



Grant Thornton

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Valuation Pulse – IT and ITeS industry

Q1 FY20



Foreword



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We are pleased to present the Valuation Pulse for the first quarter of FY 2020.

On a sequential basis, Q1 FY 2020 was a setback quarter for most of the IT companies, demonstrating a muted or sluggish revenue growth and declined margins compared to Q4 FY 2019. This declining trend was due to a downturn in the key revenue verticals such as BFSI, retail and communications. This was further fueled by rupee volatility, salary increments, lower H1 B visas and low utilisation rates. However, despite the downturn, the order book of IT companies has steadily increased, reflecting a temporary demand pushout and further, the strong order book is anticipated to drive the growth momentum in upcoming quarters subject to timely implementation. The underperformance has led to further softening in the valuation multiples of the IT companies, with mid and small cap companies witnessing a greater decline in multiples.

Engineering service companies witnessed a sharper underperformance and a continued decline in valuation multiples in Q1 FY 2020 due to client-specific issues and slower than expected recovery from the macro economic headwinds faced by the aerospace and automotive verticals.

The deal activity in the IT sector also softened slightly in the last quarter with a marginal decline in transactions both by value and volume terms. Tech Mahindra has again led the pack with the most number of acquisitions in this quarter, while mid cap companies led in value terms. The predictive analytics, SaaS and digital payments segments witnessed the most transaction activity in this quarter in volume terms. Further, Q1 FY 2020 saw some marquee transactions including L&T's acquisition of Mindtree, one of the largest and the first ever hostile takeover in the Indian IT and ITeS industry till date, and Hexaware's acquisition of Mobiquity.

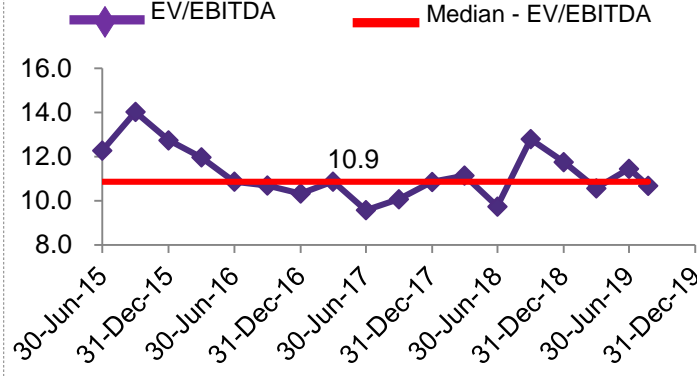
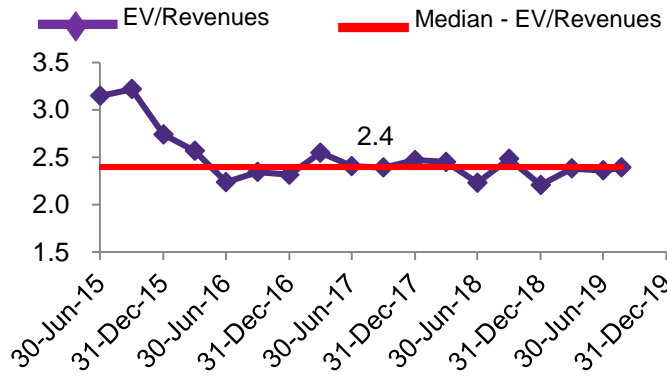
We hope you will find this publication insightful and informative.

Executive summary – Large, mid and small cap IT services

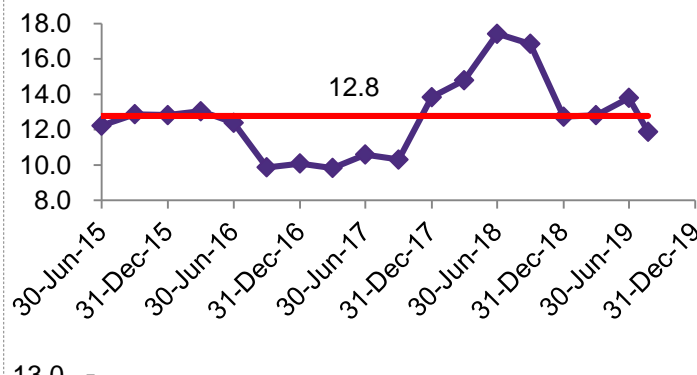
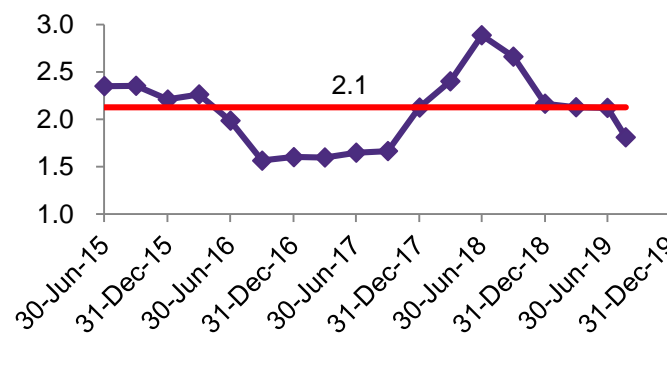
EV/revenue*

