Valuation Pulse – IT and ITeS industry

Q2 FY19

Foreword

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We are pleased to present the inaugural issue of our periodic sector-focused publication 'Valuation Pulse'. Through this quarterly publication, we aim to present the valuation and transaction pulse of the Indian IT and ITeS industry to the readers.

The IT and ITeS industry, which is one of the cornerstones of Indian economy, saw some challenges in 2016 and 2017 on account of a reduction in the demand of traditional IT services due to automation and digitisation and uncertain political scenarios involving curbs on H1B visas in the US. However, the IT companies were agile enough to amend their business models and started offering digital services, which accounted for 20%-30% of their revenues in the last quarter.

The IT companies also witnessed good broad-based demand and a healthy deals pipeline in the recent quarters including the most recent September 2018 quarter. Further, the depreciating rupee in CY18 has helped the IT companies mitigate some of negative impacts of the declining margin on account of increasing onsite cost due of visa curbs. This positive performance is reflected in the valuation multiples of most IT companies recovering back or even exceeding their long-term average multiples in the last few quarters.

The deal scenario has also improved drastically in CY18. In a quest to acquire digital capabilities and to consolidate, the number of transactions increased significantly by both value and volume in CY18.

We hope you will find this publication insightful and informative.

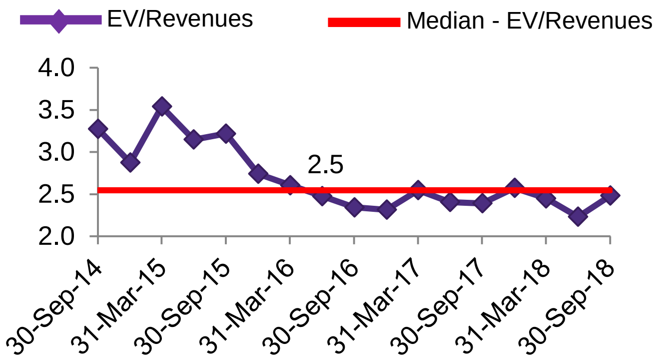
Executive summary – Large, mid and small cap IT services

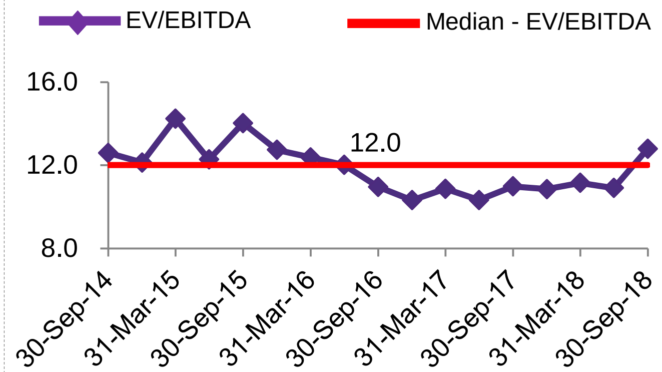
EV/revenue

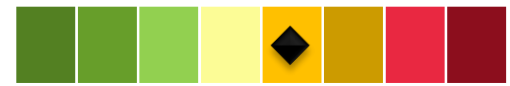
EV/EBITDA

Low Fair High

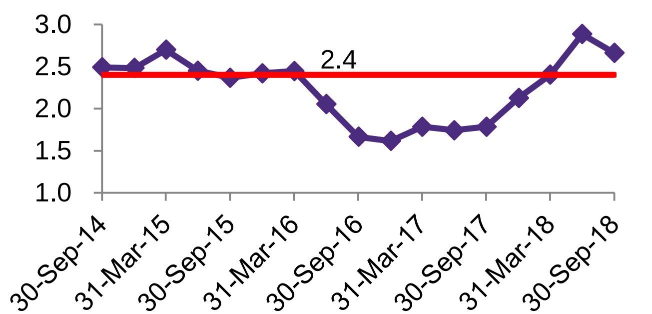
Large cap

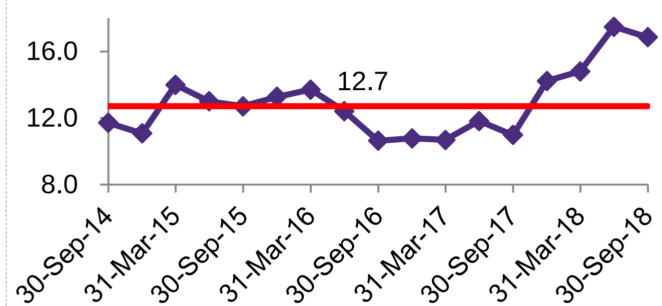




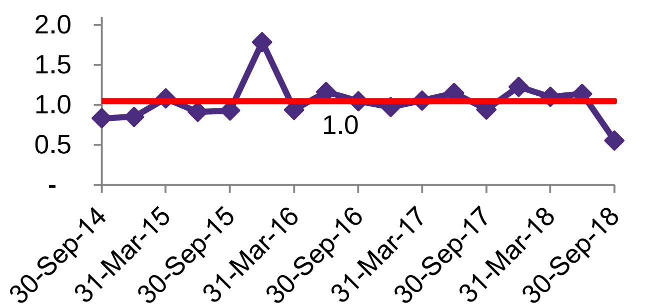


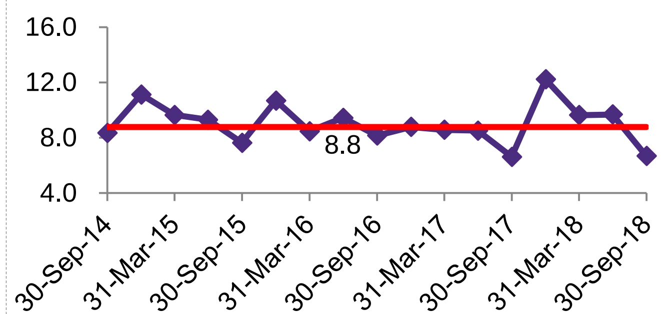
Mid cap





Small cap





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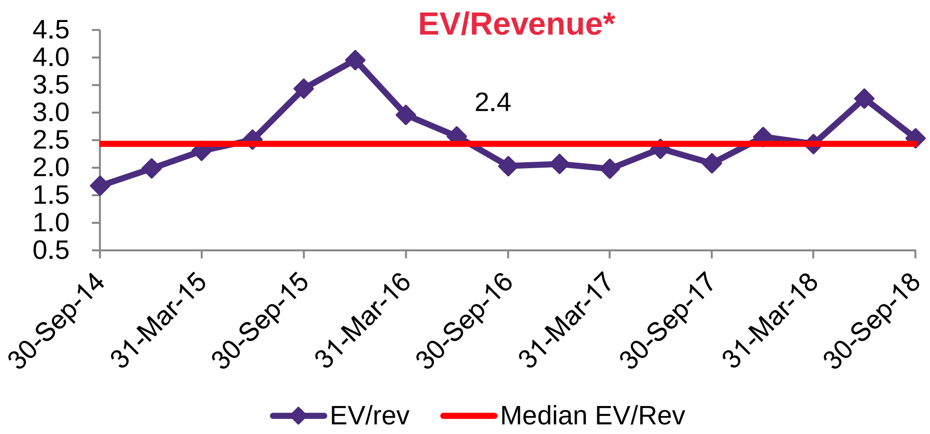
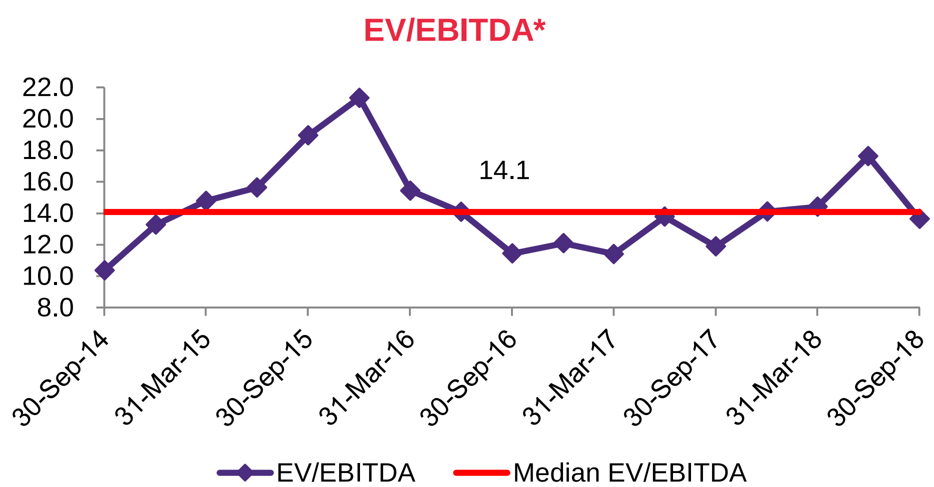
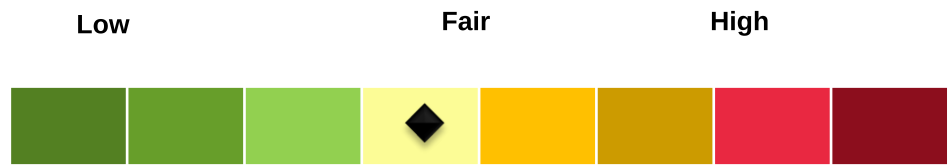
Executive summary – Engineering services





Current valuation multiples when compared with the last five years' median multiples.



- Since mid 2016, the multiples have traded below the industry median multiples. However, from the end of 2017, this segment has witnessed the highest revenue growth, which is mainly fueled by convergence of engineering services with new technologies, such as digital, IoT, and analytics for product development. Accordingly, due to the strong revenue growth, the multiples have seen an upward trend from 2017 end.

- However, the EV/Revenue and EV/EBITDA multiples have seen a decreasing trend in Q2 FY19, though they are still trading just above the long-term median multiple.

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

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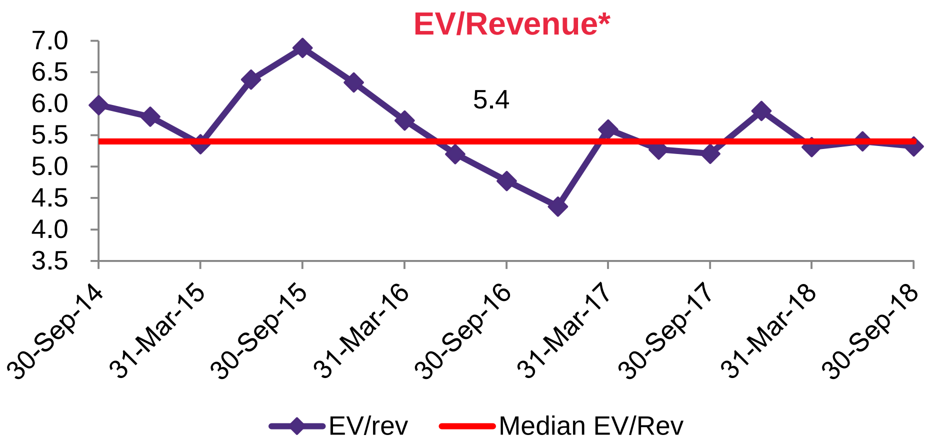
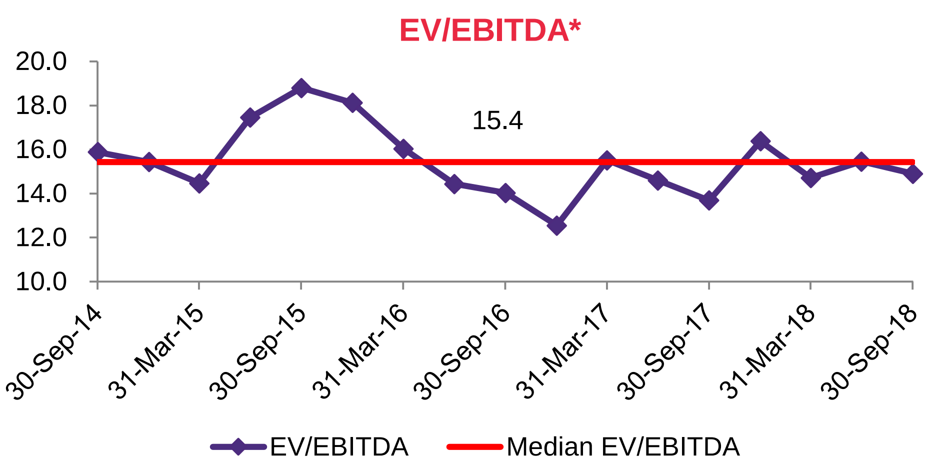
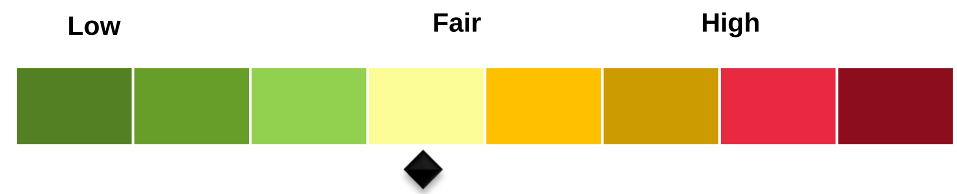
Executive summary – Software products





** Weighted average multiples based market capitalisation of software products companies.*

Current valuation multiples when compared to the last five years' median multiples.



