid cap companies have performed well on revenue terms compared with large cap IT services segment for FY20 and same is reflected in the higher multiples of this segment.

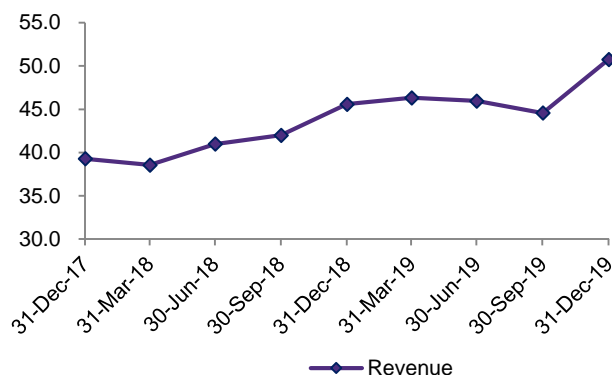
* Market cap has been presented from Q2 FY17 considering that L&T Infotech is listed from that quarter.

** Market cap and multiples have been presented till 20 May 2020 in order to capture the results of Q4 FY20.

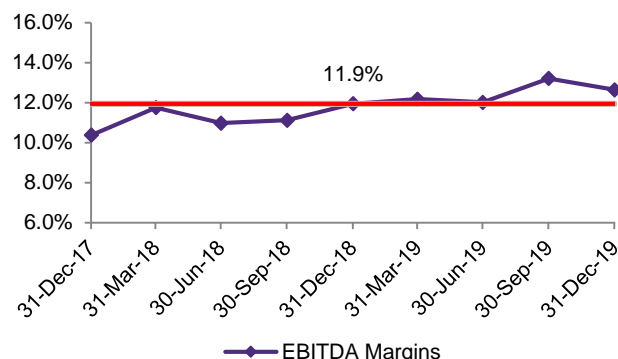
*** Please refer Appendix 1 for the list of companies considered.

Small cap – revenue and EBITDA margin and multiples trend**

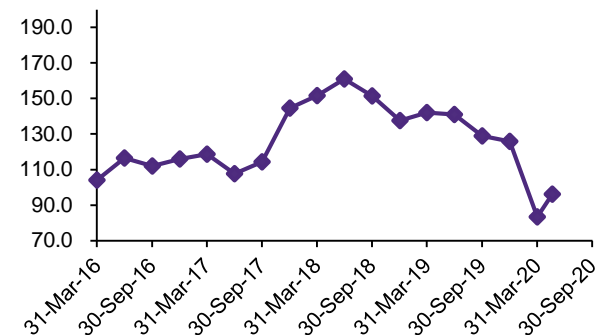
QoQ revenue (INR billion)



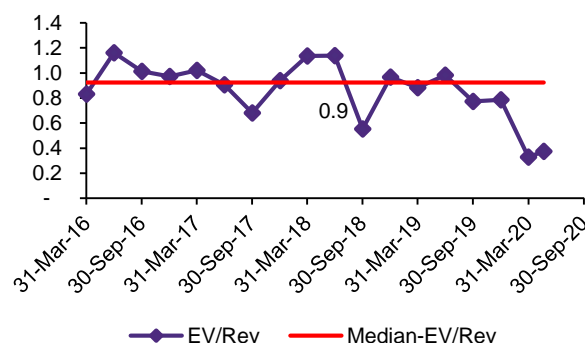
QoQ EBITDA margins (%)



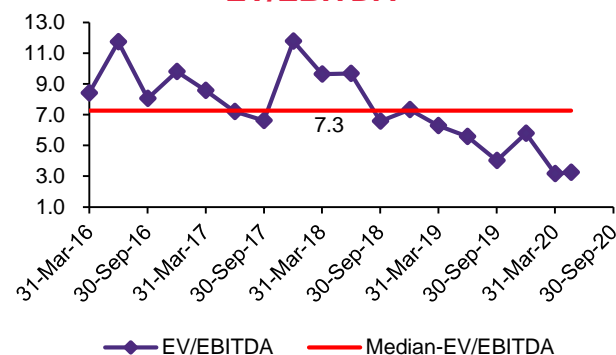
Market cap (INR billion)



EV/revenue



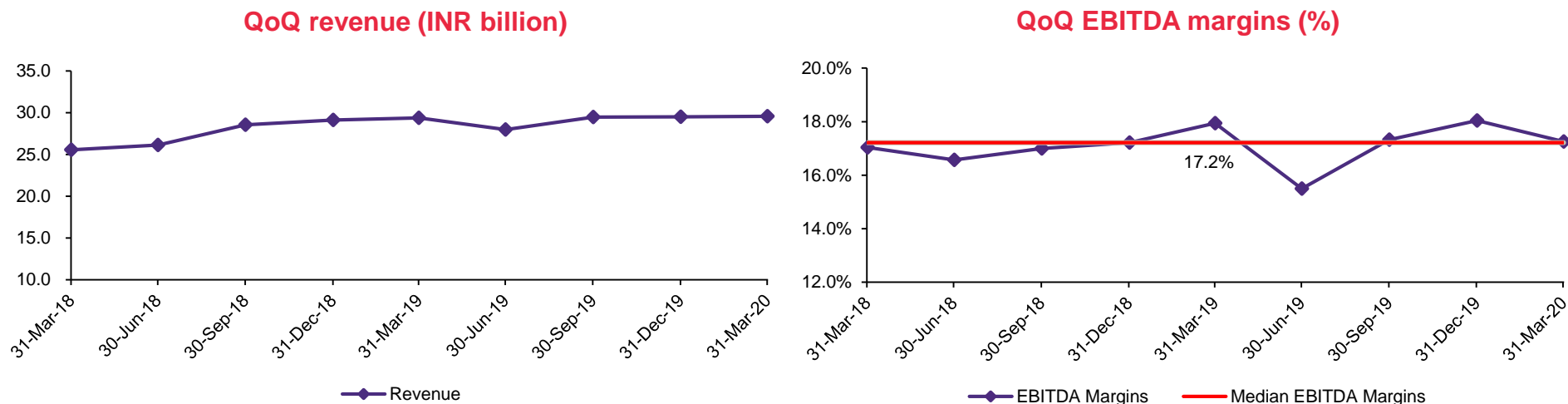
EV/EBITDA



*Majority of small cap companies have not released their Q4 FY20 results. Therefore, we have provided quarter-on-quarter (q-o-q) revenue and EBITDA margins till 31 December 2019. However, multiples have been considered till 20 May 2020 based on last 12-month (LTM) financial metrics as of 31 December 2019.