EV/EBITDA*

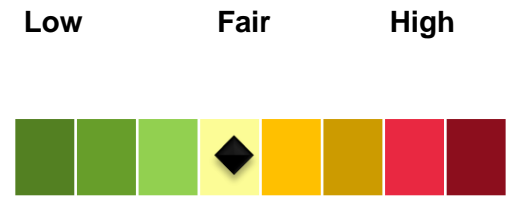
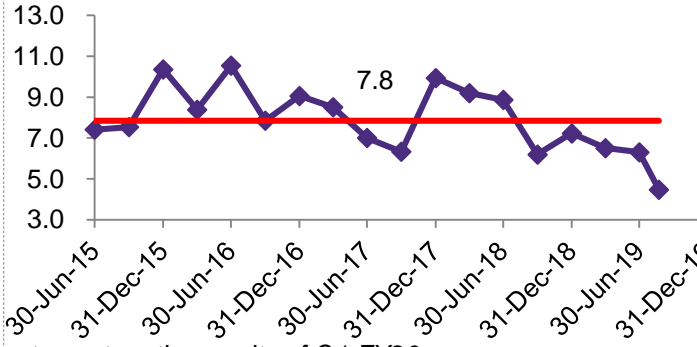
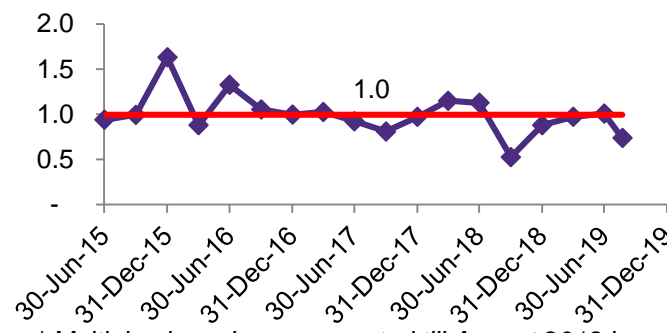
Large cap



Mid cap

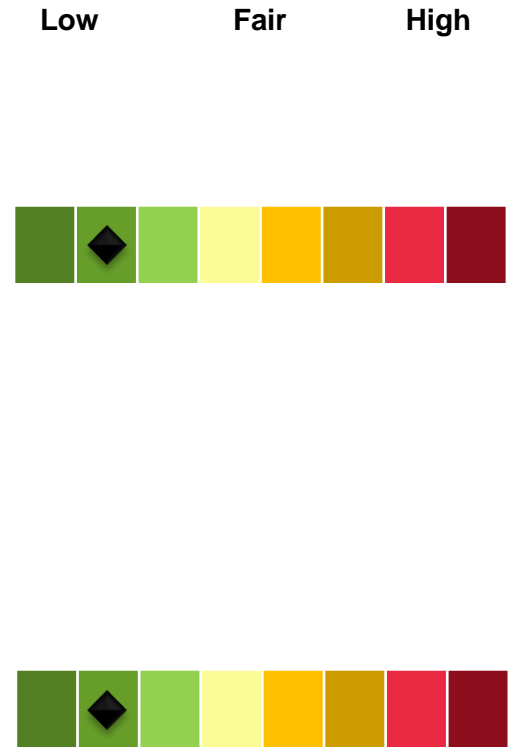
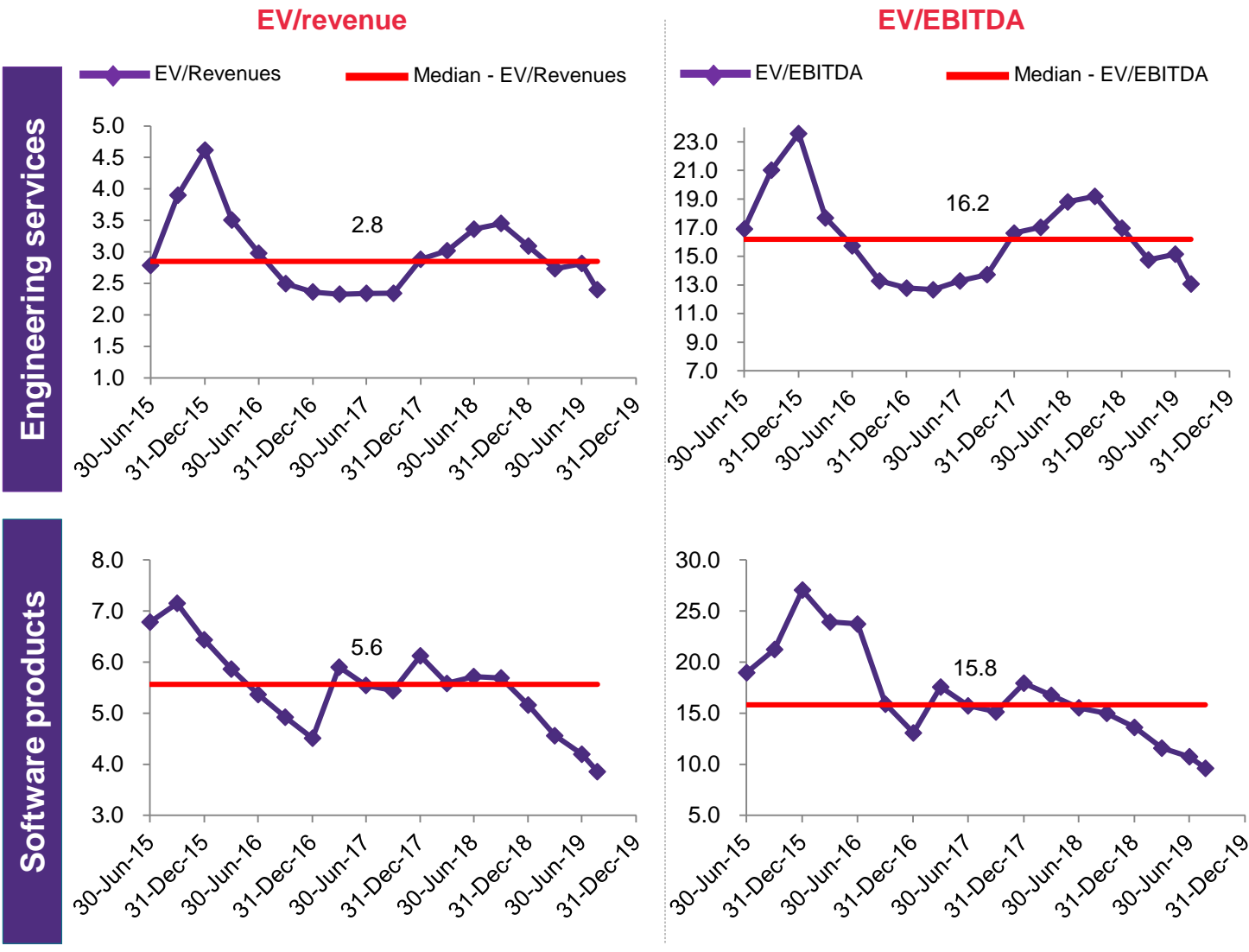