- The EV/Revenue and EV/EBITDA multiples traded above the industry median multiples, and reached their highest level in mid 2015.
- Since September 2015, the multiples have seen a decreasing trend due to lower demand and pricing pressure on traditional IT offerings such as software as a product (SaaP), which has eventually led to a lower revenue growth. However, with the growing importance of cloud technologies and SaaP services, the software products segment has witnessed an increase in the revenue growth, which is reflected in the improving multiple trends in the recent quarters.
- However, the EV/Revenue and EV/EBITDA multiples have seen a decreasing trend in Q2 FY19 when compared to the earlier quarter primarily on account of declining margin.

Executive summary – Deal scenario

- The deal value in IT and ITeS sector YTD (till November 2018) increased to $4.5 billion with 98 transactions compared to $1.8 billion with 123 transactions in CY17.
- SaaS firms and predictive analytics firms saw the most number of transactions in CY18 (11 months) in terms of the volume. In value terms, data processing and outsourcing, and data management segments have seen the highest deal values.
- In case of the total 17 inbound transactions that happened in CY18, 11 acquisitions were made by US companies. Similarly, in case of the 26 outbound transactions, 13 acquisitions were relating to target companies in the US.
- Among the major IT companies, we observed that Wipro made the majority of acquisitions in CY18 (11 months) followed by Infosys and HCL Technologies.
- An analysis of the deals of the last five years in IT services indicates that the median one-month control premium paid for acquiring a publicly-listed target is around 15%.

Executive summary – Other observations

- In the last five years, TCS has always traded at premium valuation multiples compared to its peers. This premium, which narrowed in the last couple of years, has further expanded due to better growth and margin achieved by TCS.
- Revenue from digital offerings has become significant for most IT companies. For most of the large cap IT services companies, the digital revenue contributed around 28%-31% of the total revenue in Q2 FY19 except for HCL Technologies, which contributed only 16% to the total digital revenue.
- The verticals that recorded the highest growth in Q2 FY19 were technology and retail. This was due to an increase in the digital revenues for almost all the large cap IT services companies.

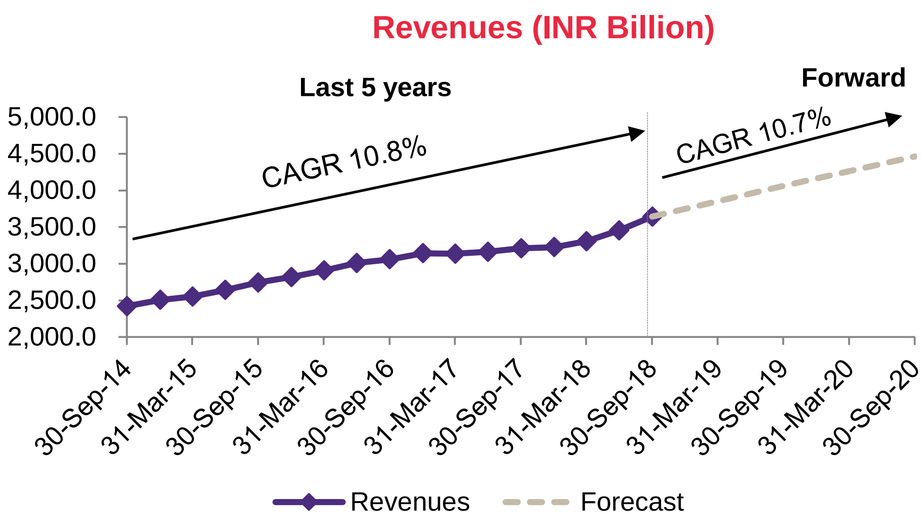
IT and ITeS industry – IT services

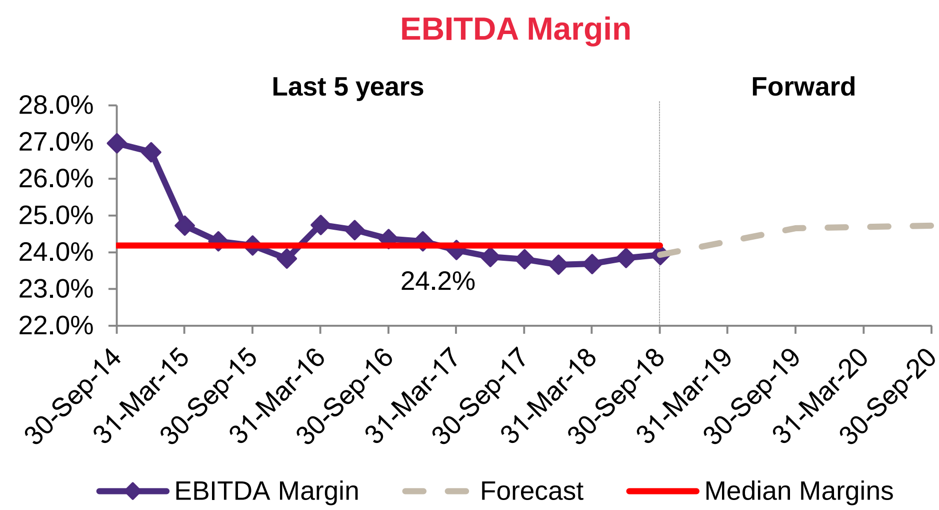
- We have analysed the valuation multiples of IT services companies and have segregated the companies into large, mid and small cap categories based on their current market capitalisation:

Large cap	Mid cap	Small cap
• Tata Consultancy Services	• Mphasis	• Sonata Software
• Infosys	• WNS (holdings)	• Firstsource Solutions
• Wipro	• Mindtree	• Accelya Kale Solutions
• HCL Technologies	• Hexaware Technologies	• Hinduja Global Solutions
• Tech Mahindra	• Persistent Systems	• Infinite Computer Solutions
	• eClerx Services	• NIIT
		• Mastek
		• Rolta India
		• Genesys International Corporation
		• Datamatics Global Services
		• Cigniti Technologies
		• Xchanging Solutions
		• Kellton Tech Solutions
		• SQS India BFSI
		• 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.

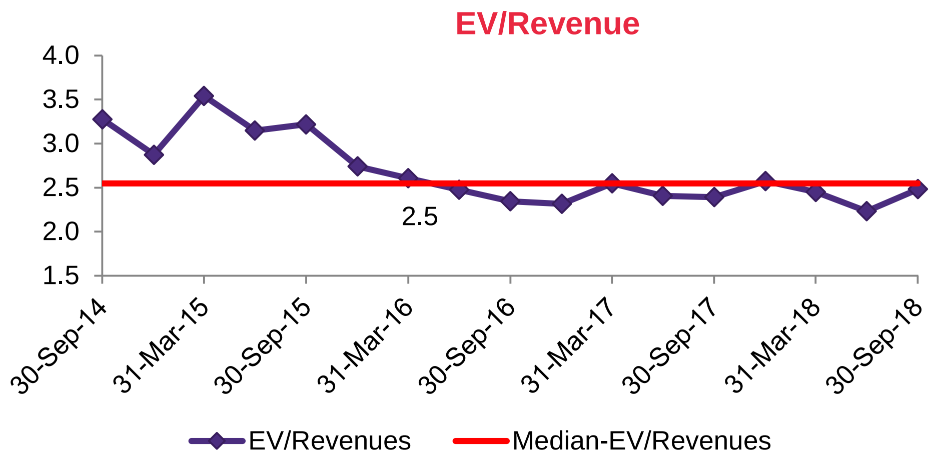
Large cap – Revenue and EBITDA margin trend

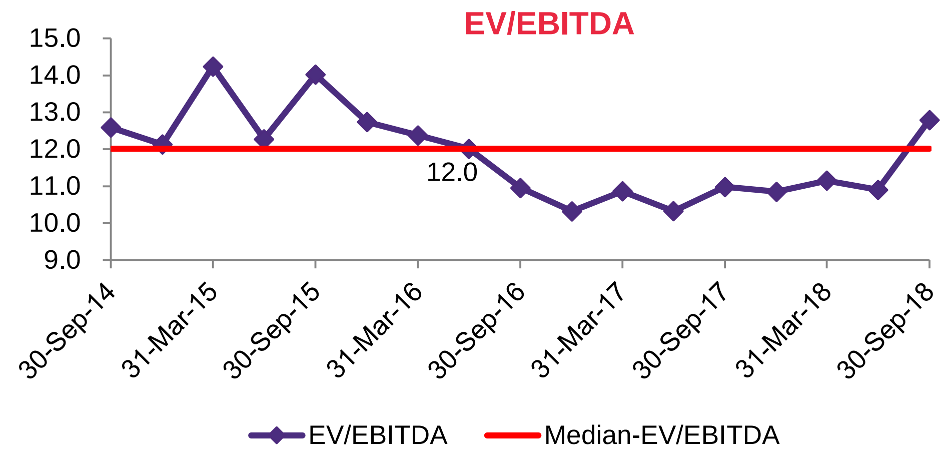


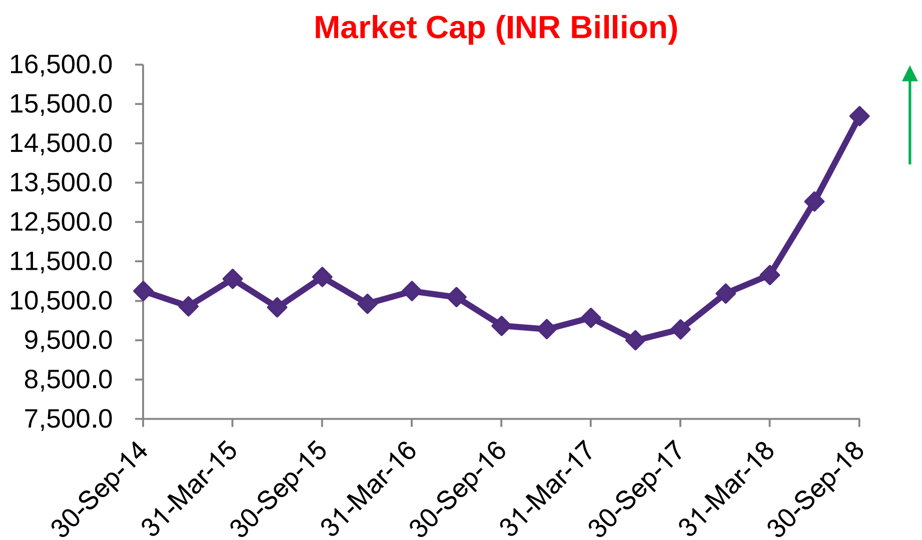


- The overall revenues for the large cap companies increased from INR 2,420.5 billion ($33.4 billion) in September 2014 to INR 3,641.9 billion ($50.3 billion) in September 2018 at a CAGR of 10.8%. The revenues are projected to increase to INR 4,461.1 billion ($ 61.6 billion) by September 2020 at a CAGR of 10.7%.
- Driving the overall industry's trend, large companies are going to benefit from an increased spend by clients on digitisation/automation, which will ultimately give a push to digitisation of product offerings by large cap companies in the near future.
- The operating margins declined from 27.0% in September 2014 to 23.9% in September 2018. Based on the forward EBITDA estimates, they are expected to reach 24.7% by September 2020.
- On a quarterly basis, the revenues increased from INR 3,453.1 billion ($47.6 billion) in June 2018 to INR 3,641.9 billion in September 2018 ($50.3 billion) at a growth rate of 5.5%. Further, the EBITDA margins increased from 23.8% to 23.9% in the same period at a growth rate of 0.3%.

Large cap – Historical multiples





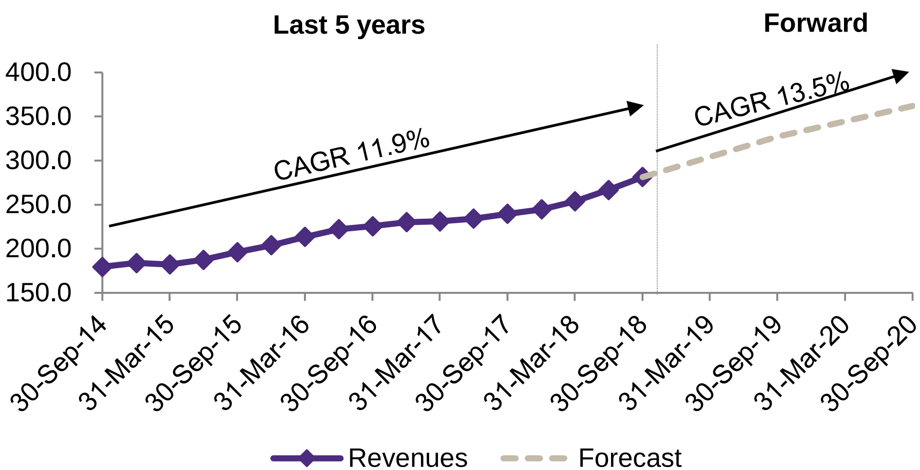


- Revenues of large cap companies have increased at a CAGR of 10.8% over the last five years. However, a decrease in the margins from 27.0% to stabilised margins of 23%-24% in the last couple of quarters, and tapering down of revenue growth, have led to lower valuation multiples till the last quarter as compared to the five-year median multiples of large cap companies. However, an increase in the revenue growth in the current quarter has led to the current multiples trading above the last five years' median multiples.