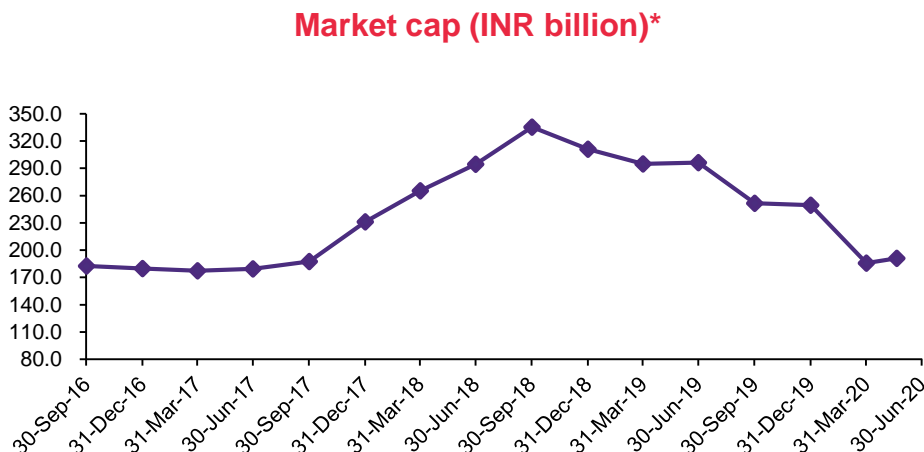
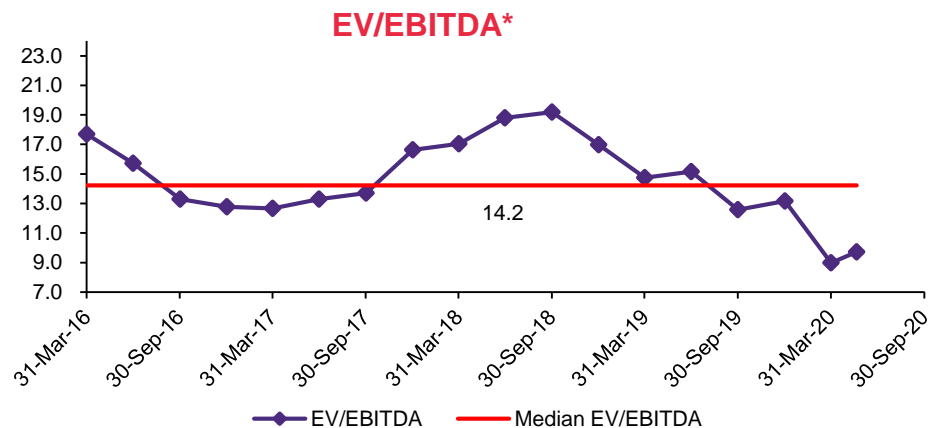
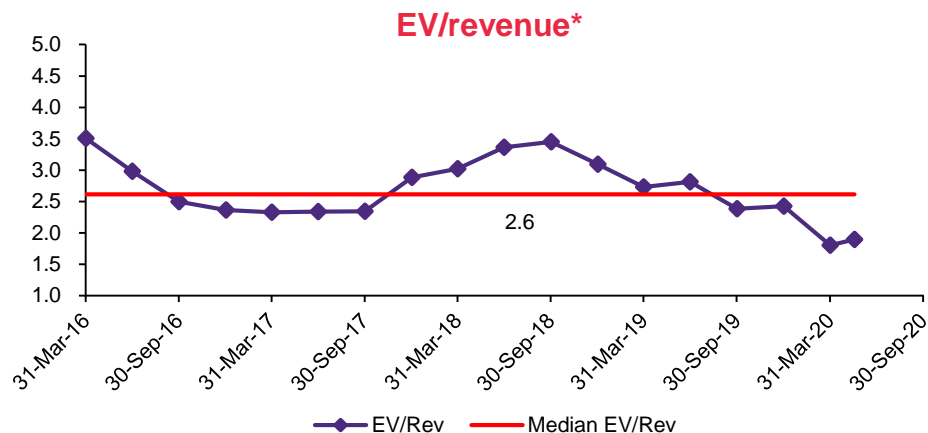
** Please refer Appendix 1 for the list of companies considered

IT engineering – revenue and EBITDA margin trend



- On a sequential basis, revenues marginally increased from INR 29.5 billion (USD 0.39 billion) in Q3 FY20 to INR 29.6 billion (USD 0.39 billion) in Q4 FY20 at a growth rate of 0.2%. During the same period, EBITDA margins decreased from 18.0% to 17.3%.
- On an annual basis, revenues increased from INR 29.4 billion (USD 0.39 billion) in Q4 FY19 to INR 29.6 billion in Q4 FY20 (USD 0.39 billion) at a growth rate of 0.7%. However, EBITDA margins decreased from 17.9% to 17.3% over the same period.
- The revenue growth has remained flattish, except Tata ELXSI, in Q4 FY20 even though there was benefit of rupee depreciation. As a result of COVID-19 and the lockdown implemented in various countries, the industries that got most affected are transport, aerospace and automotive. This has led the clients to reprioritise their budgets, away from IT engineering services and renegotiate existing contracts in a bid to improve their cash flows.
- Industrial product and plant engineering segment also got affected due to collapse in oil prices and challenges are set to continue in these segments for Q1 FY21. Growth in the medical business vertical did not meet expectations with regulations being reduced for these companies and an increasing focus towards COVID-19 over other areas.
- As a result of an increased demand in chipset and online entertainment, the semi-conductor and media entertainment business verticals are potential opportunities of growth for IT engineering companies.

IT engineering – historical multiples



- The engineering companies' dependence on key segments such as automobile, aerospace industries, which were facing macro economic challenges for more than a year now, have already impacted the overall engineering companies' business in FY20. To add on to that, the COVID-19 crisis has further impacted their other performing segments, such as plant engineering, industrial products etc. due to global lockdowns, halt in manufacturing facilities etc.
- The above challenges faced by engineering companies is reflected in their valuation multiples. The slight recovery seen in April and May 2020 are still lower than the recovery seen by companies in other segments.

*Market cap has been presented from Q2 FY17 considering that L&T Technology is listed only from that quarter.

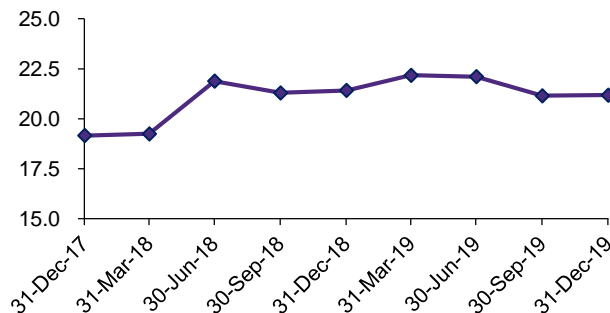
*Multiples represent weighted average multiples calculated based on the market capitalisation weights. Therefore, the multiples are affected by the large players in this segment and may not be used for valuation of smaller companies.

*Market cap and multiples have been presented till 20 May 2020 in order to capture the financial results of Q4 FY20.

**Please refer Appendix 2 for the list of companies considered.

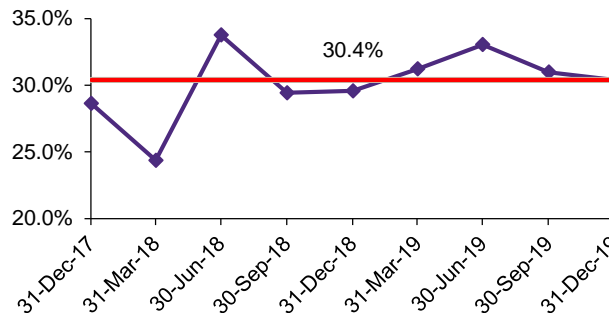
Software products – revenue and EBITDA margin and multiples trend**

QoQ revenue (INR billion)



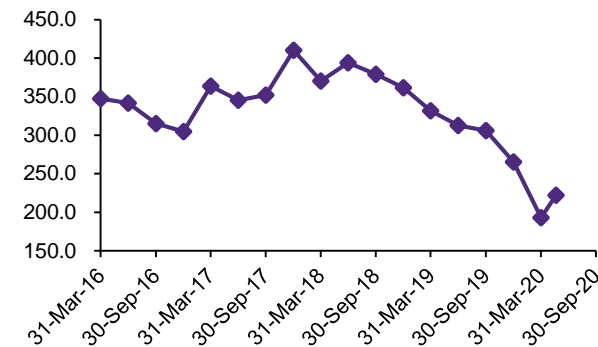
Revenue

QoQ EBITDA margins (%)