Small cap



3 * Multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

Executive summary – Other IT and ITeS segments



* Multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

Executive summary – Deal scenario: Q1 FY20

- The deal value in the IT and ITeS sector during Q1 FY20 marginally decreased to USD 1.2 billion with 30 transactions compared to USD 1.3 billion with 35 transactions in Q4 FY19. However, the average deal size in Q1 FY20 marginally increased to USD 38.9 million against Q4 FY19 average deal size of USD 36.8 million.
- In the last couple of quarters, there has been an increase in transaction activity in mid cap Indian IT companies. A few mid cap companies are on an acquisition spree to increase their market share, while others are busy in acquiring companies for domain expertise.
- In Q1 FY20, one of the major acquisitions was Hexaware taking over Mobiquity to grow its digital offerings and engineering services segment.
- In the last two quarters, L&T Limited along with its subsidiary L&T Infotech, another mid-cap company, has acquired three companies: Mindtree Ltd., Nielsen+Partner Unternehmensberater GmbH and Ruletronics Systems. The Mindtree acquisition is one of the biggest and first hostile takeovers in the Indian IT and ITeS industry ever.
- Similarly, mid-cap company Persistent Systems has acquired Youperience GmbH to increase the geographical presence of its legacy business. Cyient has acquired Cylus Cyber Security for domain expertise and market penetration.
- Among the large cap IT companies, we observed that Tech Mahindra made the highest number of transactions in Q1 FY20 and even in FY19.

Executive summary – Other observations

- Most of the large cap companies witnessed a weak quarter when compared with the last two years, both in terms of revenue growth and EBITDA margins.
- In Q1 FY20, the manufacturing and technology and life sciences verticals led the revenue growth among large cap companies.
- However, the major revenue-contributing verticals such as BFSI, retail and communications witnessed sluggish growth due to the macro economic headwinds. This trend is reflected in the flattish or negative revenue growth recorded by most of these companies.
- TCS, Infosys, Wipro and Tech Mahindra led the way with 32%-37% of their total revenues coming from digital offerings in Q1 FY20. In 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.
- Unlike other peer IT companies which are majorly focusing on increasing their digital footprint and consulting portfolio, HCL Technologies is following a different strategy by majorly investing in software products and IT services companies. This is reflected in its intent to form a new business unit, 'HCL Software', for focusing on software products and integrating the IPs acquired from IBM in one of the biggest acquisitions in recent past.
- Historically, TCS has been the market leader and always traded at premium valuation multiples compared to its peers, which is evident from the widening of premium in Q1 FY20 compared to Q4 FY19 (refer page 25).

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

- Tata Consultancy Services
- Infosys
- Wipro
- HCL Technologies
- Tech Mahindra

Mid cap

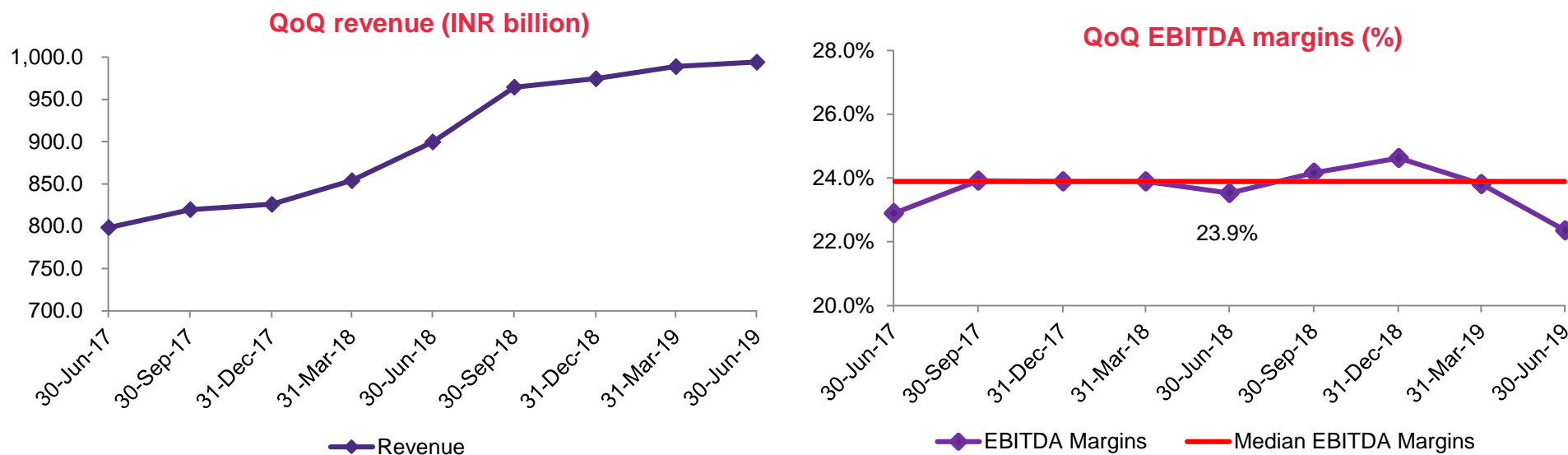
- Mphasis
- WNS (holdings)
- Mindtree
- Hexaware Technologies
- Zensar Technologies Limited
- L&T Infotech Limited
- Persistent Systems
- eClerx Services