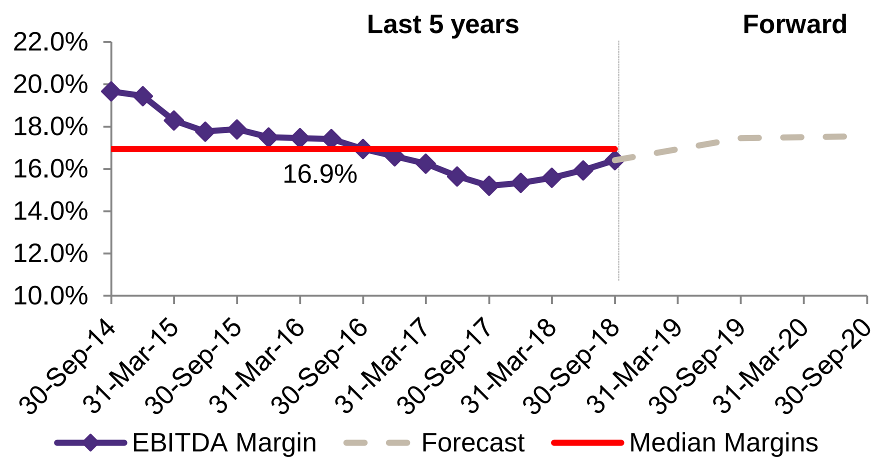
- Since mid-FY 17, the market cap of large cap companies has shown an upward trend and reached the highest level in September 2018. The positive outlook is mainly due to an increase in the digital revenue portion of the large companies, and significant rupee depreciation.

Mid cap – Revenue and EBITDA margin trend

Revenues (INR Billion)



EBITDA Margin



- For mid cap companies, revenues increased from INR 179.5 billion ($2.5 billion) in September 2014 to INR 281.3 billion ($3.9 billion) in September 2018 at a CAGR of 11.9%. Compared to large cap companies, the mid cap revenues are expected to increase at a faster pace of 13.5% and reach INR 362.1 billion ($5 billion) by September 2020.
- Similar to the overall industry and large cap companies, the operating margins for mid cap companies also declined from 19.7% in September 2014 to 16.4% in September 2018. Between September 2018 and September 2020, the margins are expected to improve by 1.1%, which is significantly higher as compared to the 0.8% expected improvement for large cap companies.
- On a quarterly basis, the revenues increased from INR 266.8 billion ($3.7 billion) in June 2018 to INR 281.3 billion in September 2018 ($3.9 billion) at a growth rate of 5.5%. Further, the EBITDA margins increased from 15.9% to 16.4% in the same period at a growth rate of 3%, which is highest among the IT and ITeS industry segments.

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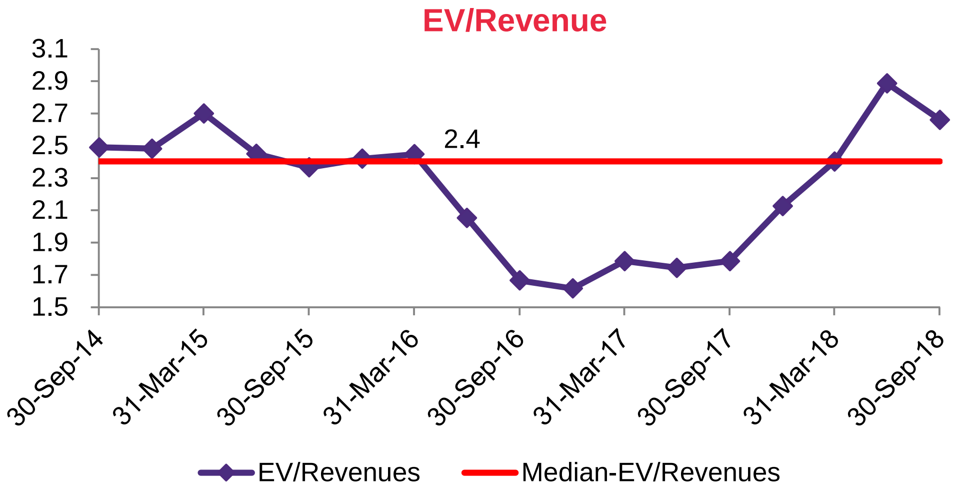
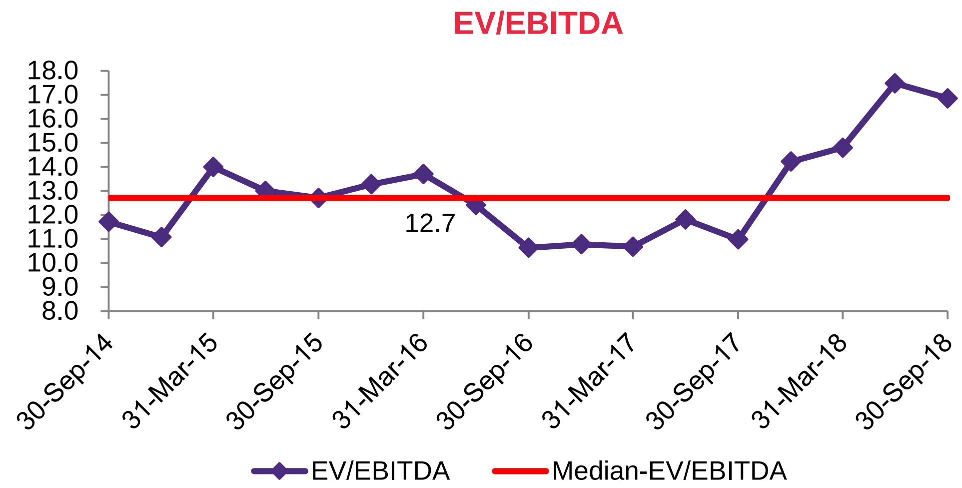
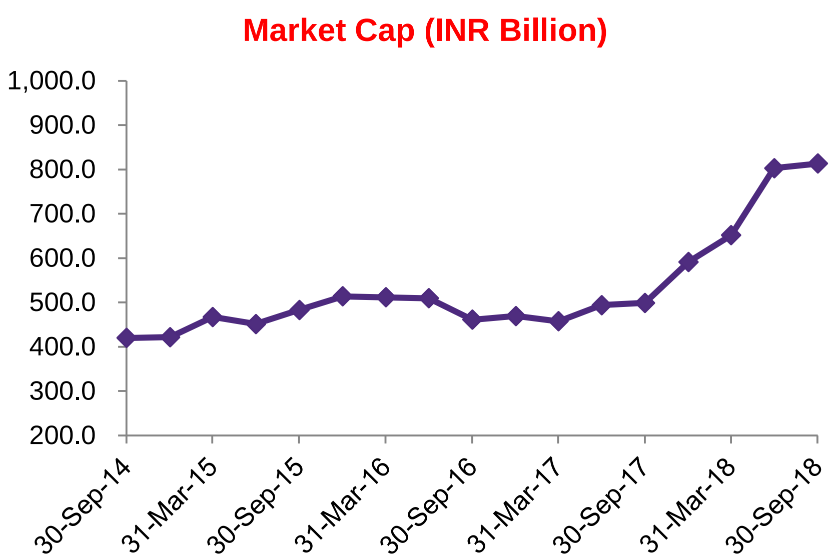
Mid cap – Historical multiples

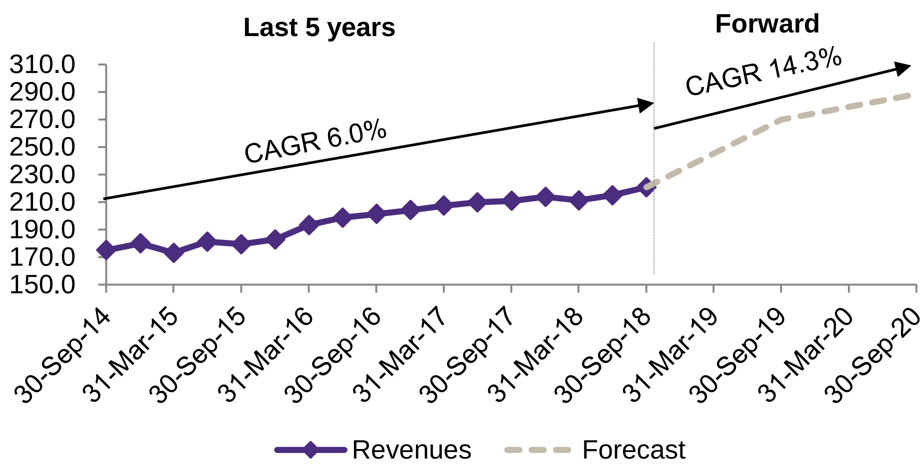


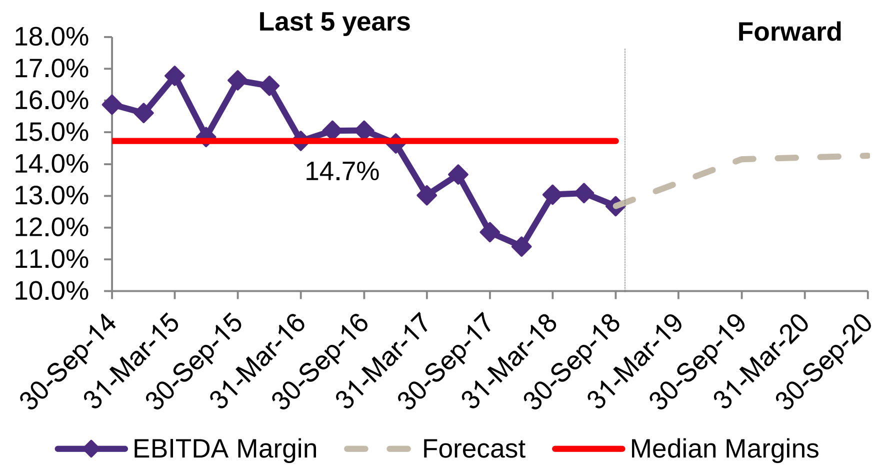




- Going forward, mid cap companies are expected to record a **higher revenue growth and margin improvement,** leading to the valuation multiples running up beyond the long-term median multiples**.**
- The **lower historical EBITDA margins** of mid cap companies, as compared to large cap ones, are getting reflected in a lower median EV/Revenue multiple of 2.4x as compared to the median EV/Revenue multiple of 2.5x of large cap companies.
- EV/Revenue and EV/EBITDA multiples, though still trading above the long-term average, have seen some softening in Q2 FY19.

Small cap – Revenue and EBITDA margin trend





- The overall revenues for small cap companies increased from INR 175.2 billion ($2.4 billion) in September 2014 to INR 220.8 billion ($3 billion) in September 2018 at a CAGR of 6.0%. Revenues are expected to increase at a CAGR of 14.3% and reach approximately INR 288.5 billion ($4 billion) in September 2020.
- The operating margins experienced a decline from 15.9% in September 2014 to around 12.7% in September 2018. The margins are expected to increase by approximately 1.6% in the next couple of years and reach a level of 14.3% by September 2020. However, the margins are expected to remain below the historical average margins on account of increased competition from large and mid cap companies.
- On a quarterly basis, the revenues increased from INR 215.0 billion ($3.0 billion) in June 2018 to INR 220.8 billion ($3.0 billion) in September 2018, at a growth rate of 2.7%. Further, the EBITDA margins decreased from 13.1% to 12.7% in the same period, implying a de-growth of -3.1%.