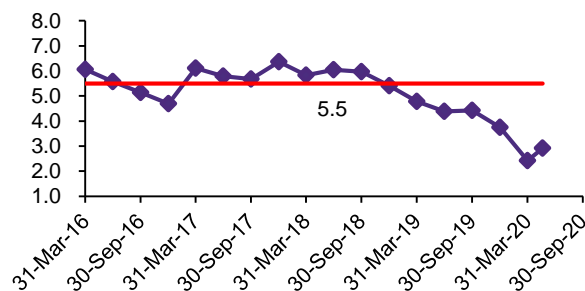


EBITDA Margins

Market cap (INR billion)*

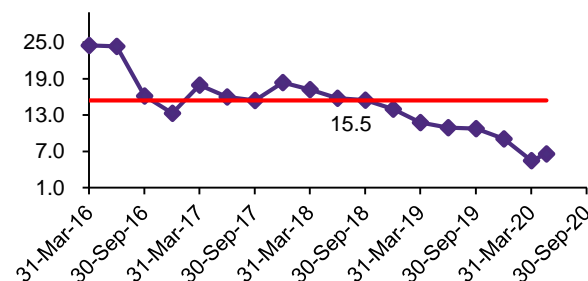


EV/Revenue*



EV/Rev Median EV/Rev

EV/EBITDA*



EV/EBITDA Median EV/EBITDA

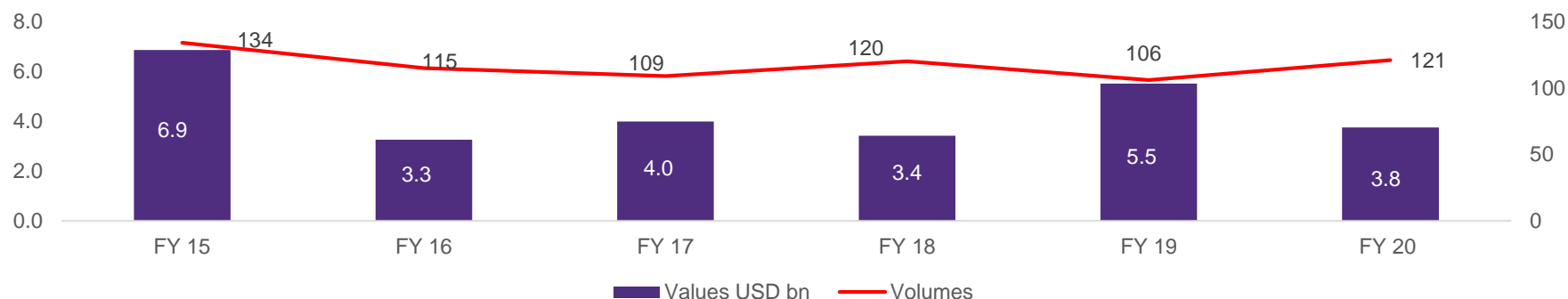
*Majority of software companies have not released their Q4 FY20 results. Therefore, we have provided q-o-q revenue and EBITDA margins till 31 December 2019. However, multiples have been considered till 20 May 2020 based on LTM financial metrics as of 31 December 2019.

**Multiples represent weighted average multiples calculated based on the market capitalisation weights. Therefore, the multiples are affected by large players in this segment and may not be used for valuation of smaller companies.

*** Please refer Appendix 2 for the list of companies considered.

Transactions – IT and ITeS industry (yearly trends)

Yearly transaction values (USD billion) and volumes for FY15-FY20



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

Break-up of the above transaction values and volumes for FY15-FY20

Transaction values (USD billion)

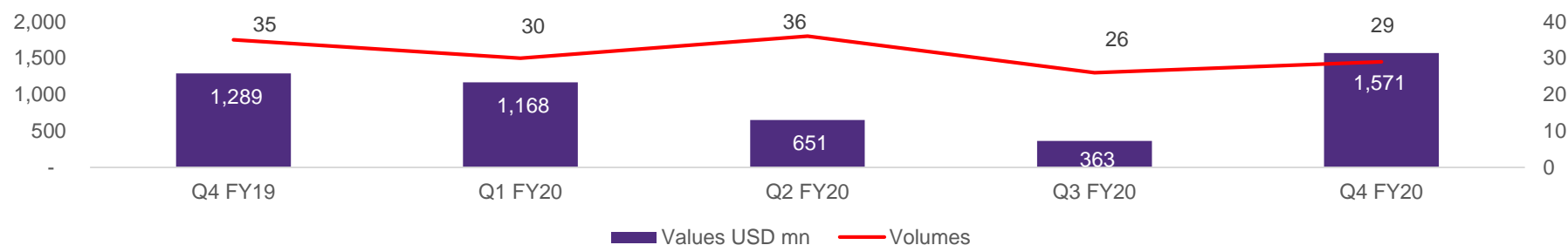
| Year | Domestic | Merger and internal restructuring | Inbound | Outbound | PE/VC |
|------|----------|-----------------------------------|---------|----------|-------|
| FY15 | 0.2 | 0.5 | 1.6 | 3.9 | 0.6 |
| FY16 | 0.1 | - | 0.9 | 1.4 | 0.8 |
| FY17 | 0.4 | - | 1.3 | 1.0 | 1.4 |
| FY18 | 0.2 | 0.7 | 1.2 | 0.3 | 1.1 |
| FY19 | 0.8 | - | 1.2 | 2.5 | 0.9 |
| FY20 | 0.4 | - | 1.0 | 0.9 | 1.4 |

Transaction 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 |
| FY20 | 28 | - | 15 | 30 | 48 |

Transactions – IT and ITeS industry (quarterly trends)

Quarterly transactions values (USD million) and volumes from Q4 FY19-FY20



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

Break-up of the transaction values and volumes for Q4 FY19-FY20, April and May 2020

Transaction values (USD million)

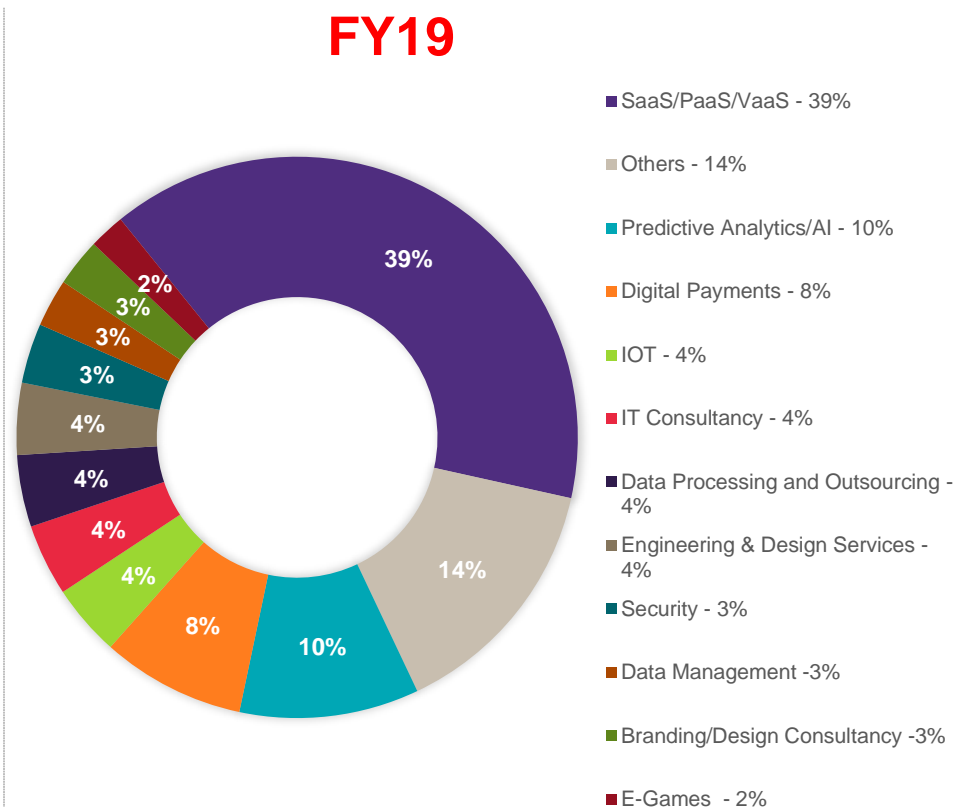
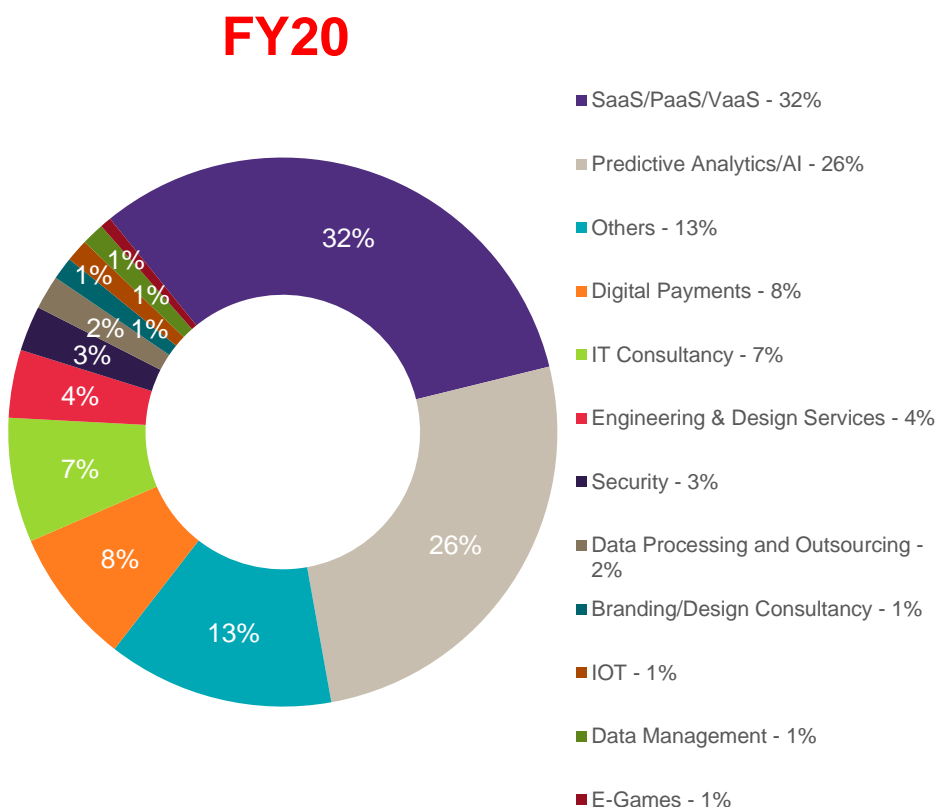
| Year | Domestic | Merger and internal restructuring | Inbound | Outbound | PE/VC |
|------------|----------|-----------------------------------|---------|----------|-------|
| Q4 FY19 | 570 | - | 125 | 52 | 543 |
| Q1 FY20 | 107 | - | 18 | 429 | 614 |
| Q2 FY20 | 121 | - | 32 | 42 | 456 |
| Q3 FY20 | 92 | - | 10 | 60 | 201 |
| Q4 FY20 | 87 | - | 965 | 345 | 174 |
| April 2020 | 32 | - | - | 5 | 25 |
| May 2020 | - | - | 5 | 6 | 65 |