Small cap

- Sonata Software
- Firstsource Solutions
- Hinduja Global Solutions
- NIIT
- Mastek
- Rolta India
- Genesys International Corporation
- Datamatics Global Services
- Cigniti Technologies
- Kellton Tech Solutions
- Expleo Solutions
- R Systems International

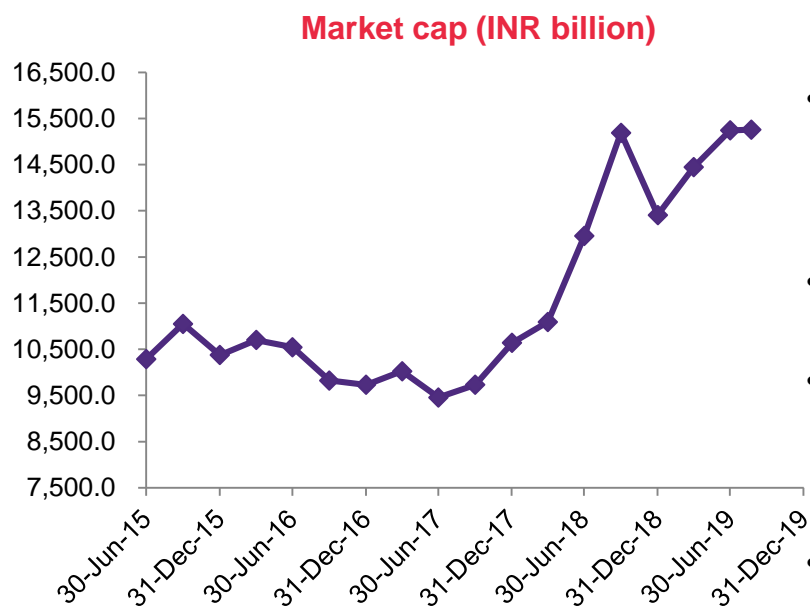
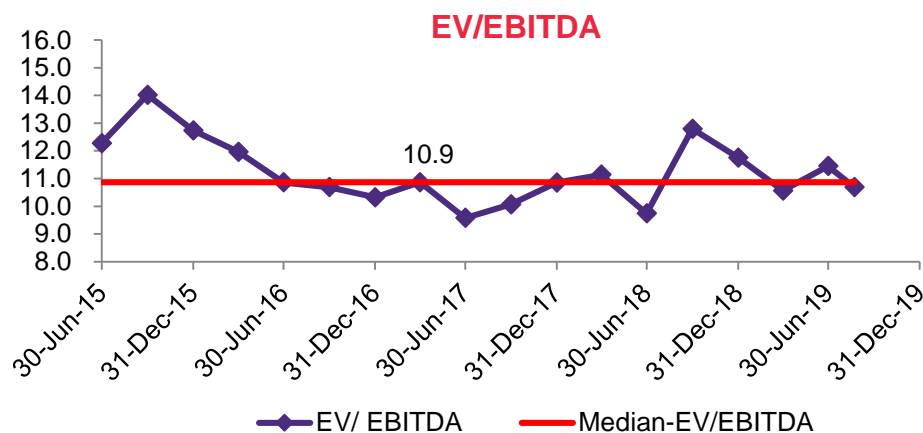
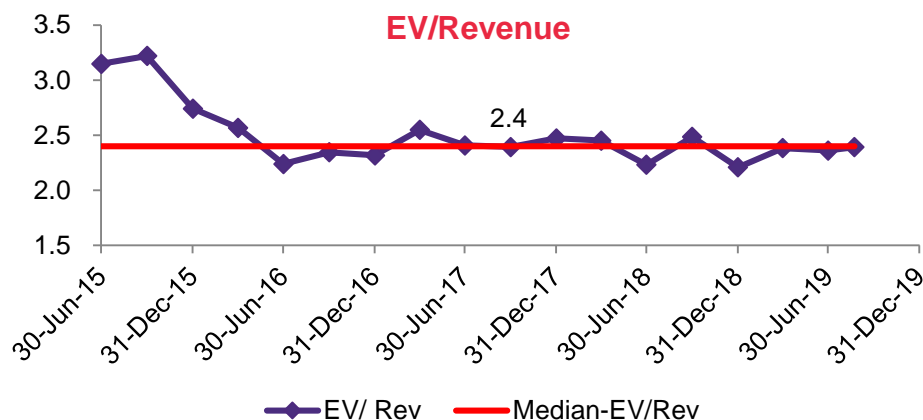
- For our analysis, we have considered only those companies which were listed five years before Q1 FY20 except for L&T Infotech Ltd. Further, we have removed certain outlier companies based on various parameters.
- We have carried out the analysis based on the financial numbers of these companies in reported rupee currency. Further, for comparison purposes, we have presented the corresponding dollar numbers which are converted based on the 30 June 2019 exchange rate and do not represent reported dollar financial numbers.
- Kindly note that in 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 Q1 FY20. However, the same adjustments are not reflected in the previous years' margins.

Large cap – Revenue and EBITDA margin trend



- On a sequential basis, the revenues increased from INR 988.8 billion (USD 14.3 billion) in Q4 FY19 to INR 994.1 billion (USD 14.4 billion) in Q1 FY20 at a growth rate of 0.5%. However, for the same period, EBITDA margins decreased from 24.2% to 22.4%.
- On a year-on-year basis, the revenues increased from INR 899.7 billion (USD 13.1 billion) in Q1 FY18 to INR 994.1 billion (USD 14.4 billion) in Q1 FY19 at a growth rate of 10.5%. Further, the EBITDA margins decreased from 23.5% to 22.4% in the same period.
- Q1 FY20 was a mixed bag quarter with respect to the large cap segment, with the positive performance of a few large cap companies netted off against the weak performance recorded by others. Thus, as a whole, the large cap segment witnessed flattish revenue growth. However, on the margins front, all large cap companies witnessed a decline in margins, which is reflected in the overall large cap segment margins.
- Further, this quarter was the weakest quarter when compared with the last two years both in terms of revenue growth and EBITDA margins, reflecting the slowdown in the economy.