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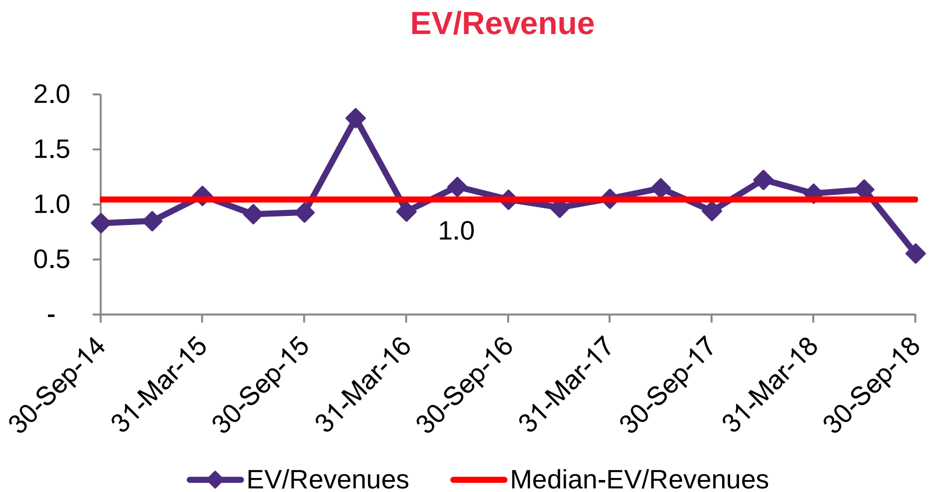
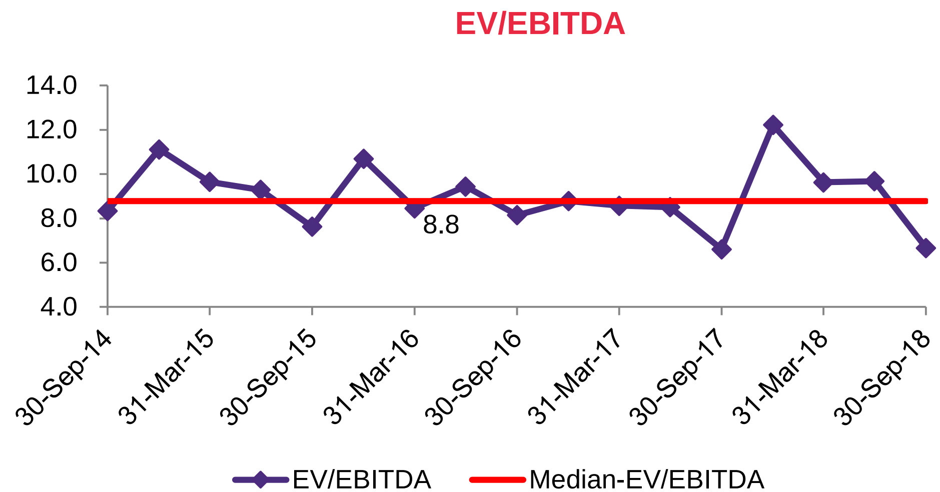
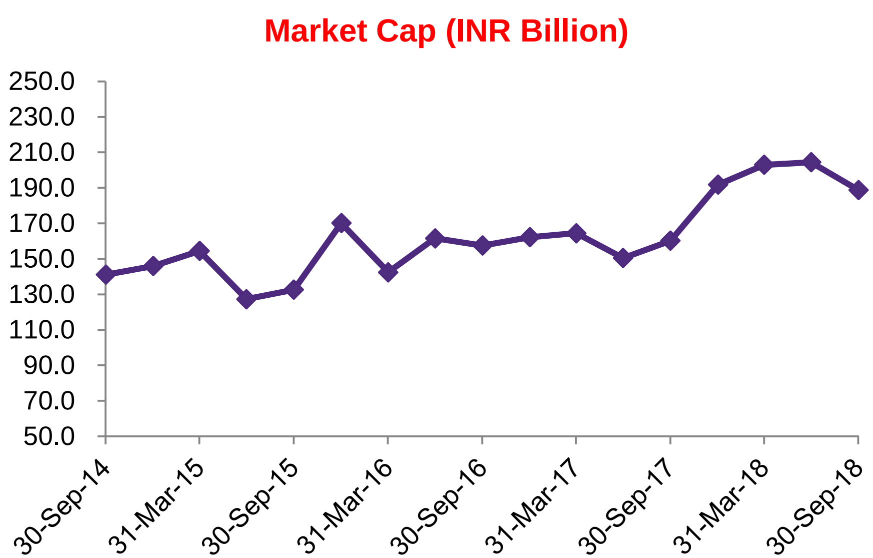
Small cap – Historical multiples







- Small cap companies have recorded a lower historical revenue growth rate as compared to large cap and mid cap companies. This is getting reflected in the lower median EV/EBITDA multiple of 8.8x.
- The lower historical EBITDA margin of small cap companies compared to large cap and mid cap companies is getting reflected in a lower median EV/Revenue multiple of 1.0x.
- On a quarterly basis, the small cap companies' valuation multiples have slipped below the median multiples in Q2 FY19. This is mainly due to a decrease in the market cap and EBITDA margins of the overall small cap companies.

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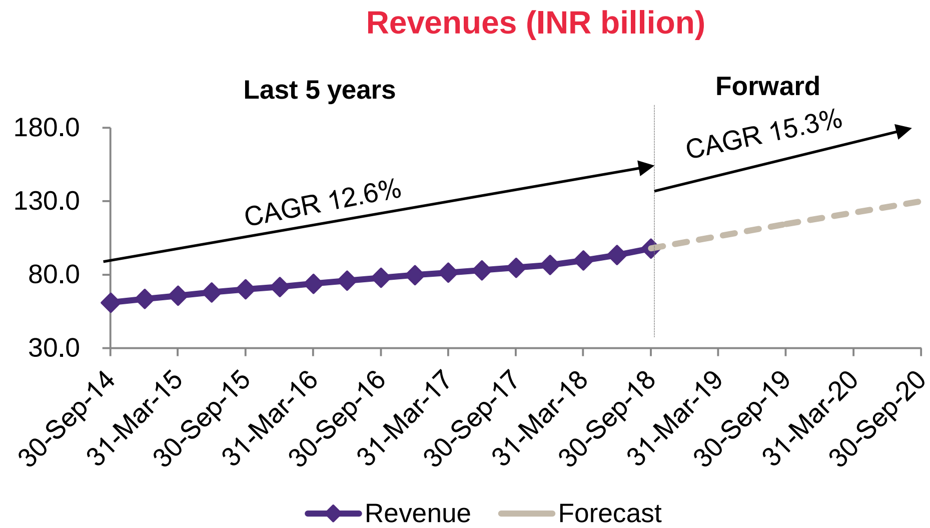
IT and ITeS industry – Engineering and software products

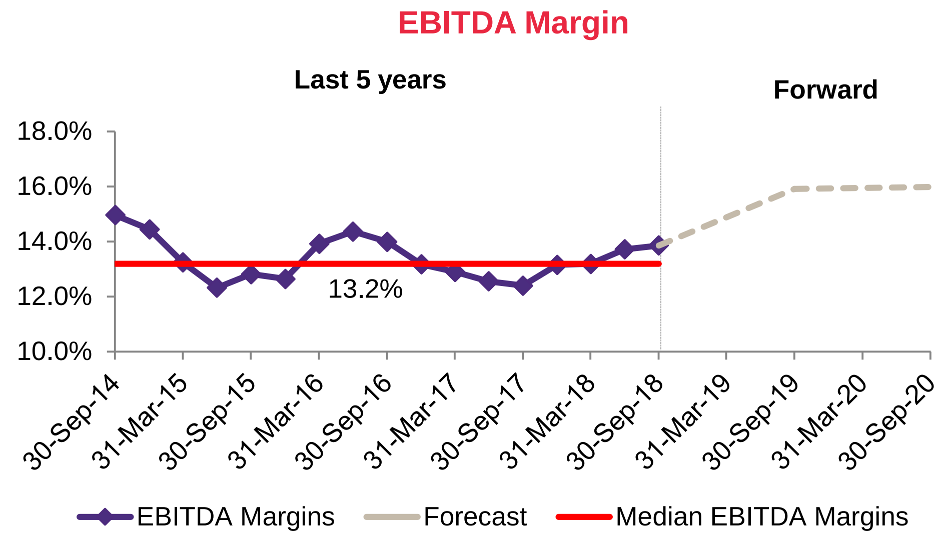
- We have analysed the valuation multiples of listed engineering and software products companies in India over the last five years.

IT engineering companies*	Software product companies*/**
• Tata Elxsi Limited • Cyient Limited • KPIT Technologies Limited	• 8K Miles Software Services Limited • ABM Knowledgeware Limited • aurionPro Solutions Limited • Nucleus Software Exports Limited • Otco International 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.
** Companies primarily into software products.

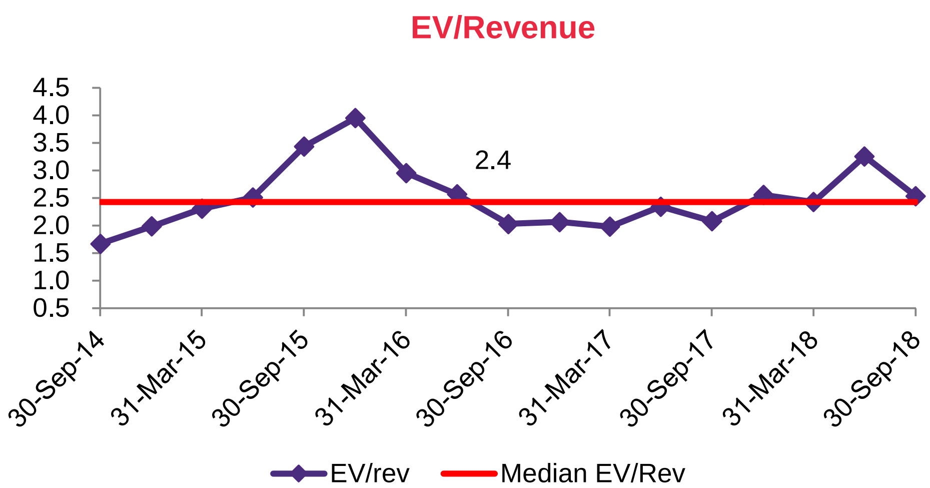
Engineering – Revenue and EBITDA margin trend

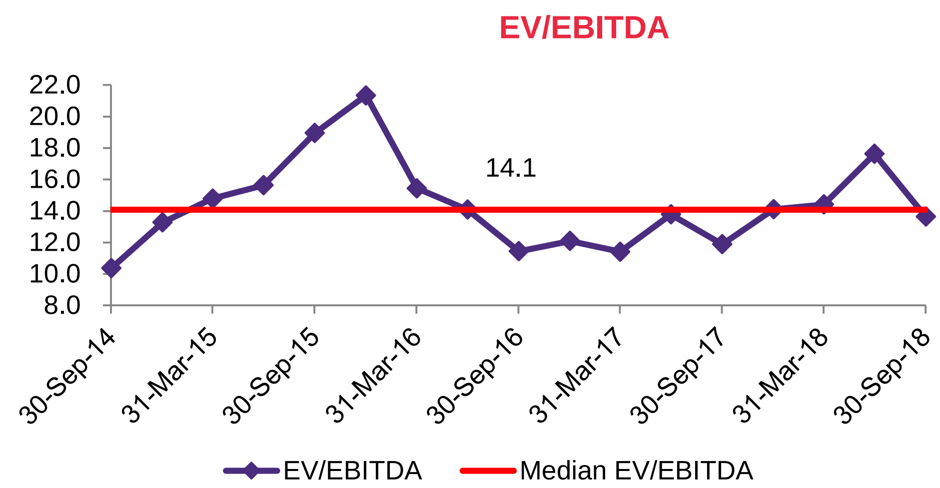


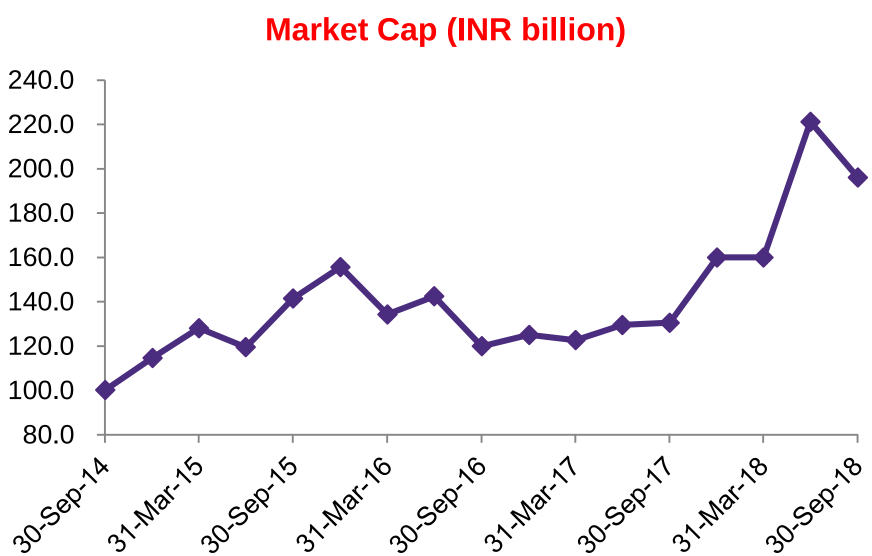


- The overall revenues for IT engineering companies increased from INR 61 billion ($ 0.8 billion) in September 2014 to INR 97.9 billion ($ 1.4 billion) in September 2018 at a CAGR of 12.6%. Revenues are expected to increase at a CAGR of 15.3% and reach approximately INR 130.1 billion ($ 1.8 billion) in September 2020.
- The operating margins experienced a decline from 15% in September 2014 to around 13.9% in September 2018. The margins are expected to increase by approximately 2.1% in the next couple of years and reach a level of 16% by September 2020.
- On a quarterly basis, the revenues increased from INR 93.4 billion ($ 1.3 billion) in June 2018 to INR 97.9 billion in September 2018 ($ 1.4 billion) at a growth rate of 4.8%. Further, the EBITDA margins have increased from 13.7% to 13.9% in the same period at a growth rate of 1%.