Transaction volumes

| Year | Domestic | Merger and internal restructuring | Inbound | Outbound | PE/VC |
|------------|----------|-----------------------------------|---------|----------|-------|
| Q4 FY19 | 14 | - | 6 | 5 | 10 |
| Q1 FY20 | 4 | - | 3 | 10 | 13 |
| Q2 FY20 | 9 | - | 6 | 7 | 14 |
| Q3 FY20 | 9 | - | 2 | 5 | 10 |
| Q4 FY20 | 6 | - | 4 | 8 | 11 |
| April 2020 | 1 | - | - | 1 | 2 |
| May 2020 | - | - | 1 | 3 | 5 |

Transactions – IT and ITeS industry: Areas of interest (YoY)

Major sectors where IT industry is investing



- 'Others' majorly includes transactions, which took place in sub-segments such as blockchain technologies, cloud communications, system software, Implementation services, HR solutions, network solutions, drone technology, social media and software automation.
- ** The above transactions include both merger and acquisition and private equity transactions.

IT and ITeS industry transactions: Overview

- IT and ITeS industry witnessed a decrease in transaction values from USD 5.5 billion in FY19 to USD 3.8 billion in FY20. However, excluding HCL's acquisition of IBM's software products in FY19, which is the largest acquisition made by an Indian IT company till date, there will be a marginal increase in transaction values from FY19 to FY20.
- On q-o-q basis, after a weak Q3 quarter in terms of transactions, Q4 FY20 has closed on a positive note with increase in both transaction values and volumes. Q4 FY20 witnessed a few high-value transactions like Clarivate Analytics Plc's acquisition of Decision Resources Group for USD 950 million and Infosys's acquisition of Simplus for USD 250 million.
- The current COVID-19 situation had impacted the transaction activity and same is reflected in the four transactions recorded in April 2020, which are of lesser value compared with the average of 10 transactions per month historically (30 transactions recorded in Q1 FY 20) . However, IT companies have seen a rebound in the transaction activity in the month of May 2020, with higher number of transaction volumes being recorded.
- FY19 was a year of digital transformation for a lot of Indian IT companies, which was reflected in a steady rise in percentage of digital revenues and transaction activity. Transaction activity involving new age technologies such as blockchain technology, digital design and marketing studios, IOT, cyber security, drone technology etc. had increased in FY19. However, FY20 saw lesser number of transactions in these areas.
- Increase in usage of technology in every sector has prompted IT companies to acquire engineering and design companies. IT industry has seen few marquee transactions made by large cap and mid cap companies in FY19 and same trend continued in FY20 as well.
- With data becoming an important tool for all businesses, IT companies, which provide Predictive analytics, have gained traction and significant number of transactions have happened in this segment in FY20.

Marquee transactions: April 2019 to March 2020

Following are some of the few big-ticket transactions that happened in FY20:

| Transaction month | Acquirer | Country (Acquirer) | Target | Country (Target) | Segment | Transaction type | Transaction value (USD million) |
|-------------------|--------------------------------------|--------------------|--|------------------|---------------------------------|------------------|---------------------------------|
| January 2020 | Clarivate Analytics Plc | USA | Piramal Enterprise Ltd. Decision Resources Group | -India | Predictive analytics/AI | Majority stake | 950.0 |
| April 2019 | Hulst B.V | Netherlands | NIIT Technologies Ltd. | India | IT consultancy | Majority stake | 827.7 |
| February 2020 | Infosys Ltd. | India | Simplus – Outbox Systems | USA | Implementation services | Acquisition | 250.0 |
| June 2019 | Hexaware Technologies | India | Mobiquity Inc. | USA | Engineering and design services | Acquisition | 182.0 |
| April 2019 | Infosys Ltd. | India | ABN AMRO -Stater NV | Netherlands | Data processing and outsourcing | Acquisition | 143.0 |
| June 2019 | Multiple Funds | NA* | Druva Software Pvt. Ltd. | India | Data management | PE investment | 130.0 |
| August 2019 | Multiple Funds | NA* | Dreamplug Technologies Pvt. Ltd. | India | SaaS/PaaS/VaaS | PE investment | 120.0 |
| November 2019 | Tech Mahindra | India | Born Commerce | India | Branding/design consultancy | Acquisition | 120.0 |
| July 2019 | Multiple Funds | NA* | Icertis Inc. . | India | SaaS/PaaS/VaaS | PE investment | 115.0 |
| April 2019 | Reliance Jio Digital Services Ltd. . | India | Haptik Infotech Private Limited | India | Predictive analytics/AI | Majority stake | 100.0 |
| July 2019 | Greater Pacific Capital LLP | UK | Imere Technologies Private Limited | India | Predictive analytics/AI | PE investment | 100.0 |

*NA: Not applicable

Transactions: Large cap segment

A. TCS

| Transaction month | Target | Country | Segment | Transaction value (USD million) |
|-------------------|---|---------|---------------------------------|---------------------------------|
| June 2019 | TCS Japan Ltd. | Japan | IT consultancy | 32.6 |
| September 2019 | Certain Assets of General Motors Technical Centre India Private Limited | India | Engineering and design services | Not available |

B. Infosys

| Transaction month | Target | Country | Segment | Transaction value (USD million) |
|-------------------|--------------------------|-------------|---------------------------------|---------------------------------|
| April 2019 | ABN AMRO – Stater NV. | Netherlands | Data processing and outsourcing | 143.0 |
| October 2019* | Eishtec Limited | Ireland | BPO | Not available |
| February 2020** | Simplus – Outbox Systems | USA | Implementation services | 250.0 |

* Acquired through Infosys subsidiary, Infosys BPM Limited.

** Acquired through Infosys subsidiary, Infosys Consulting Pte Limited.

C. Wipro

| Transaction month | Target | Country | Segment | Transaction value (USD million) |
|-------------------|---|---------|-------------------|---------------------------------|
| June 2019 | International Techne Group Inc. orporated | USA | Data management | 45.0 |
| September 2019 | Vara Infotech Private Limited | India | IT consultancy | 45.2 |
| February 2020 | Rational Interaction Inc. | USA | Digital marketing | 53.8 |

Transactions: Large cap segment

D. Tech Mahindra

| Transaction month | Target | Country | Segment | Transaction value (USD million) |
|-------------------|---|---------|-----------------------------|---------------------------------|
| April 2019 | Infotek Software and Systems (P) Ltd./Vitaran Electronics Pvt. Ltd. | India | Others | 1.9 |
| June 2019* | Objectwise Consulting Group | Canada | IT consultancy | 2.1 |
| July 2019* | Mad*Pow Media Solutions LLC | US | Branding/design consultancy | 16.7 |
| November 2019 | Born Commerce | India | Branding/design consultancy | 120.0 |
| February 2020 | Zen3 Infosolutions (America) Inc. and its Indian unit | USA | Predictive analytics/AI | 62.0 |

*Acquired through Tech Mahindra subsidiary, Tech Mahindra (Americas) Inc. .