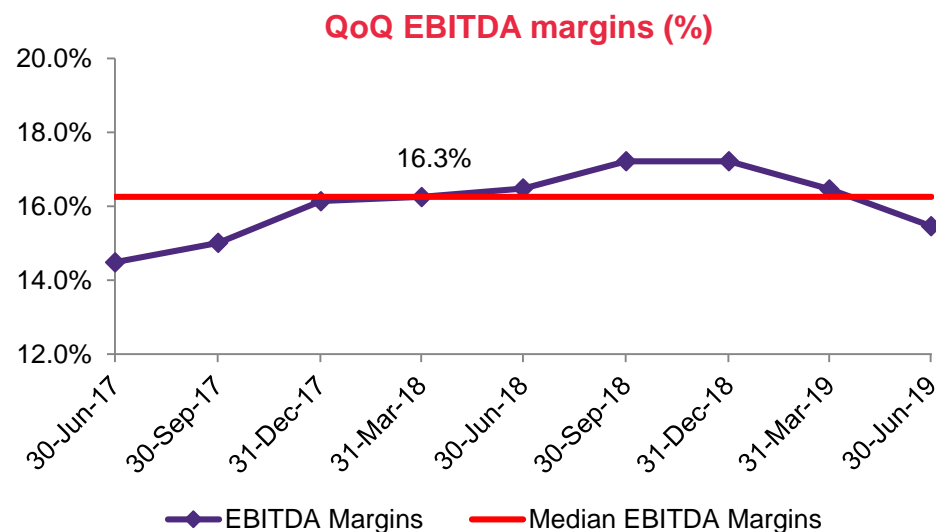
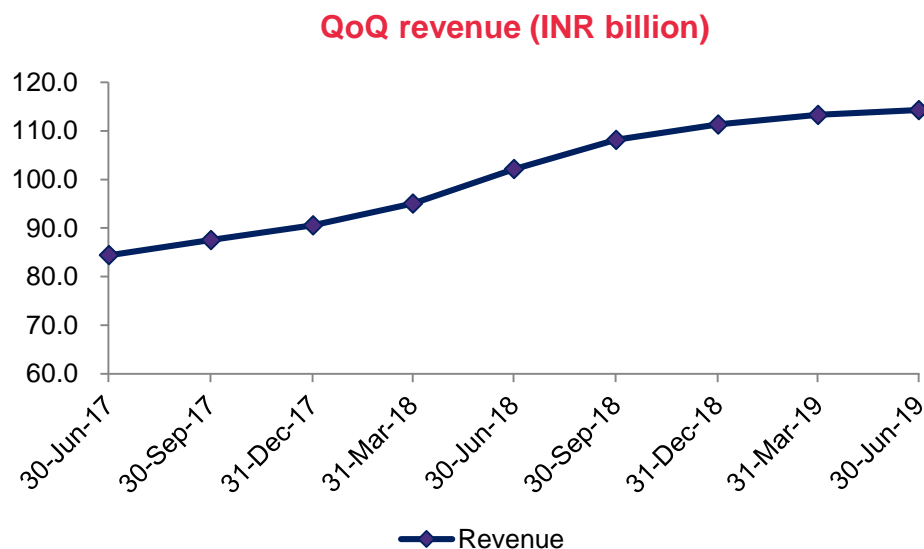
Large cap – Historical multiples



- The valuation multiples have shown some softening after the Q1 FY20 results primarily on account of subdued revenue growth and a decline in EBITDA margins.
- The combination of muted revenue growth from legacy businesses and the macroeconomic headwinds hitting majority of key sectors such as BFSI, auto and retail and also geographies such as Europe has led to subdued revenue growth.
- However, the manufacturing, technology and life sciences verticals showed a good growth momentum in Q1 FY20.
- Further, the increase in customer needs for cyber security and automation has kept the demand intact, which is why most of the companies are betting on the back of deal wins and pipeline revenue and thereby anticipating a stronger revenue growth in H2 FY20.
- On the margins front, the salary hikes, currency appreciation, lower H1 B visas and low utilisation rates led to a softer quarter.

* Market cap and multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

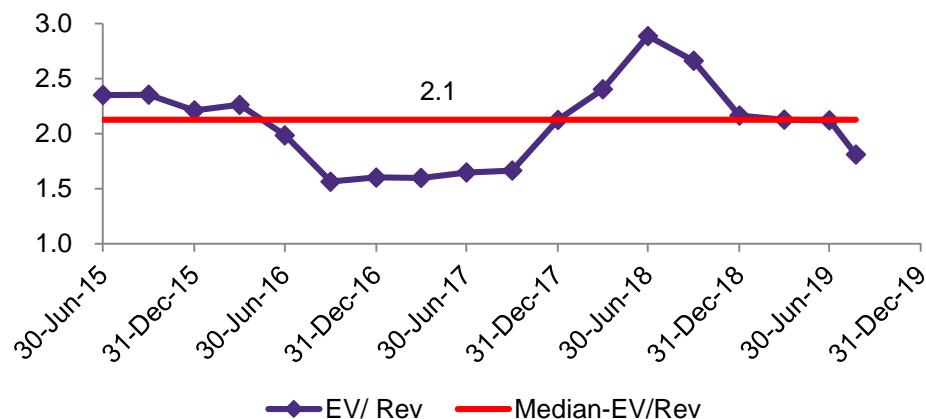
Mid cap – Revenue and EBITDA margin trend