Engineering – Historical multiples



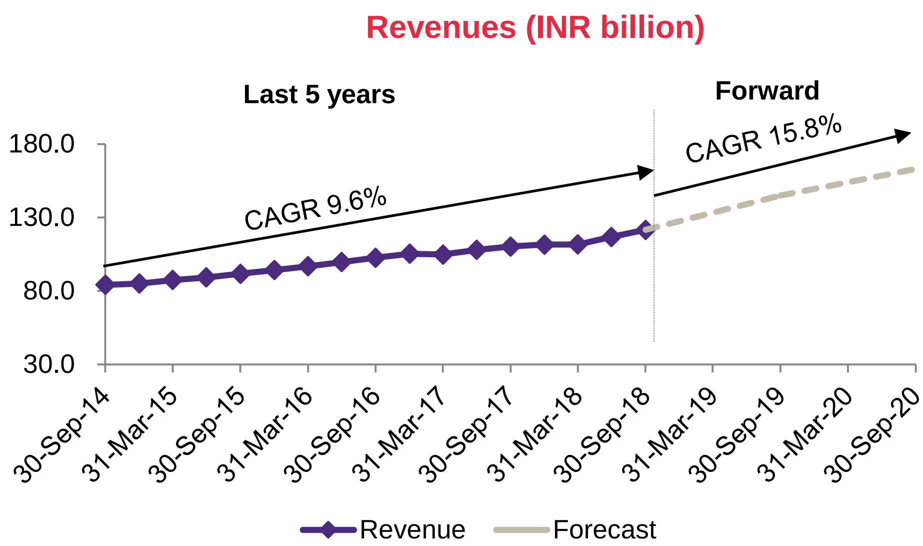


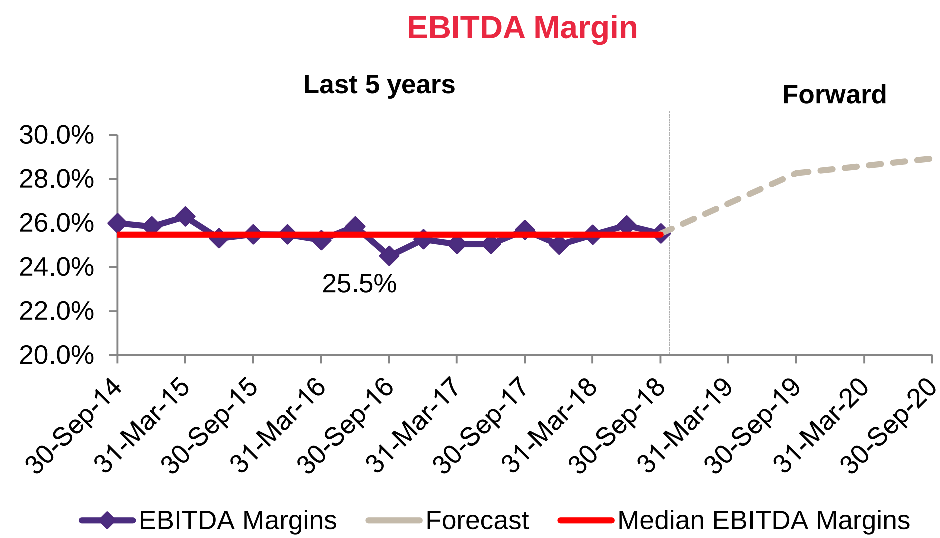


- Since mid of 2016, the multiples have traded below the industry median multiples. However, from the end of 2017, this segment has witnessed the highest revenue growth, which is mainly fueled by convergence of engineering services with new technologies, such as digital, IoT and analytics for product development. Accordingly, due to the strong revenue growth, the multiples have seen an upward trend from the end of 2017.

- However, the EV/Revenue and EV/EBITDA multiples have seen a decreasing trend in Q2 FY19, though they are still trading just above the long-term median multiple.

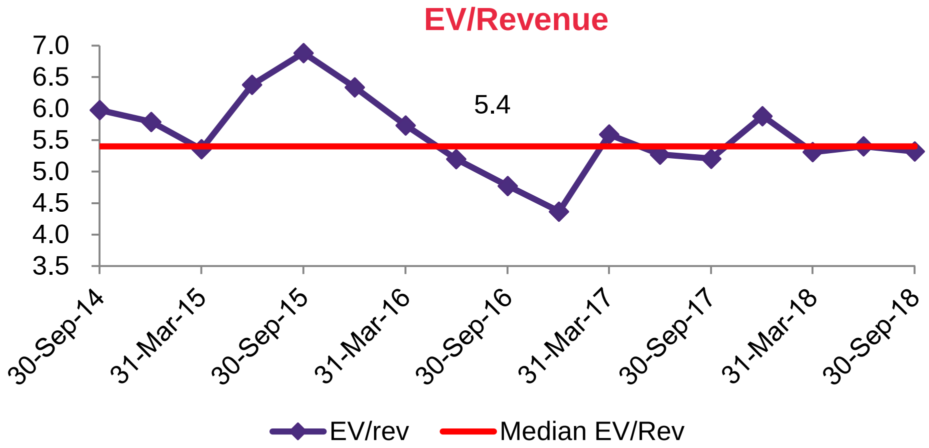
Software products – Revenue and EBITDA margin trend

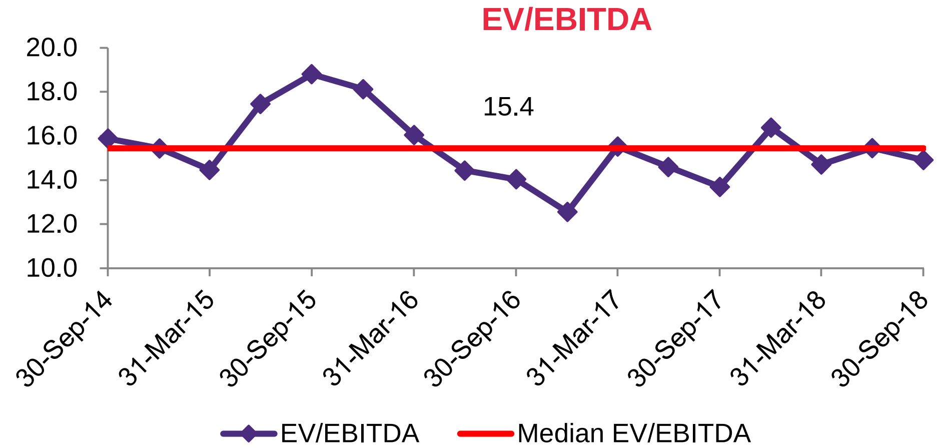


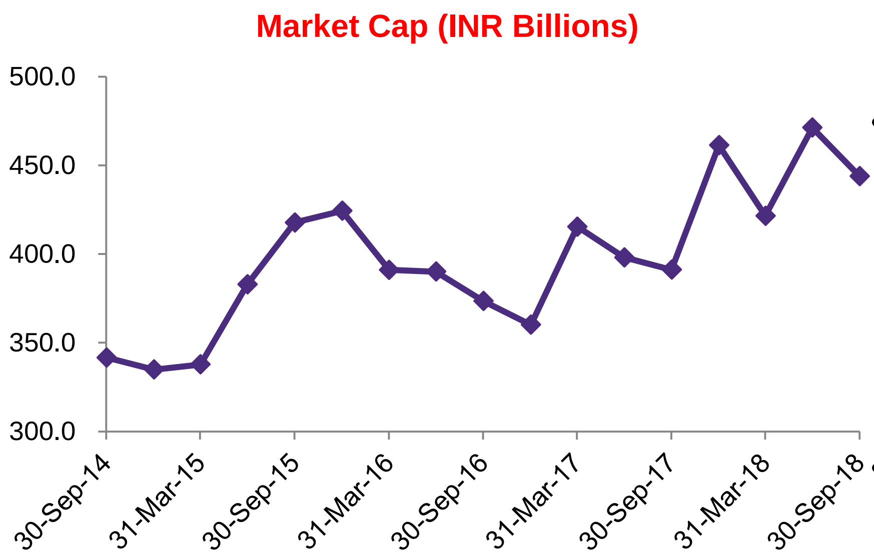


- The overall revenues for software product companies increased from INR 84.2 billion ($1.2 billion) in September 2014 to INR 121.6 billion ($1.7 billion) in September 2018 at a CAGR of 9.6%. Revenues are expected to increase at a CAGR of 15.8%, and reach approximately INR 163.1 billion ($2.3 billion) in September 2020.
- The operating margins experienced a decrease from 26% in September 2014 to around 25.5% in September 2018. The margins are expected to increase by approximately 3.4% in the next couple of years and reach a level of 28.9% by September 2020.
- On a quarterly basis, the revenues increased from INR 116.8 billion ($1.3 billion) in June 2018 to INR 121.6 billion in September 2018 ($1.4 billion) at a growth rate of 4.1%. Further, the EBITDA margins decreased from 25.9% to 25.5% in the same period, implying a de-growth of -1.4%.

Software products – Historical multiples







- The EV/Revenue and EV/EBITDA multiples have traded above the industry median multiples and reached their highest level in mid 2015.
- Post September 2015, the multiples have seen a decreasing trend due to lower demand and pricing pressure on traditional IT offerings such as SaaP, which has led to lower revenue growth. However, with the growing importance of cloud technologies and SaaP services, the software products segment has witnessed an increase in revenue growth, which is reflected in the improving multiple trends in the recent quarters.
- However, the EV/Revenue and EV/EBITDA multiples have seen a decreasing trend in Q2 FY19 when compared to the earlier quarter primarily on account of declining margin.

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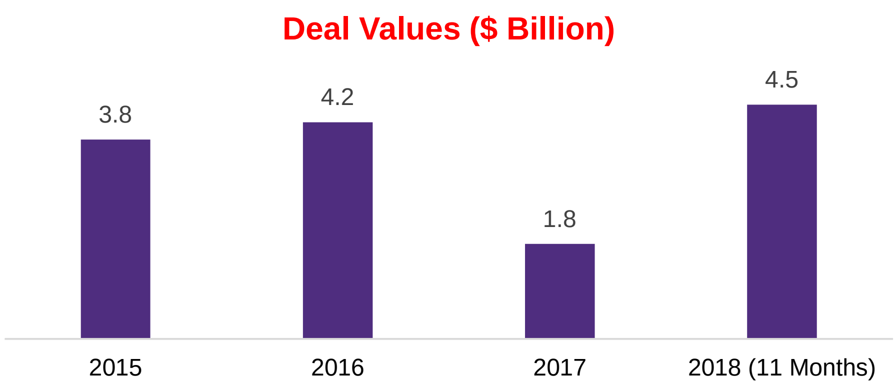
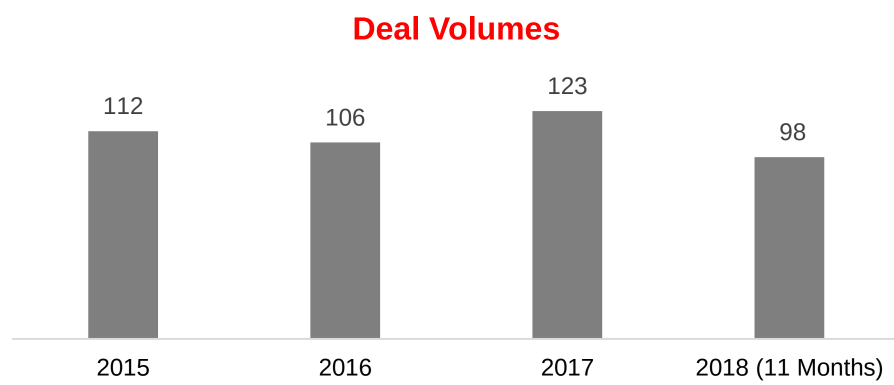
Deals – IT and ITeS industry





- In CY17, the deal volume was the highest among the past three years. However, the corresponding deal value recorded was only $1.8 billion, which is the lowest among the past three years' deal values. Further, it has increased to $4.5 billion with 98 deals in a span of 11 months in CY18, representing a positive future outlook for the IT and ITeS industry.

* Above data covers deals which 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 CY17 and CY18 (till November 2018)

Deal Values ($ Billion)

Year	Domestic deals	Merger and internal restructuring	Inbound deals	Outbound deals	PE/VC
CY17	0.2	NA*	0.2	0.2	0.5
CY18 (11 months)	0.2	0.7	2.1	0.8	0.7

** NA – Transaction value not available*

Deal Volumes

Year	Domestic deals	Merger and internal restructuring	Inbound deals	Outbound deals	PE/VC
CY17	29	1	15	24	53
CY18 (11 months)	14	1	17	26	40

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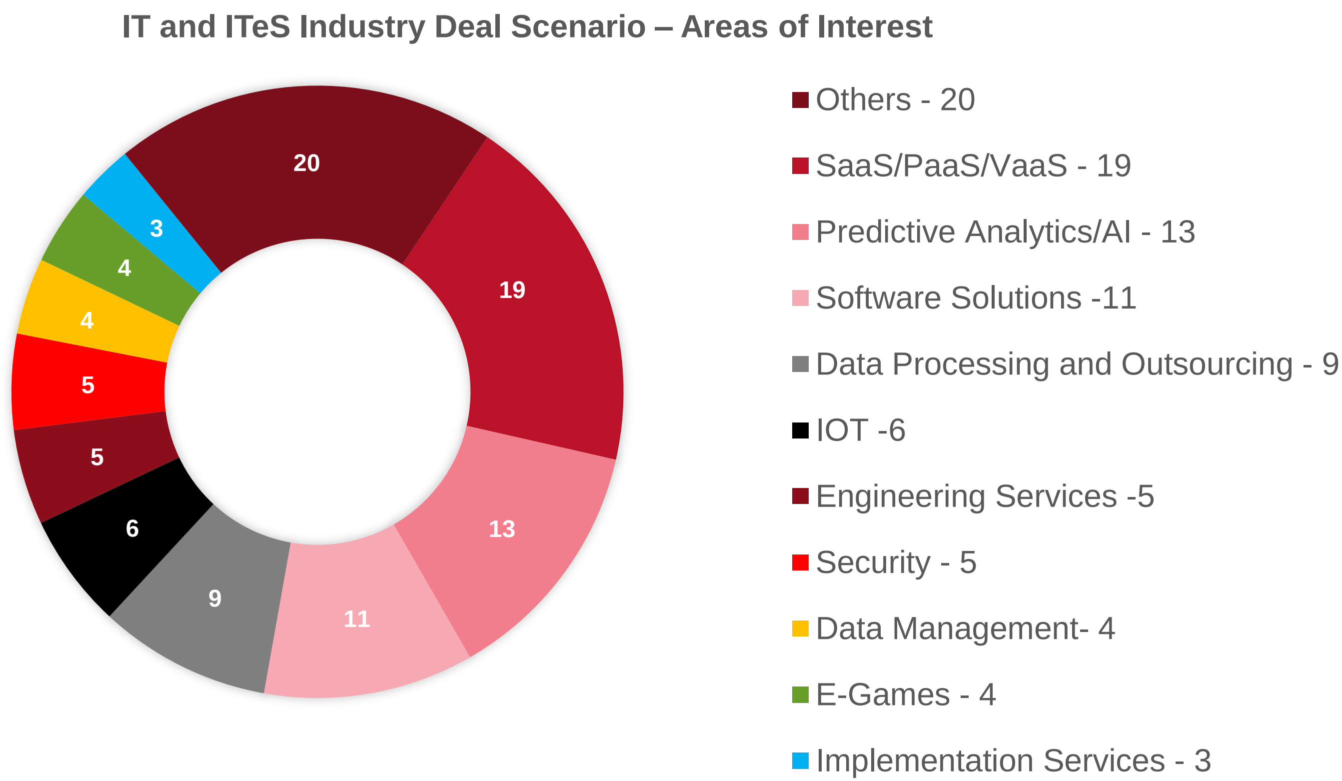
Deals – IT and ITeS industry