E. HCL Technologies

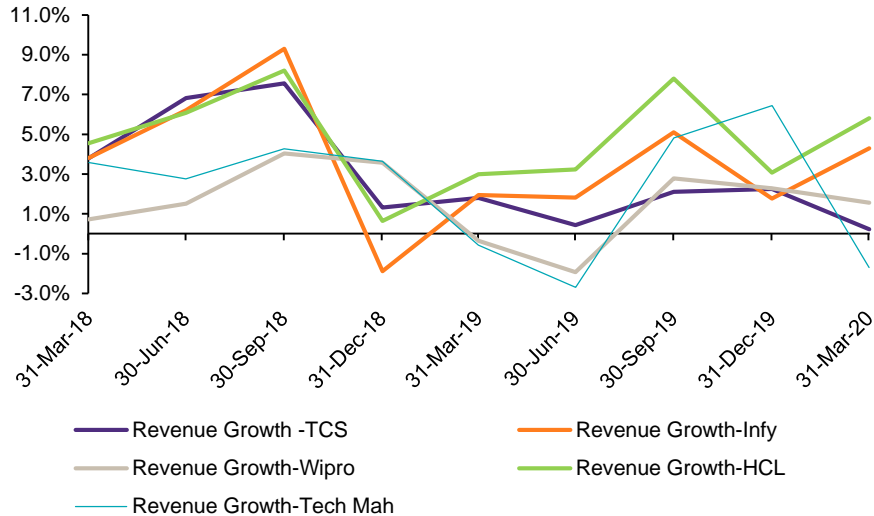
| Transaction month | Target | Country | Segment | Transaction value (USD million) |
|-------------------|-----------------------------|---------|---------------------------------|---------------------------------|
| August 2019* | Om Mobile Ventures – Kalido | UK | Predictive analytics/AI | 2.0 |
| September 2019 | Sankalp Semiconductor | India | Engineering and design services | 25.4 |

*Acquired through HCL Technologies subsidiary, HCL Technologies UK Limited.

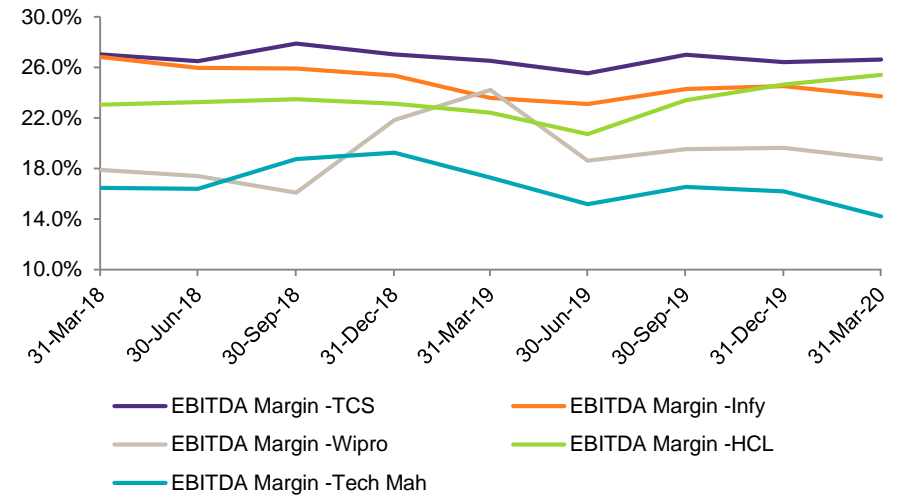
- Among large cap companies, Tech Mahindra had made highest number of acquisitions in FY20 followed by Infosys and Wipro. This year, the large cap companies have shown interest in buying companies, which provide traditional IT offerings such as BPO, implementation services etc. However, Tech Mahindra, HCL and TCS have also acquired companies to foster digital technologies such as predictive analytics/AI, branding/design consultancy, engineering and design services.

Company-specific analysis of large cap companies

Q-o-q revenue growth (%)



Quarter wise EBITDA margins (%)

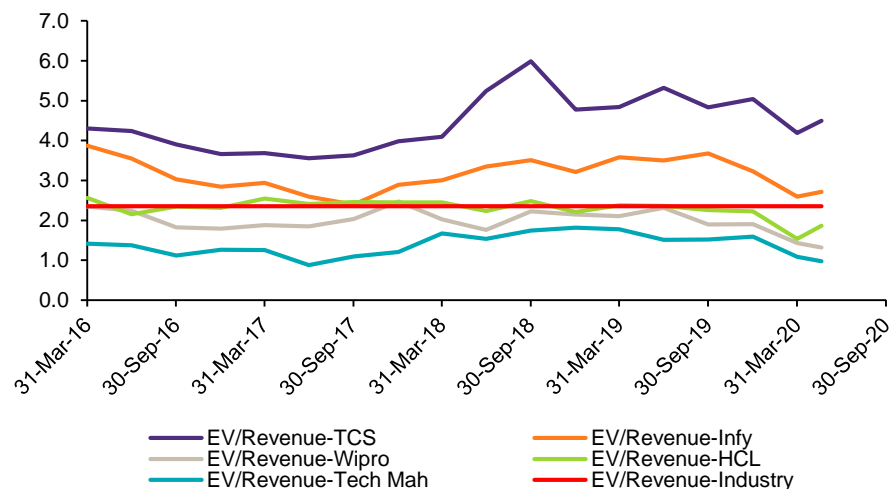


| Company | Two-year CAGR (%) | Two-year median margins (%) |
|---------------|-------------------|-----------------------------|
| TCS | 11.6% | 26.6% |
| Infosys | 14.8% | 24.5% |
| HCL | 20.2% | 23.2% |
| Wipro | 6.8% | 18.7% |
| Tech Mahindra | 8.5% | 16.5% |

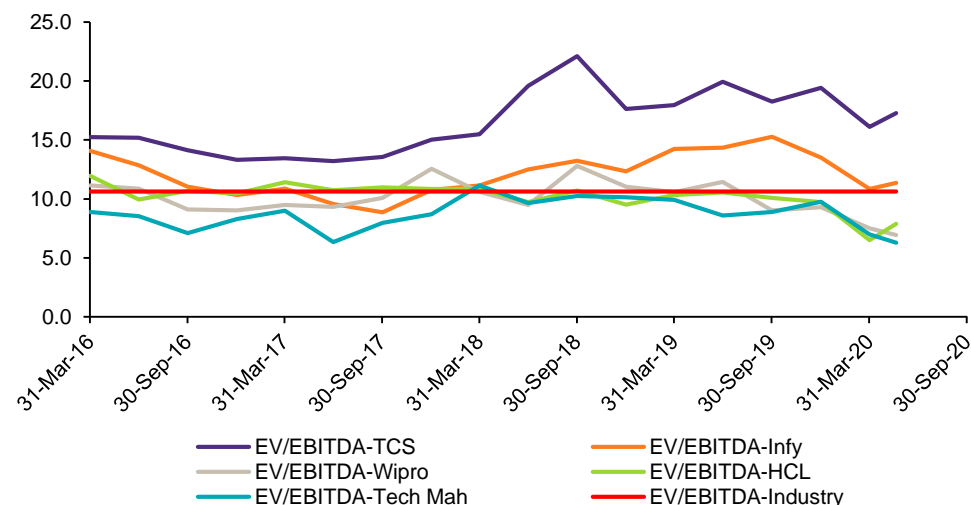
- HCL recorded the highest revenue growth in Q4 FY20 (in reported rupee terms) followed by Infosys. Tech Mahindra recorded a de-growth in revenue in the quarter.

Company-specific analysis of large cap companies (contd.)