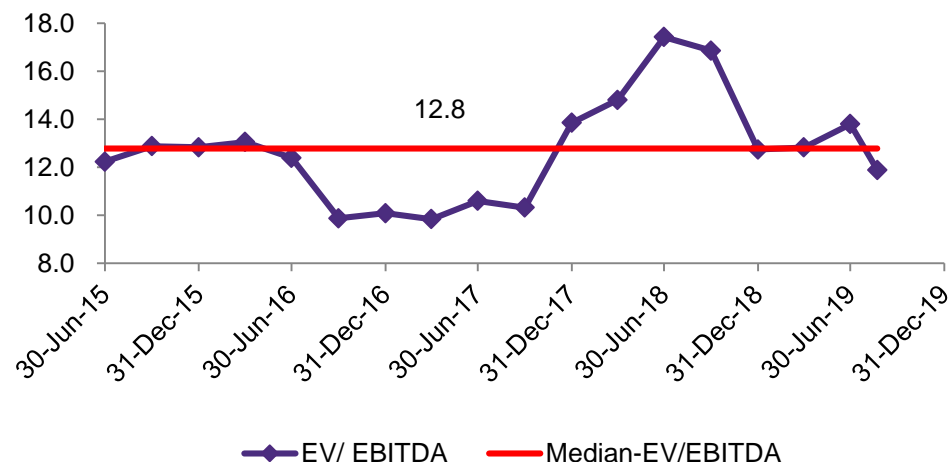
- On a sequential basis, the revenues increased from INR 113.3 billion (USD 1.6 billion) in Q4 FY19 to INR 114.3 billion in Q1 FY20 (USD 1.7 billion) at a growth rate of 0.9%. However, for the same period, EBITDA margins decreased from 16.5% to 15.5%.
- On a year-on-year basis, the revenues increased from INR 102.1 billion (USD 1.5 billion) in Q1 FY19 to INR 114.3 billion in Q1 FY20 (USD 1.7 billion) at a growth rate of 11.9%. Further, the EBITDA margins decreased from 16.5% to 15.5% in the same period.

Mid cap – Historical multiples

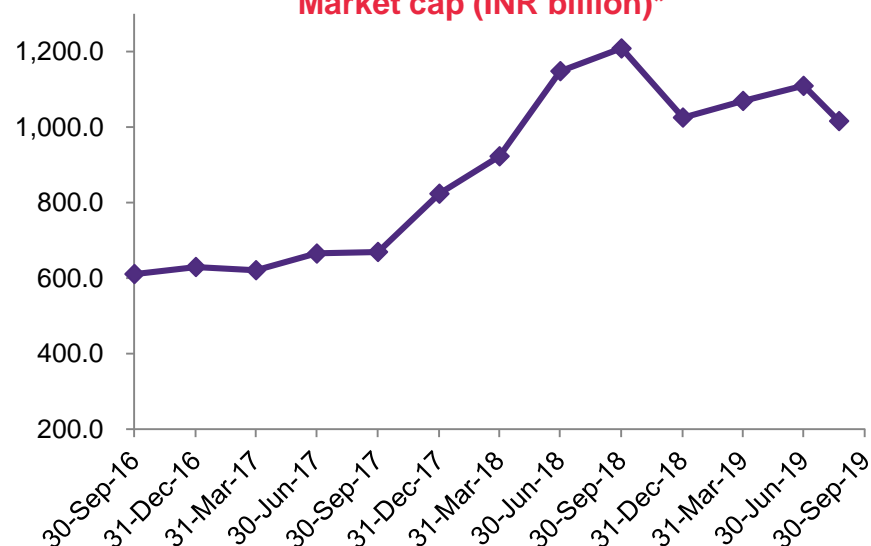
EV/Revenue*



EV/EBITDA*



Market cap (INR billion)*

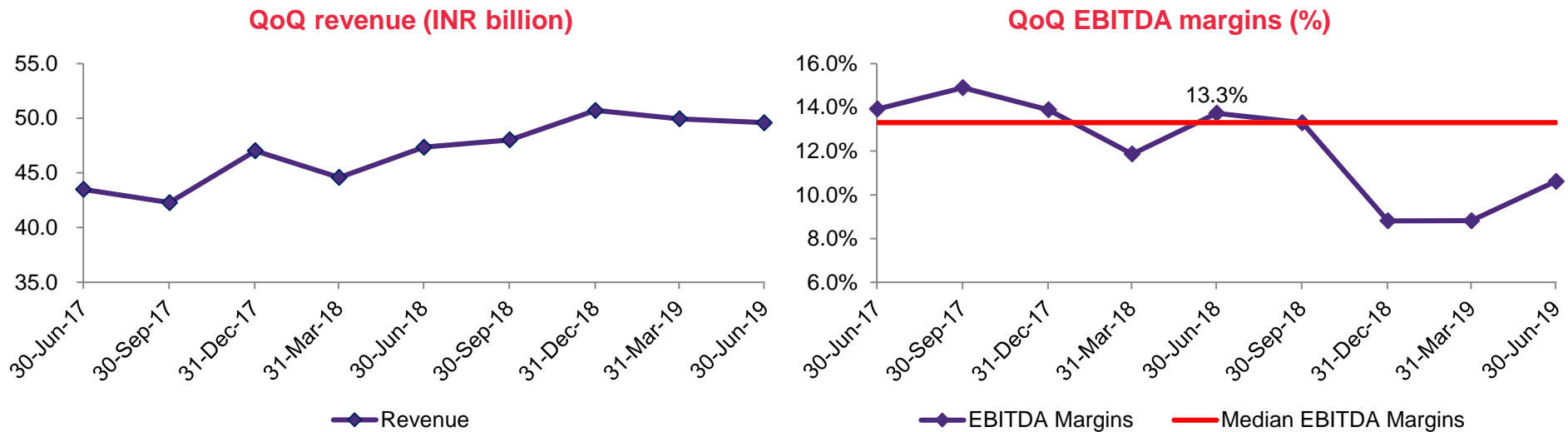


- Similar to large cap companies, mid cap companies also witnessed a softer quarter primarily on account of subdued revenue growth and decline in EBITDA margins.
- Lower utilisation rates, client-specific issues and slower than expected recovery in key revenue verticals led to a softer quarter and declining valuation multiples.
- However, on a sequential and annual basis, mid cap companies recorded the highest revenue growth when compared with other IT and ITes segments, which is reflected in the higher median EV/EBITDA multiple of 12.8x as compared to the median EV/EBITDA multiple of 10.9x of large cap companies.