- The average deal size recorded in CY17 was around $15 million, whereas the average deal size recorded in a span of 11 months in CY18 is around $46 million. This is mainly due to a few large ticket transactions such as the acquisition of Intelenet Global Services Private Ltd by Teleperformance for $1,000 million, merger of Birla Soft (India) Limited with KPIT Technologies for a total combined entity value of $700 million, and acquisition of Actian Corporation Inc. by HCL Technologies Ltd and Sumeru Equity Partners for $330 million.
- The lower deal values in 2017 were primarily due to the muted growth witnessed by the IT and ITeS industry due to the changing political scenarios, such as the curb on H1B visas in the US, Brexit and the emergence of new technological trends.
- However, the gradual shift of the IT and ITeS industry towards digitisation and automation has increased overall IT spending, which is reflected in the increased deal volumes and values in 2018.
- Apart from the reasons mentioned above, the sector experienced foreign investors' attention, which has also lead to an increase in inbound deals in CY18 (11 months).

Deals – IT and ITeS industry: Areas of interest

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 in CY18 till November 2018 and categorised them into the following key IT sub-segments:



* 'Others' majorly includes deals which took place in sub-segments such as digital payments, system software, cloud communications, drone technology, data centre services, block chain technology, etc.

** 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 in CY18 (11 months), we have noted the following:

- With the advent of digital technologies such as big data analytics, cloud computing, machine learning, Internet of Things (IOT), cyber security, etc, the IT and ITeS industry is witnessing a paradigm shift from traditional offerings to digital offerings, which is reflected in an increased number of deals/investments in these sectors.
- SaaS firms and predictive analytics firms saw the most transaction activity in CY18 (11 months) in volume terms. In value terms, data processing and outsourcing, and data management segments have seen highest deal values.
- With an increase in the smart phone 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 an increase in the 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 and retail sectors.
- In case of total 17 inbound mergers and acquisitions transactions that happened in CY18, 11 acquisitions were made by US companies. Similarly, in case of 26 outbound transactions, 13 acquisitions were relating to target companies situated in the US.

Deals – IT and ITeS industry: CY18 (11 months)

The following are the few big ticket transactions which have happened in CY18 till November 2018:

Deal Month	Acquirer	Country (Acquirer)	Target	Country (Target)	Segment	Deal Type	Transaction Value ($ million)
August	Teleperformance	France	Intelenet Global Services Private Ltd	India	Data processing and outsourcing	Acquisition	1,000.0
February	Birlasoft (India) Limited	India	KPIT Technologies Ltd	India	Data processing and outsourcing	Merger	700.0
March	Ensono Holdings	US	Wipro Ltd - hosted data center services business	India	Data centre services	Acquisition	405.0
April	HCL Technologies Ltd & Sumeru Equity Partners	India	Actian Corporation Inc	US	Data management	Acquisition	330.0
March	StarTek Inc	US	Aegis Ltd - BPO business	India	Data processing and outsourcing	Acquisition	247.0
July	Wipro Ltd	India	Alight HR Services India Pvt Ltd	India	Data processing and outsourcing	Acquisition	117.0
June	Temasek and PayPal Holdings Inc	NA	Pine Labs Pvt Ltd	India	Digital payments	PE investment	125.0
August	Accel Partners, Sequoia Capital and CapitalG	NA	FreshDesk Technologies Pvt Ltd	India	SaaS	PE investment	100.0
September	Shunwei Capital, Morningside Ventures, Jesmond Holdings, Xiaomi, Lightspeed Partners, SAIF Partners, Venture Highway	NA	Mohalla Tech Pvt Ltd- Sharechat	India	Social media	PE investment	99.0

*NA: Not applicable

Deals – IT and ITeS industry: Large caps

Among the major IT companies, we observed that Wipro has made the majority of acquisitions in CY18 (11 months) followed by Infosys and HCL Technologies.

A. TCS

Deal Month	Target	Country	Segment	Transaction Value ($ Million)
November 2018	W12 Studios	UK	Digital design	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	Fluido	Finland	Implementation services of salesforce	75.8
September 2018	TidalScale Inc	US	Predictive analytics/AI	1.5
May 2018	Wongdoody Holding Company Inc	US	Advertising	75.0
March 2018	Waterline Data, Inc	US	Data management	1.5

Deals – IT and ITeS industry: Large caps

C. Wipro

Deal Month	Target	Country	Segment	Transaction Value ($ Million)
August 2018*	Avaamo	US	Predictive analytics/AI	14.2
July 2018	Alight HR Services India Pvt Ltd	India	Data processing and outsourcing	117
May 2018**	Talena, Inc	US	Data management	13.5
March 2018	Ensono Holdings	US	Data centre services	55.0
March 2018	Denim Group Ltd	US	Application security	8.8

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

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

- Recently, Wipro has announced the acquisition of a design agency, Syfte, for an undisclosed amount.

D. Tech Mahindra

Deal Month	Target	Country	Segment	Transaction Value ($ Million)
June 2018*	TradeIX Ltd	UK	Blockchain technology	16.0

*Tech Mahindra has invested in TradeIX along with Kistefos A.S.; BNP Paribas, Investment Arm; ING Ventures

Deals – IT and ITeS industry: Large caps

E. HCL Technologies

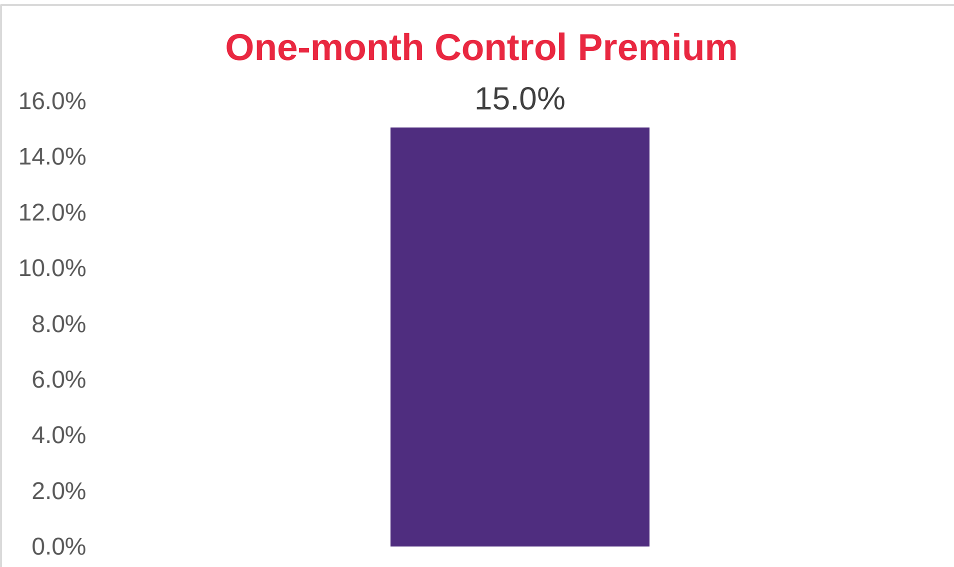
Deal Month	Target	Country	Segment	Transaction Value ($ Million)
July 2018	H&D International Group	Germany	Engineering services	35.0
April 2018	Telerx Marketing, Inc- C3i Solutions	US	Data processing and outsourcing	60.0
April 2018	Actian Corporation Inc	US	Data management	330.0
March 2018	Moogsoft Inc.*	US	Predictive analytics/AI	40.0

*HCL Technologies has invested in Moogsoft along with Goldman Sachs Group, Merchant Banking Division; Redpoint Ventures; ST Telemedia; Northgate Capital Group, L.L.C.; Singtel Innov8 Pte. Ltd.; Wing Venture Partners

- Recently, HCL Technologies has announced that it will acquire eight software products from International Business Machines Corp. (IBM) for $1.78 billion. After Tech Mahindra acquired Satyam Computer Services for $1.23 billion in March 2012, this will be the largest acquisition made by any Indian IT company till date.
- Unlike other peer companies which are majorly focused on increasing their digital footprint through acquisitions, HCL technologies, on the contrary, is following a different strategy by majorly investing in software products and IT services companies, which is reflected in its recent acquisitions in CY18.

Control premium study

Control premium is the premium that a buyer would be ready to pay to buy a controlling stake in the company versus buying a minority stake.

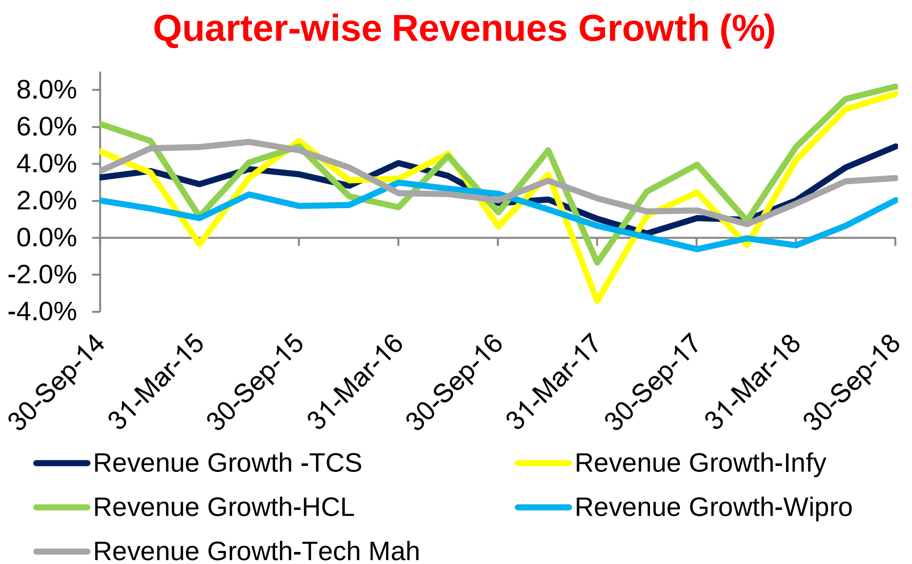


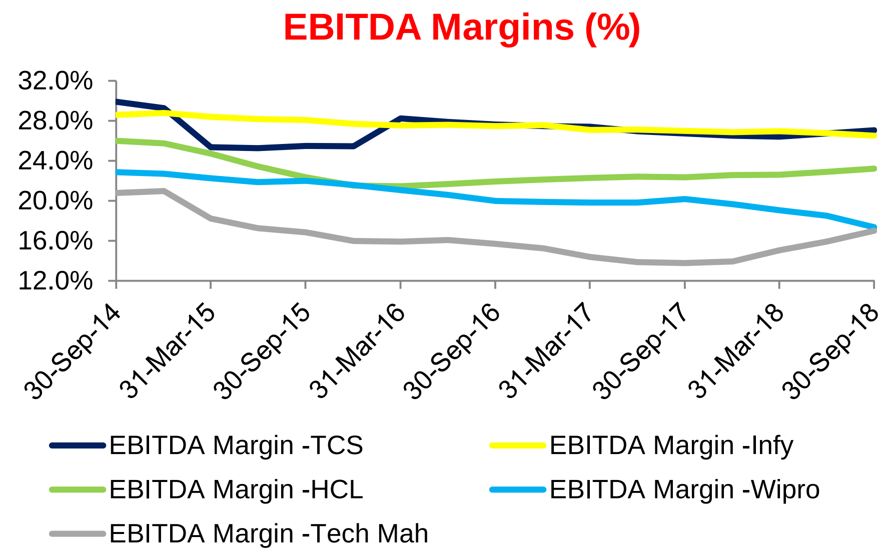
We identified the transactions that happened in the Indian IT services sector during the last five years, involving the acquisition of a controlling stake in listed targets.

One-month control premium was then calculated for each target by comparing the offer/acquisition price with the market price prevailing one month prior to the announcement date of the acquisition. Accordingly, we estimated the median one-month control premium paid in these transactions to be around 15%.

*For control premium analysis, we have considered five years' period starting from June 2014 to August 2018.