EV/Revenue



EV/EBITDA

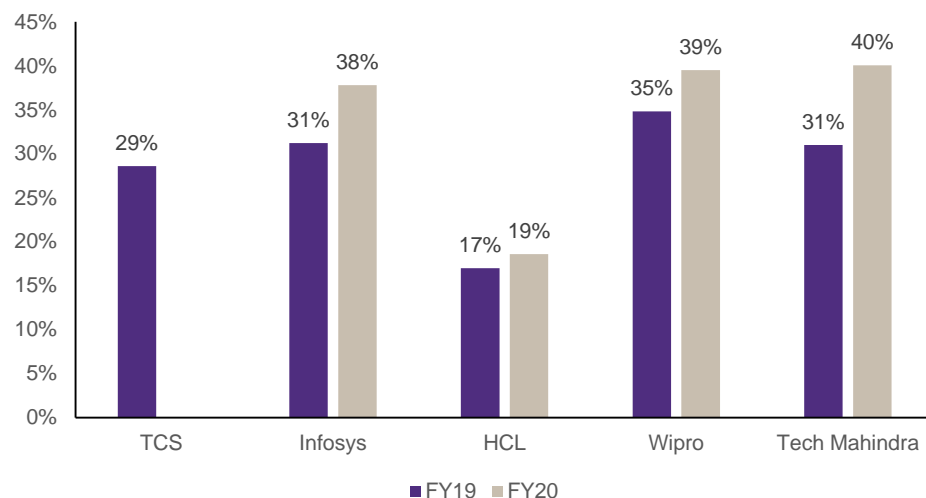


| | Five-year median EV/revenue | Premium/ (discount) on 2.4x | EV/LTM revenue | EV/one-year forward revenue | EV/Two-year forward revenue | Five-year median EV/EBITDA | Premium/ (discount) on 10.6x | EV/LTM EBITDA | EV/LTM one-year forward EBITDA | EV/LTM two-year forward EBITDA |
|----------------------------|-----------------------------|-----------------------------|----------------|-----------------------------|-----------------------------|----------------------------|------------------------------|---------------|--------------------------------|--------------------------------|
| Large cap companies | 2.4x | | | | | 10.6x | | | | |
| TCS | 4.3x | 81.5% | 4.5x | 4.4x | 4.0x | 15.8x | 48.7% | 17.3x | 16.7x | 14.9x |
| Infosys | 3.1x | 32.7% | 2.7x | 2.8x | 2.5x | 11.8x | 11.5% | 11.4x | 11.5x | 10.3x |
| HCL | 2.4x | 0.0% | 1.9x | 1.9x | 1.7x | 10.5x | (1.1)% | 7.9x | 8.0x | 7.3x |
| Wipro | 2.0x | (16.5)% | 1.3x | 1.3x | 1.3x | 9.8x | (7.9)% | 6.9x | 6.8x | 6.4x |
| Tech Mahindra | 1.4x | (40.8)% | 1.0x | 1.0x | 0.9x | 8.8x | (17.3)% | 6.3x | 6.4x | 5.4x |

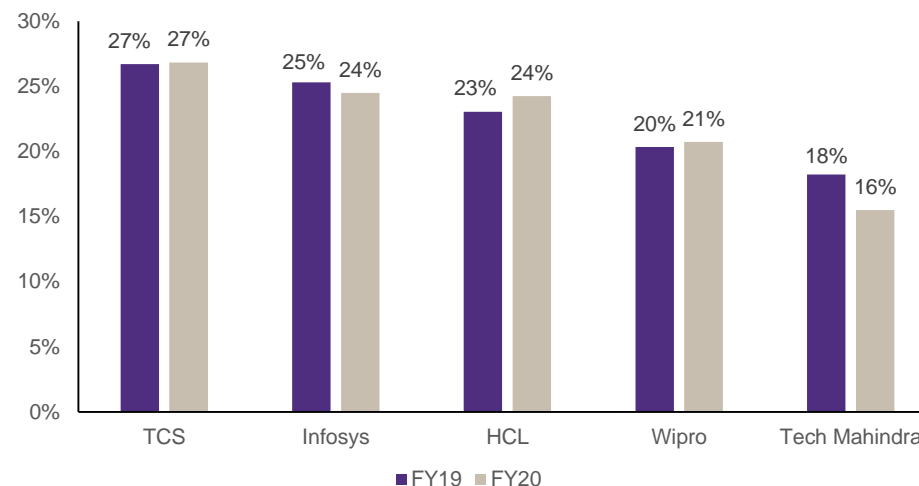
* Multiples have been presented till 20 May 2020 in order to capture the results of Q4 FY20.

Company-specific analysis of large cap companies (contd.)

Year-wise share of digital revenue (%)*



Year-wise EBITDA margins (%)



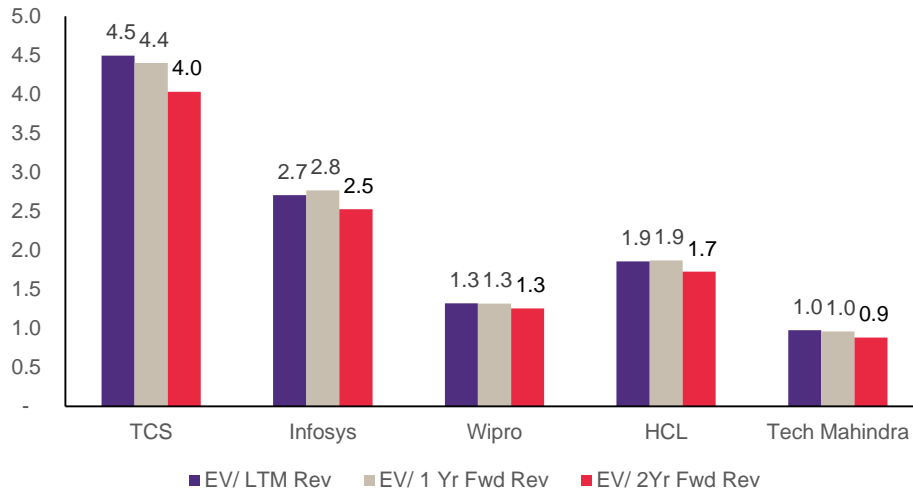
| Company | Contract value won in Q4 FY19 | Contract value won in Q3 FY20 | Contract value won in Q4 FY20 |
|---------------|--|---|---|
| TCS | USD 6.2 billion | USD 6.0 billion | USD 8.9 billion |
| Infosys | USD 1.6 billion (from 13 large deals) | USD 1.8 billion | USD 1.7 billion |
| HCL | 17 transformational deals signed in Q4 FY19* | 12 transformational deals signed in Q3 FY20** | 14 transformational deals signed in Q4 FY20** |
| Wipro | ._** | ._** | ._** |
| Tech Mahindra | USD 0.4 billion | USD 1.2 billion | USD 0.5 billion |

* TCS has not disclosed their share of digital revenue for FY20.

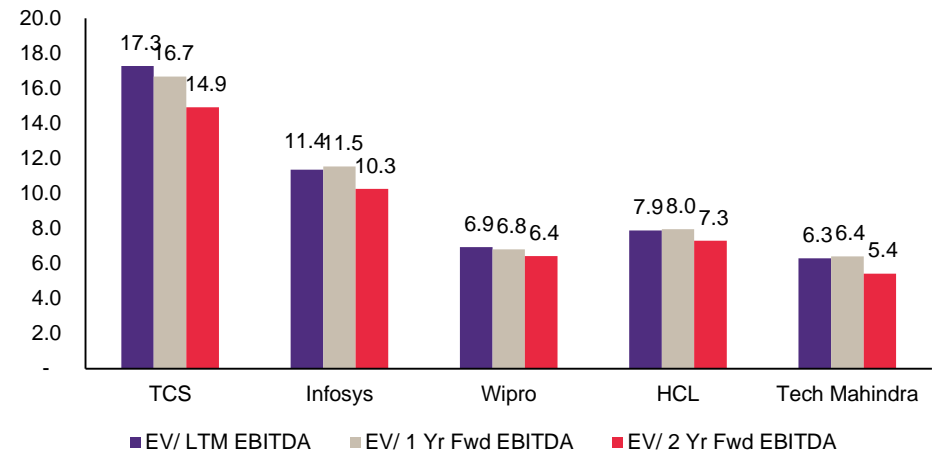
** Amount not disclosed by the company in the earnings call.