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

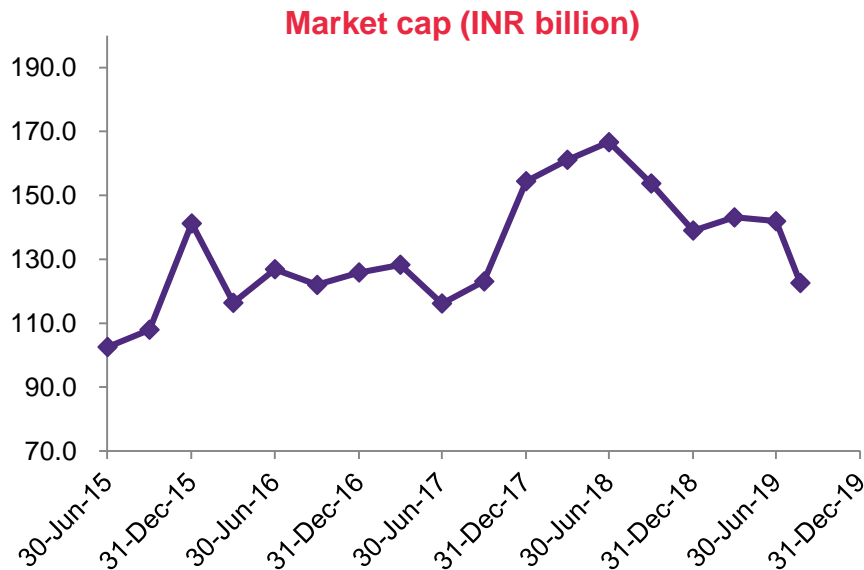
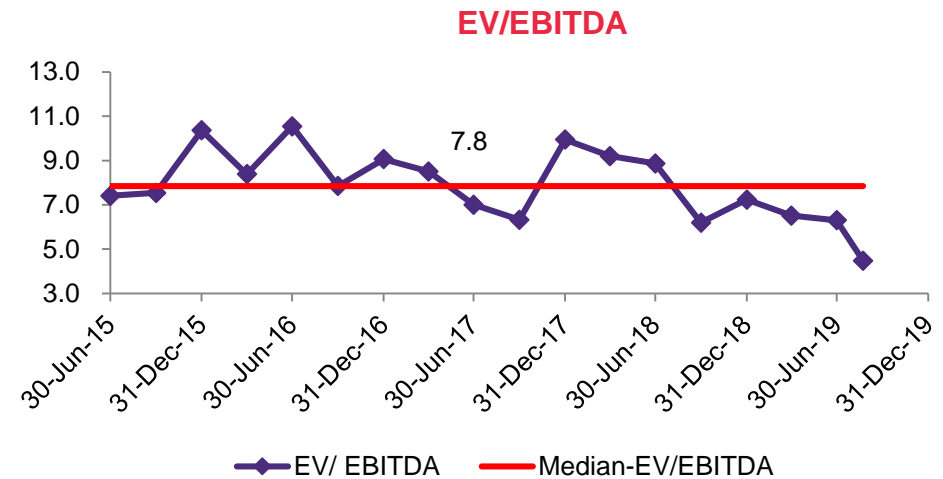
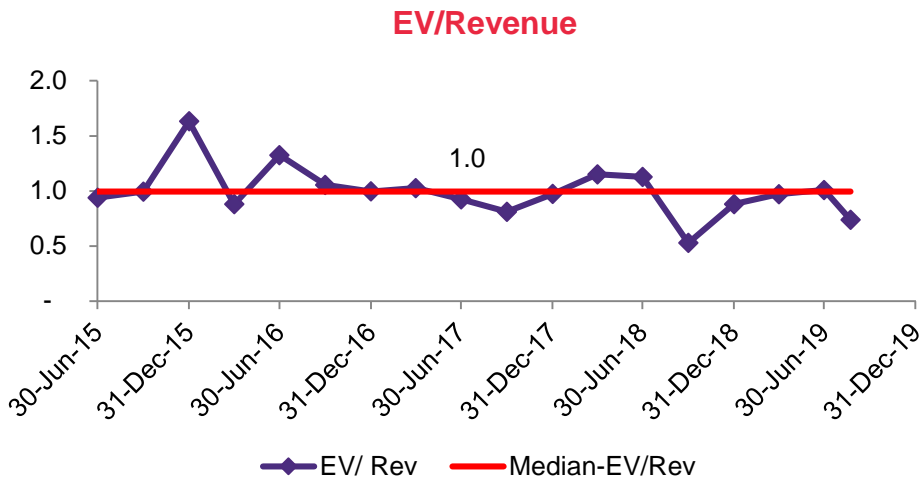
* Market cap and multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

Small cap – Revenue and EBITDA margin trend



- On a sequential basis, the revenues marginally decreased from INR 49.9 billion (USD 0.725 billion) in Q4 FY19 to INR 49.6 billion (USD 0.719 billion) in Q1 FY20, at a de-growth rate of -0.7%. However, the EBITDA margins increased from 8.8% to 10.6% during the same period.
- On a year-on-year basis, the revenues increased from INR 47.3 billion (USD 0.687 billion) in Q1 FY19 to INR 49.6 billion (USD 0.719 billion) in Q1 FY20, at a growth rate of 4.7%. Further, the EBITDA margins decreased from 13.7% to 10.6% in the same period.
- Unlike large cap and mid cap companies, small cap companies witnessed an increase in margins despite a flattish revenue growth.