Company-specific analysis of large cap companies





HCL and Infosys have recorded the highest revenue growth in the recent quarters, whereas Wipro has recorded the least revenue growth rate.

In terms of EBITDA margins, TCS and Infosys, being the market leaders, have largely dominated the IT services sector and recorded the highest EBITDA margins over the past five years. The lowest EBITDA margin was recorded by Tech Mahindra despite showing a better revenue growth as compared to Wipro.

Company	Five-year CAGR (%)	Five-year Median Margins (%)
TCS	10.9%	27.0%
Infosys	11.7%	27.6%
HCL	14.8%	22.4%
Wipro	5.2%	20.2%
Tech Mahindra	12.3%	15.9%

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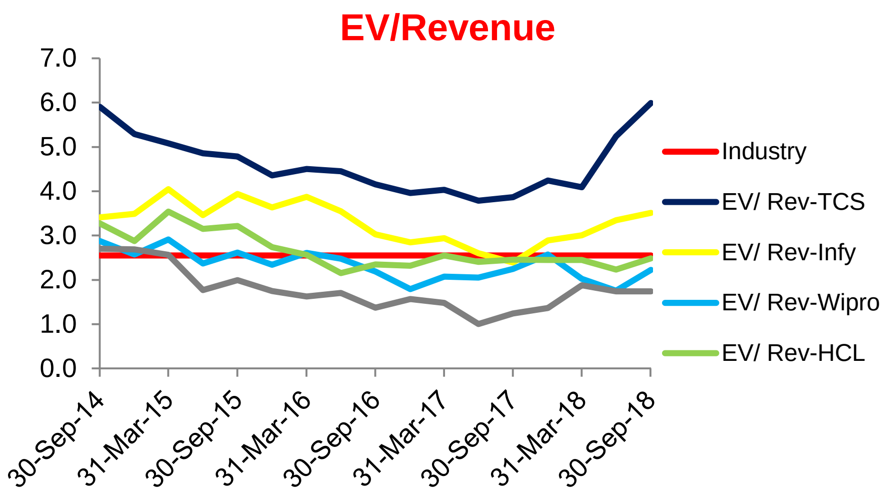
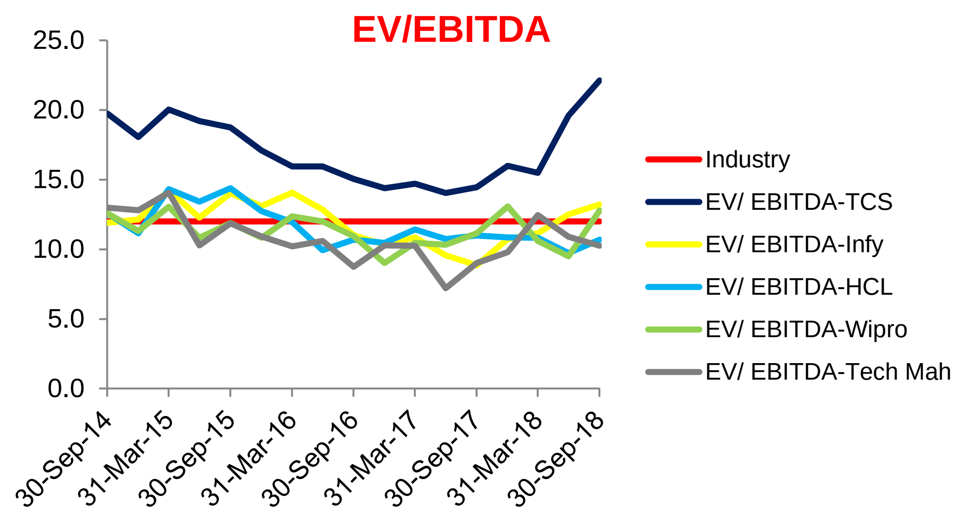
Company-specific analysis of large cap companies





	Median EV/Rev	Premium/ (Discount)	EV/ LTM Rev	EV/one-year Forward Rev	EV/Two-year Forward Rev	Median EV/EBITDA	Premium/ (Discount)	EV/LTM EBITDA	EV/LTM One-year Forward EBITDA	EV/LTM Two-year Forward EBITDA
Large cap companies	**2.5x**					**12.0x**				
TCS	4.5x	74.7%	6.0	5.1	4.6	16.0x	33.1%	22.1	18.4	16.6
Infosys	3.4x	33.8%	3.5	3.3	3.0	12.1x	1.0%	13.2	12.6	11.4
HCL	2.5x	(2.5)%	2.5	2.3	2.1	11.0x	(8.6)%	10.7	10.0	9.2
Wipro	2.3x	(8.2)%	2.2	2.0	1.9	11.1x	(7.2)%	12.8	10.3	9.4
Tech Mahindra	1.7x	(31.8)%	1.7	1.5	1.4	10.3x	(14.5)%	10.3	8.4	7.6

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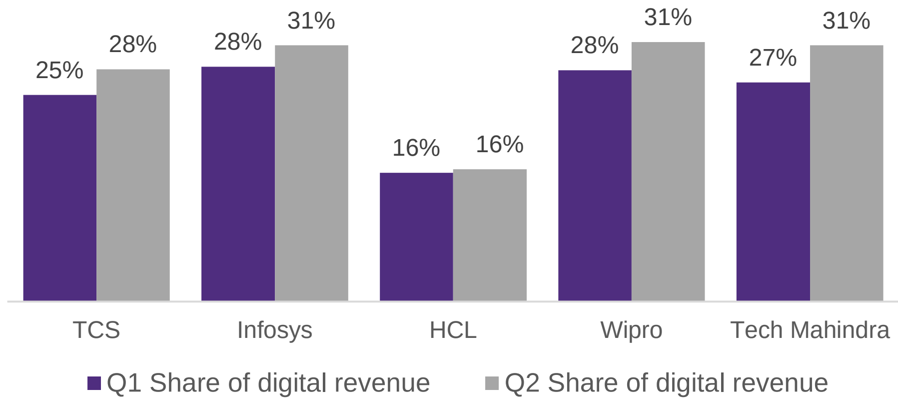
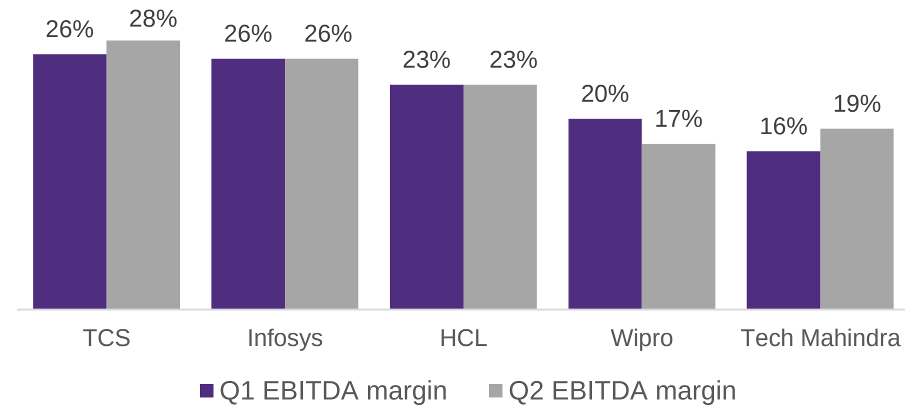
Company-specific analysis of large cap companies

Share of Digital Revenue in Q1 and Q2 of FY19



EBITDA Margins in Q1 and Q2 of FY19



Company	Contract Value Won in Q1FY19	Contract Value Won in Q2FY19
TCS	$4.9 billion	$4.9 billion
Infosys	$1.1 billion (from 8 large deals)	$2 billion (from 12 large deals)
HCL	27 transformational deals signed in Q1FY19*	17 transformational deals signed in Q2FY19*
Wipro	Won deals from an European Investment Bank, a major US airline, an Australian construction and property management company and a leader in air cargo transport*	$1.5 billion
Tech Mahindra	$0.27 billion	$0.55 billion

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

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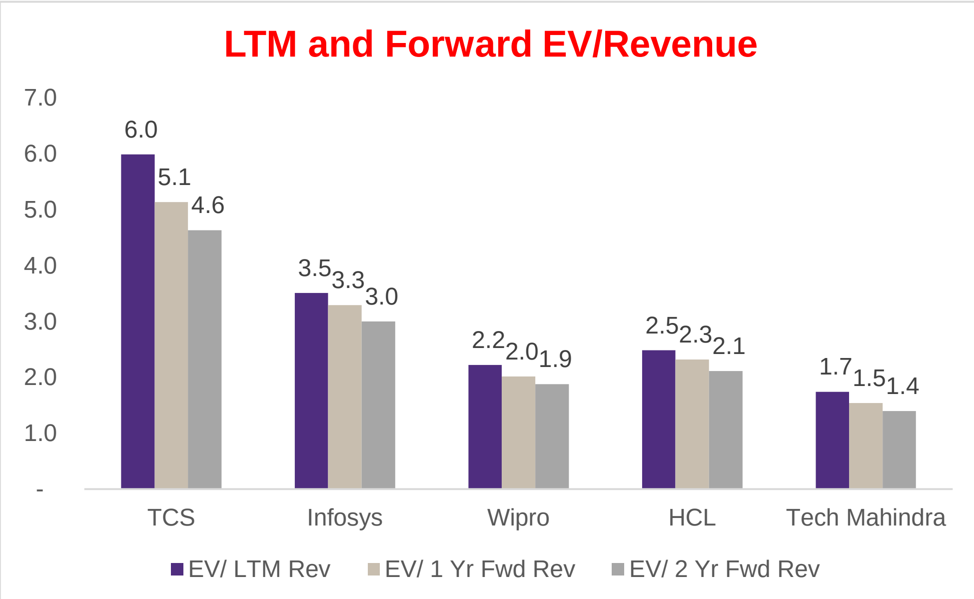
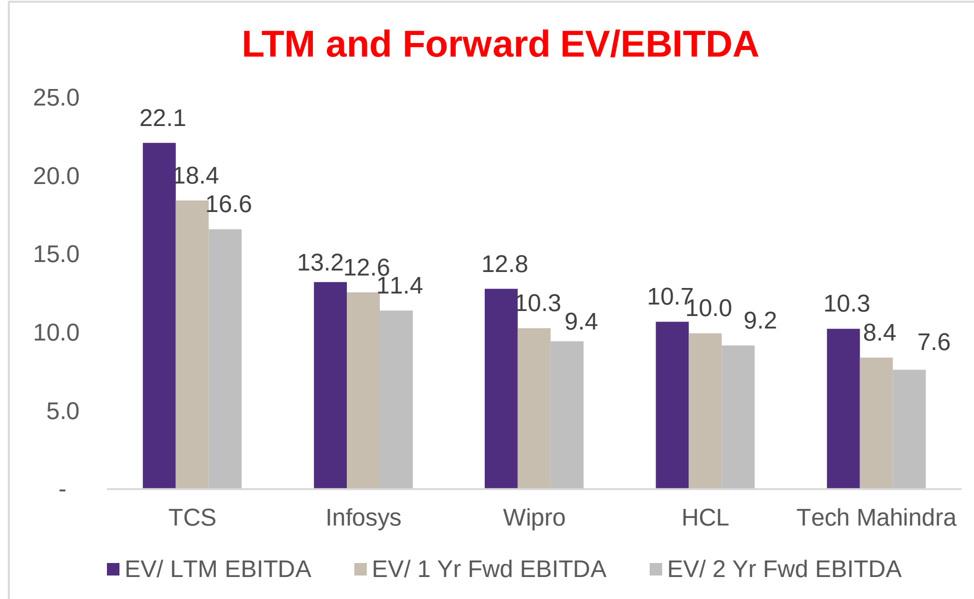
Forward estimates of large cap companies





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

- Enterprise value as on 30 September 2018
- Last 12-month (LTM) revenue and EBITDA as on 30 September 2018
- One-year and two-year forward estimates of revenue and EBITDA as on 30 September 2018

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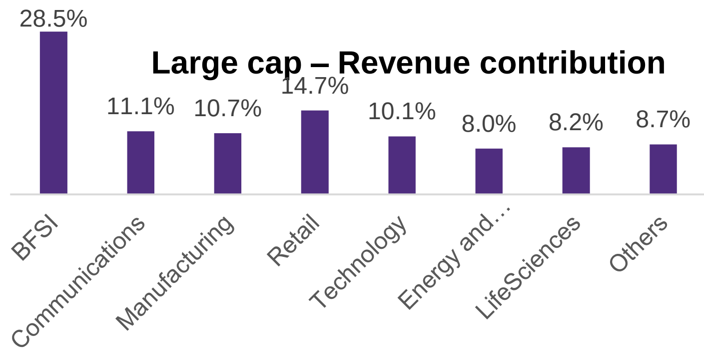
Revenue contribution and growth (reported currency) in verticals as of Q2 FY19

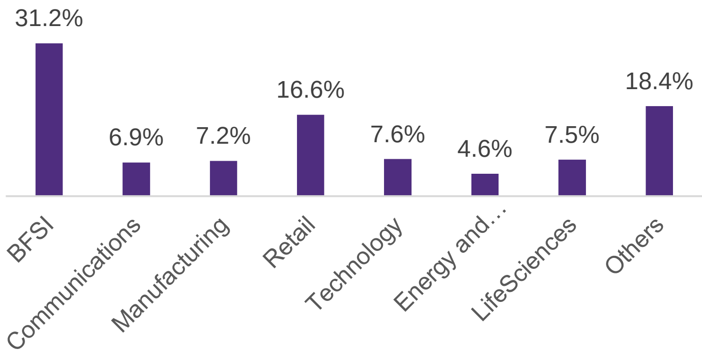
Revenue Contribution in Verticals as of Q2 FY19