Forward estimates of large cap companies

LTM and forward EV/revenue



LTM and forward EV/EBITDA



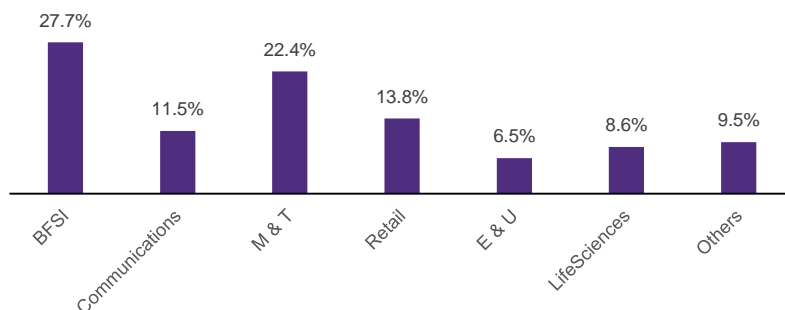
EV/revenue and EV/EBITDA are estimated on the basis of the following information:

- Enterprise value as on 20 May 2020
- Last 12-month (LTM) revenue and EBITDA as on 20 May 2020 (reported currency)
- One-year and two-year forward estimates of revenue and EBITDA as on 20 May 2020

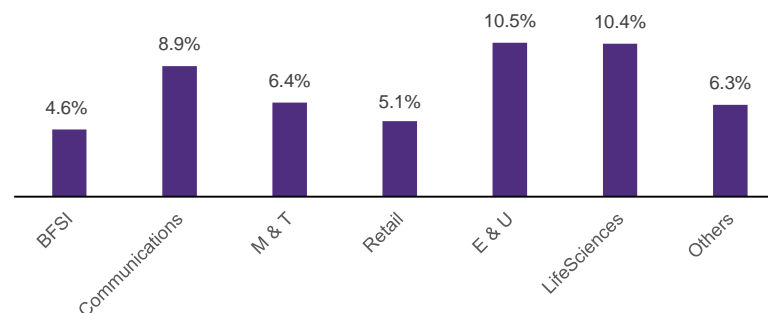
Revenue contribution and growth (reported USD currency) in verticals for FY20

Revenue contribution in verticals for FY20

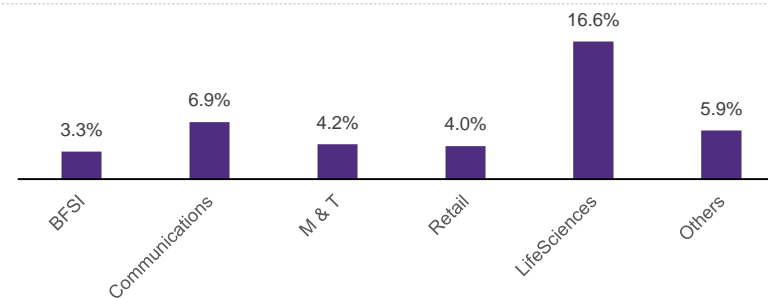
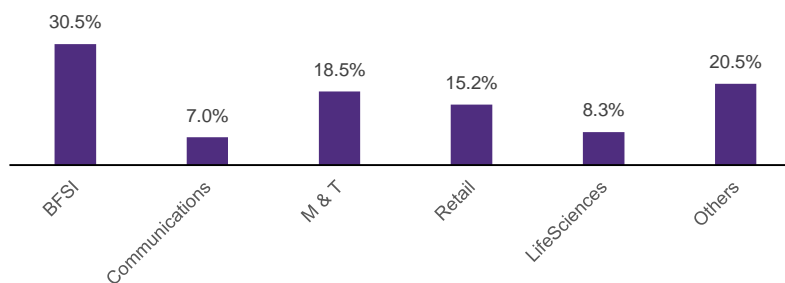
A
Large cap



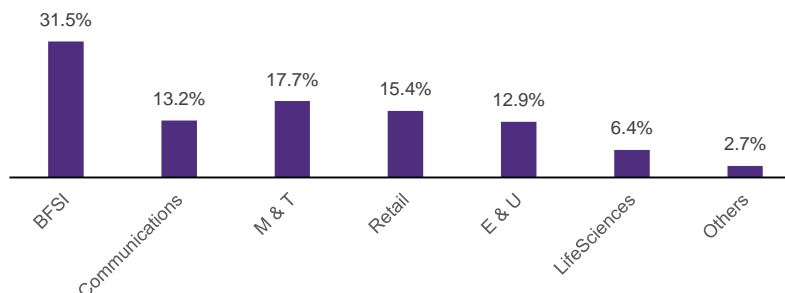
Revenue growth in verticals for FY20 (YoY %)



B
TCS



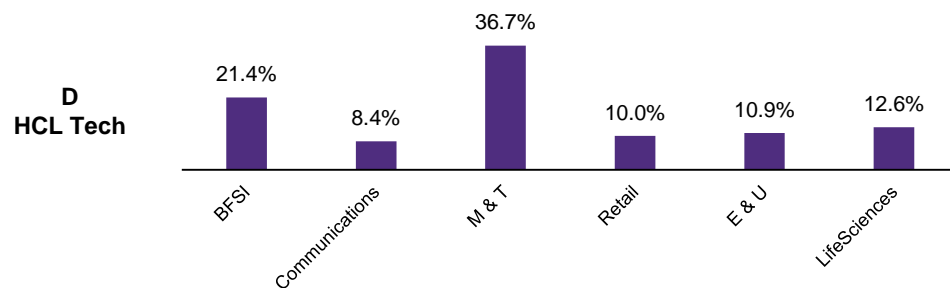
C
Infosys



Segments: i) BFSI, ii) Communications, iii) M&T = manufacturing and technology, iv) Retail, v) E&U= energy and utilities, vi) Life sciences, vii) Others

Revenue contribution and growth (reported USD currency) in verticals as of FY20 (contd.)

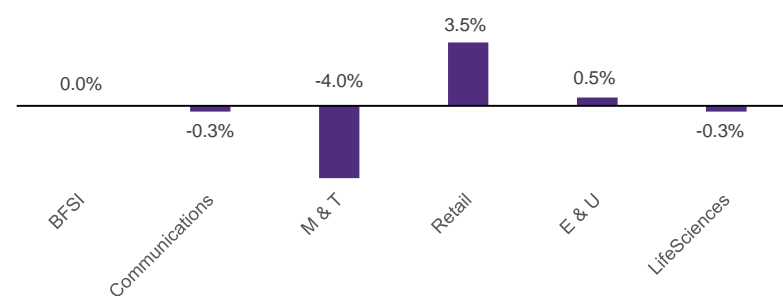
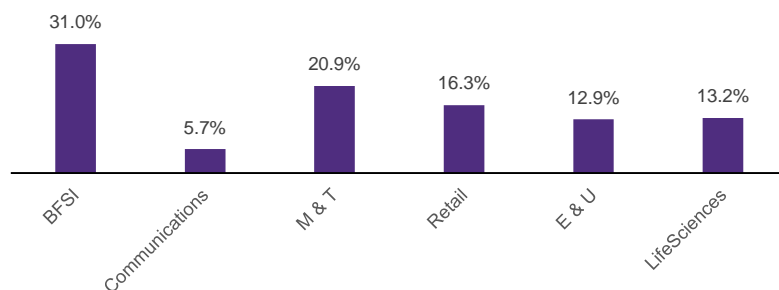
Revenue contribution in verticals for FY20



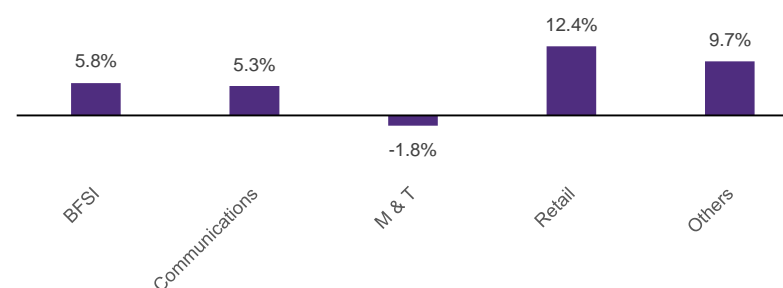
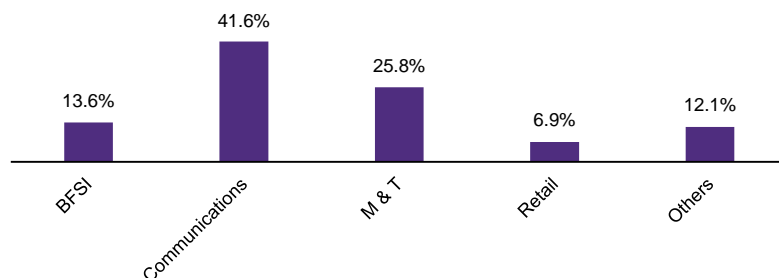
Revenue growth in verticals for FY20 (YoY %)



E Wipro



F Tech Mahindra



Segments: i) BFSI, ii) Communications, iii) M&T = manufacturing and technology, iv) Retail, v) E&U = energy and utilities, vi) Life sciences, vii) Others

Large cap companies: Other observations

- Infosys, Wipro and Tech Mahindra led the way with 38-40% of their total revenues coming from digital offerings in FY20. In the case of HCL Technologies, the digital revenues are classified differently than 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 in FY 20.
- TCS' five-year median EV/revenue and EV/EBITDA multiples were trading at premiums of 81.5% and 48.7% respectively compared with the overall large cap median multiples. It had the highest premium among all the large cap companies.
- For FY20, the revenue growth has been mostly driven by non-conventional sectors such as life sciences, energy and utility. Among key segments, BFSI, retail and manufacturing segments had a muted growth in all the large cap companies throughout the year mainly due to weak customer sentiments and macro-economic factors like the US-China trade deal, uncertainty about Brexit etc.
- On sequential basis, during Q4 FY20, COVID-19 had created supply side constraints, causing delays or inability to execute certain orders with respect to the BFSI segment and demand side constraints for retail segment. Further, manufacturing and energy and utilities segment got adversely impacted due to the global lockdowns and fall in oil prices, respectively.

Appendix 1 – IT services companies

- 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 (TCS)• Infosys• Wipro• HCL Technologies• Tech Mahindra | <ul style="list-style-type: none">• Mphasis• WNS (holdings)• Mindtree• Hexaware Technologies• Zensar Technologies Limited• L&T Infotech Limited• Persistent Systems• eClerx Services | <ul style="list-style-type: none">• Sonata Software• Firstsource Solutions• Hinduja Global Solutions• NIIT• Mastek• Genesys International Corporation• Datamatics Global Services• Cigniti Technologies• Kellton Tech Solutions• Expleo Solutions• R Systems International |

- For our analysis, we have considered only those companies that were listed five years before Q4 FY20 except for L&T Infotech Ltd. 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 that are converted based on the 31 March 2020 exchange rate and do not represent reported dollar financial numbers.
- Kindly note that from Q1 FY20, all companies accounted for leases in accordance with the transition guidelines of the relevant new accounting standard Ind AS 116/IFRS 16. This adjustment had a marginal impact on the EBITDA margins of all quarters in FY20. However, the same adjustments are not reflected in the previous years' margins.

Appendix 2 – IT engineering and software product companies

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

| IT engineering companies* | Software product companies*/** |
|---|---|
| <ul style="list-style-type: none">• Tata Elxsi Limited• Cyient Limited• L&T Technology Services Limited | <ul style="list-style-type: none">• ABM Knowledgeware Limited• AurionPro Solutions Limited• Nucleus Software Exports Limited• Oracle Financial Services Software Limited• 3i Infotech Limited• Ramco Systems Limited• Majesco Limited |

* For our analysis, we have considered only those companies which were listed five years before Q4 FY20 except for L&T Technology Services. 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 2020 exchange rate and do not represent reported dollar financial numbers.

* Kindly note that from Q1 FY20, all companies accounted for leases in accordance with the transition guidelines of the relevant new accounting standard Ind AS 116/IFRS 16. This adjustment had a marginal impact on the EBITDA margins of all quarters in FY20. However, the same adjustments are not reflected in the previous years' margins.

** Companies primarily into developing software products.

Appendix 3– Global IT services and technology companies

- We have analysed the valuation multiples of following global IT services companies over the last five years:

-
- | | |
|---|---|
| • Capgemini SE | • Leidos Holding Incorporated |
| • EPAM Systems Incorporated | • Accenture plc |
| • CACI International Corporation | • Cognizant Technology Solutions Corporation |
| • Amdocs Limited | • DXC Technology Company |
| • Booz Allen Hamilton Holding Corporation | • International Business Machines (IBM) Corporation |
-

- We have analysed the valuation multiples of following global technology companies over the last five years:

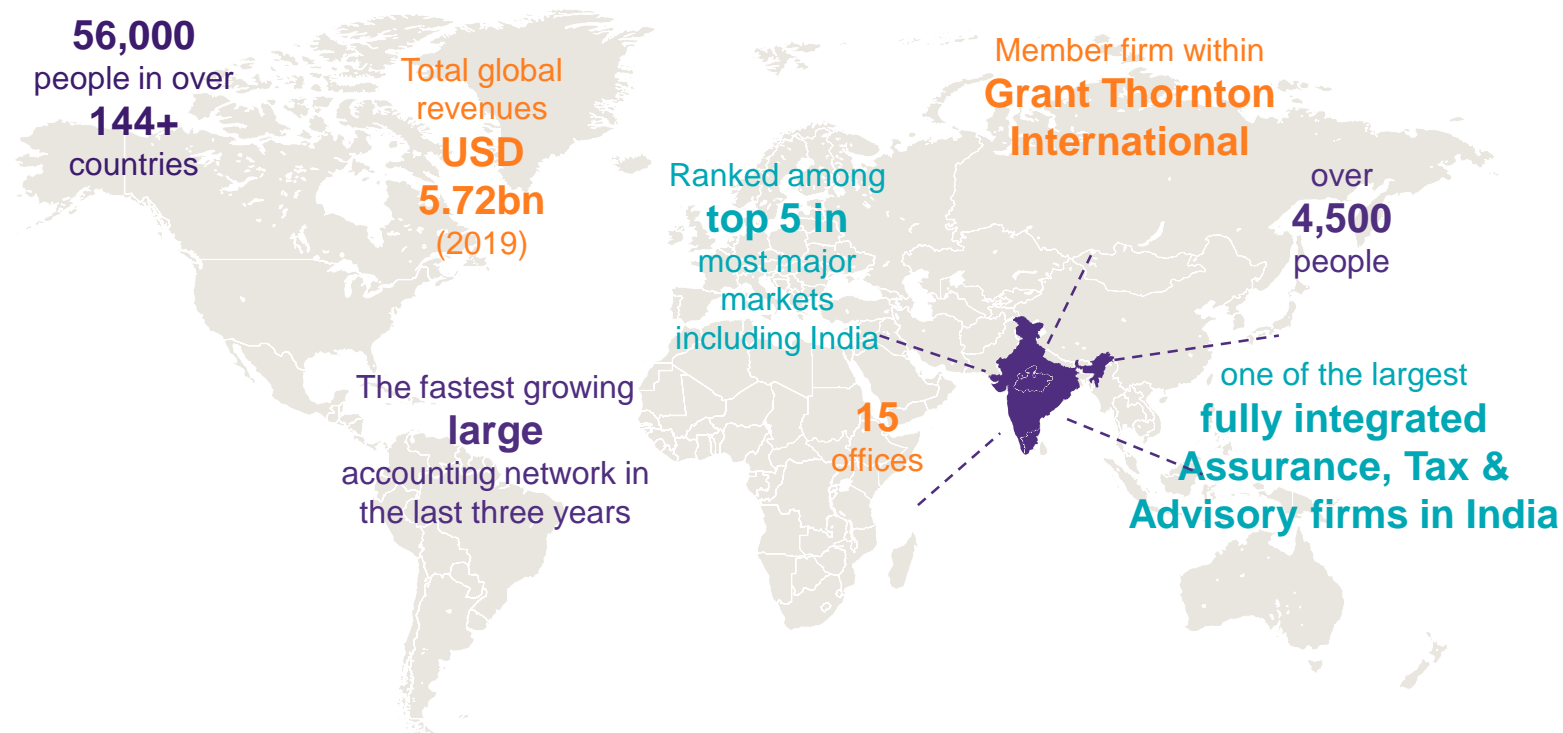
-
- | | |
|---------------------------|---|
| • Microsoft Corporation | • Synopsys Incorporated |
| • Adobe Incorporated | • ANSYS Incorporated |
| • Oracle Corporation | • Fortinet Incorporated |
| • Salesforce Incorporated | • Paycom Software Incorporated |
| • VMware Incorporated | • SS&C Technologies Holdings Incorporated |
-

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