A



B

TCS



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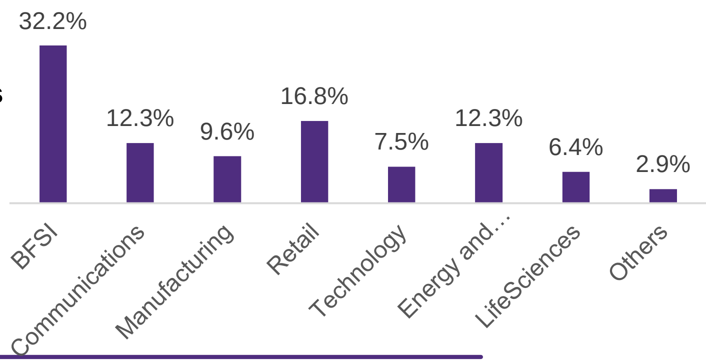
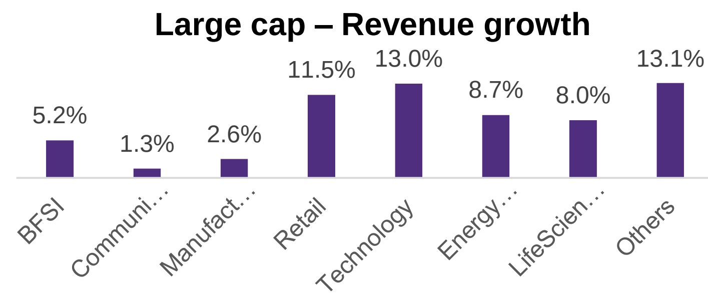
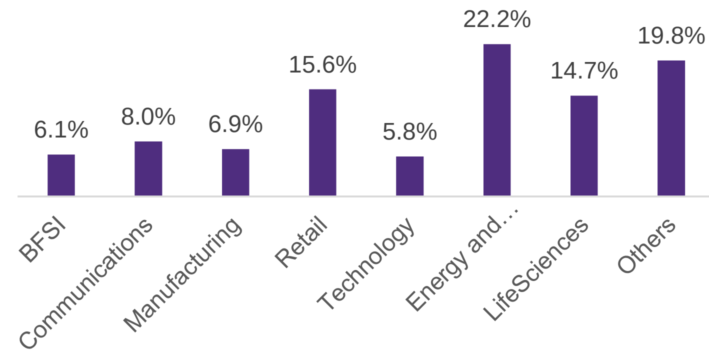
Infosys



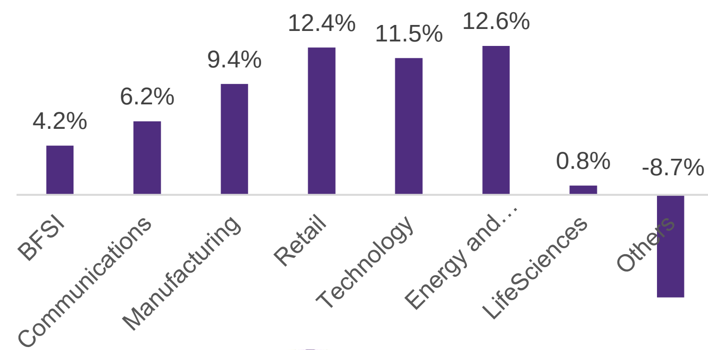
Revenue Growth in Verticals as of Q2 FY19 (YoY %)



TCS



Infosys



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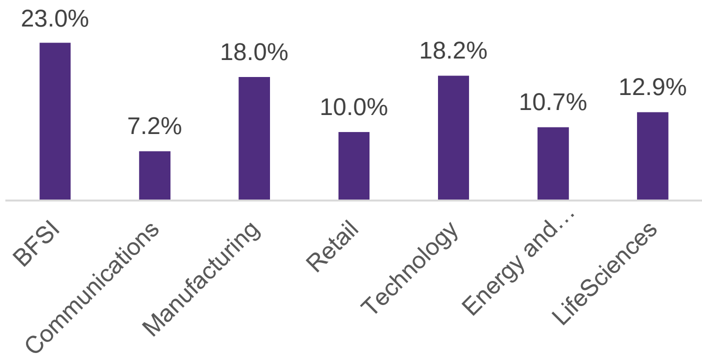
Revenue contribution and growth (reported currency) in verticals as of Q2 FY19 (cont'd)

Revenue Contribution in Verticals as of Q2 FY19

D

HCL Technology



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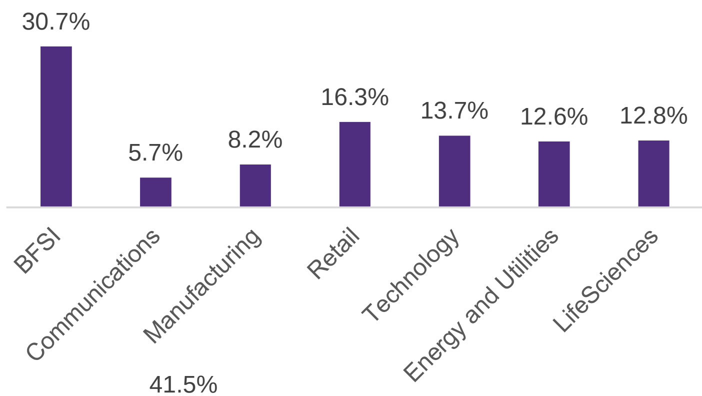
Wipro



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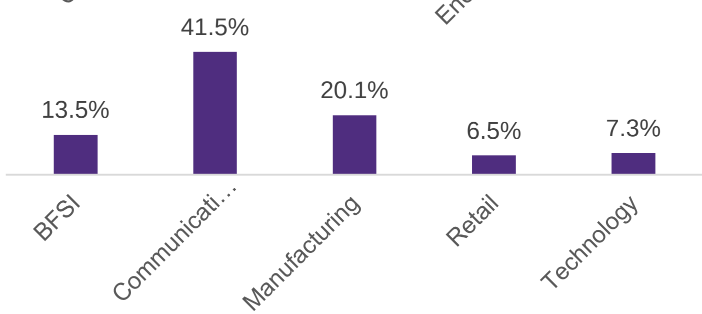
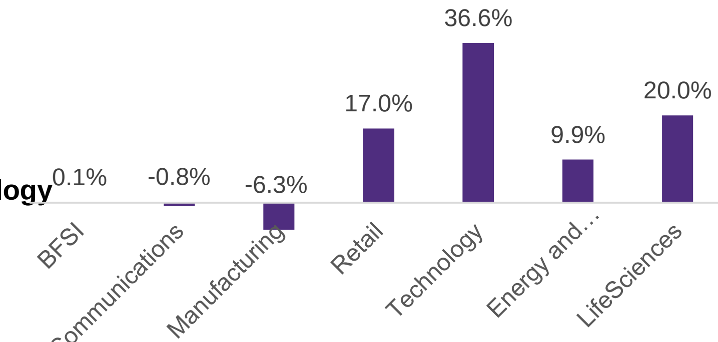
Tech Mahindra

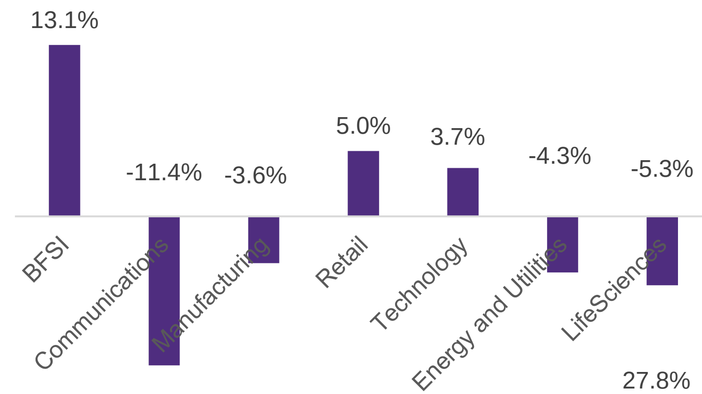


Revenue Growth in Verticals as of Q2 FY19 (YoY %)

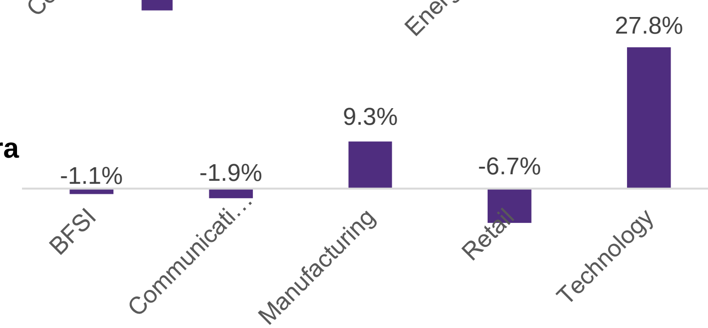
HCL Technology



Wipro



Tech Mahindra



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Other observations – Large cap company: Specific analysis

- Infosys, Wipro and Tech Mahindra lead the way with 31% of their total revenues coming from digital offerings in Q2 FY19, while HCL occupied the last position among the large cap companies with 16% of the total revenues in the form of digital revenues.
- At the end of Q2 FY19, TCS's EV/Revenue and EV/EBITDA multiples were trading at premiums of 74.7% and 33.1% respectively compared to the overall large cap median multiples. It had the highest premium among all the large cap companies.
- The BFSI vertical contributes the maximum percentage to the overall revenues for all the large cap companies except for Tech Mahindra, whose communications vertical is the major contributor to its revenues.
- BFSI vertical has recovered to a certain extent in Q2 FY19. This is largely due to an increase in spending by US-based financial services companies.
- Technology and retail verticals saw the highest growth in Q2 FY19. Due to an increase in the digital revenues for companies, the technology and retail verticals saw a healthy increase in its share of revenues for most of the large cap companies in Q2 FY19.
- TCS and Infosys performed well in the retail, energy and utilities verticals, with TCS winning the majority of large deal volumes.

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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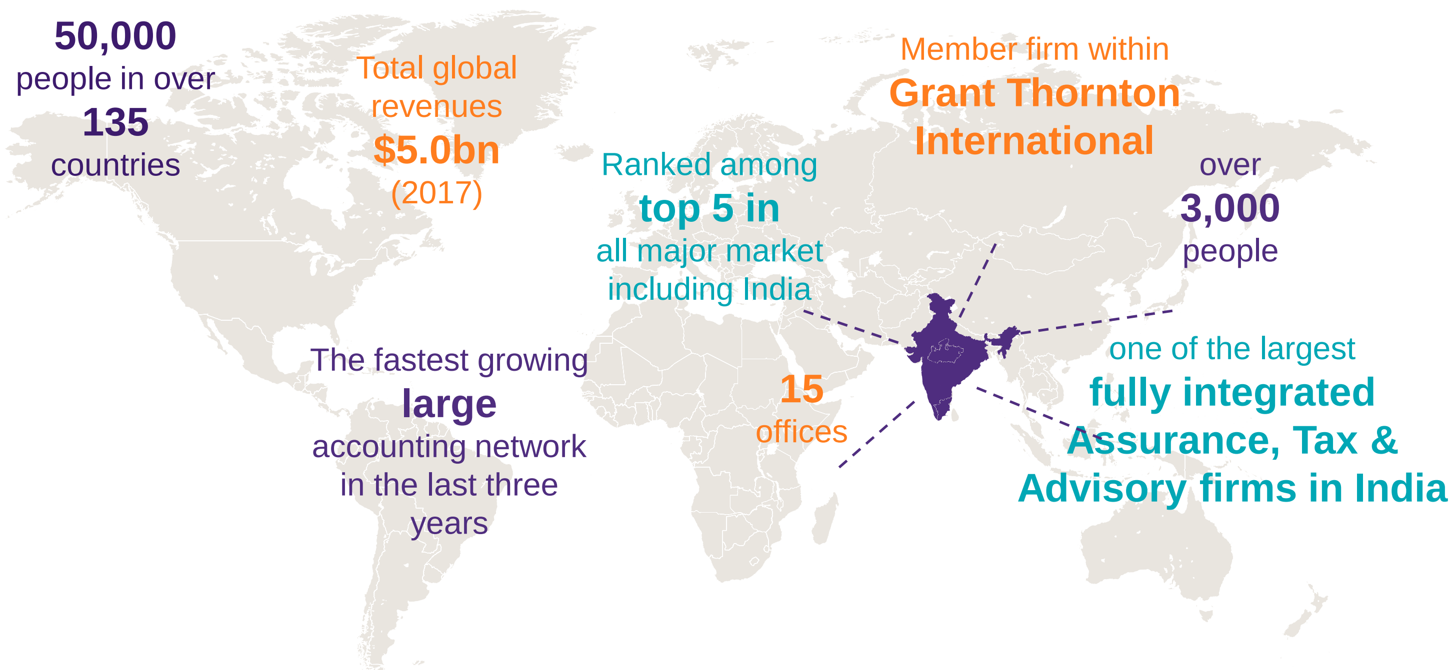

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