Small cap – Historical multiples



- 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 1.0x and EV/EBITDA multiple of 7.8x.
- Despite an increase in margins for most of the small cap companies, the overall revenue decreased in Q1 FY 20 and failed to meet the market expectations, which is reflected in the declining trend of valuation multiples during this quarter. Additionally, large cap companies are better placed to reap the benefits of digitisation than small cap companies, which might face issues related to growth and margins in the future.

* Market cap and multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

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
- L&T Technology Services Limited

Software product companies*/***

- ABM Knowledgeware Limited
- AurionPro Solutions Limited
- Nucleus Software Exports Limited
- Oracle Financial Services Software Limited
- TAKE Solutions Limited
- 3i Infotech Limited
- Ramco Systems Limited
- Majesco Limited

* For our analysis, we have considered only those companies which were listed five years before Q1 FY20 except for L&T Technology Services and Majesco Limited. Further, we have removed certain outlier companies based on various parameters.

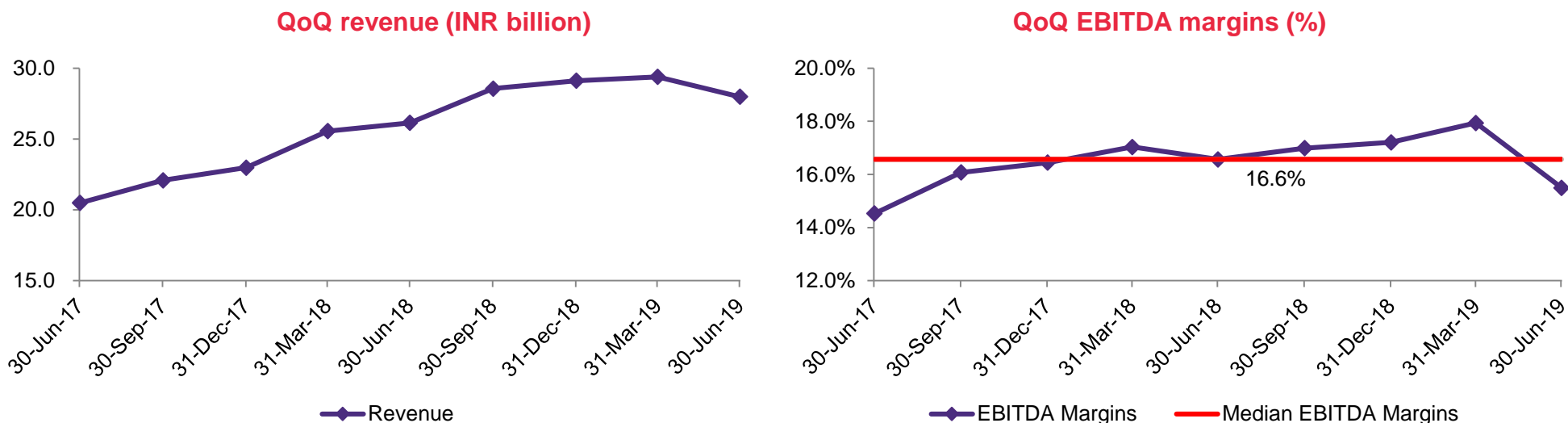
* We have carried out the analysis based on the financial numbers of these companies in reported rupee currency. Further, for comparison purposes, we have presented the corresponding dollar numbers which are converted based on the 30 June 2019 exchange rate and do not represent reported dollar financial numbers.

* Kindly note that in 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 Q1 FY20. However, the same adjustments are not reflected in the previous years' margins.

** KPIT Technologies Limited (Engineering [primarily] and IT consulting businesses) was amalgamated with Birlasoft (India) Limited (IT consulting business) on 29 November 2018. After the 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.

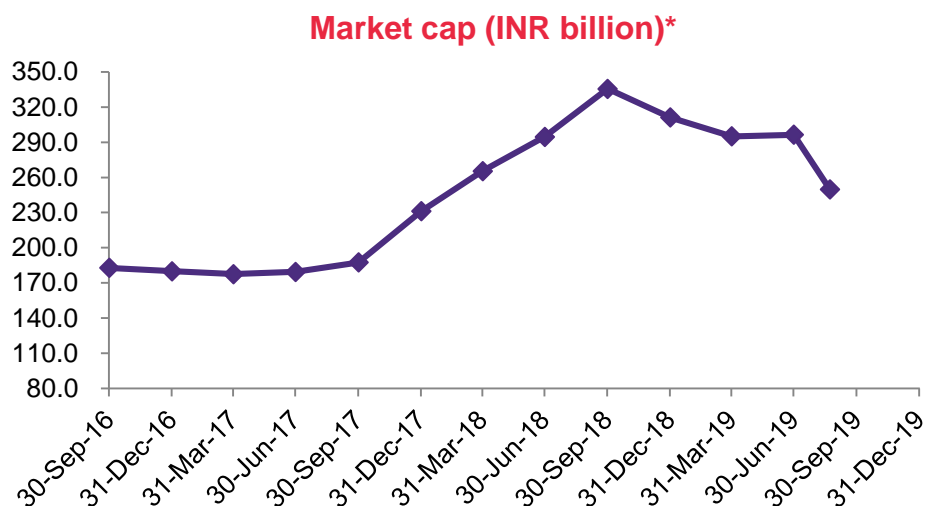
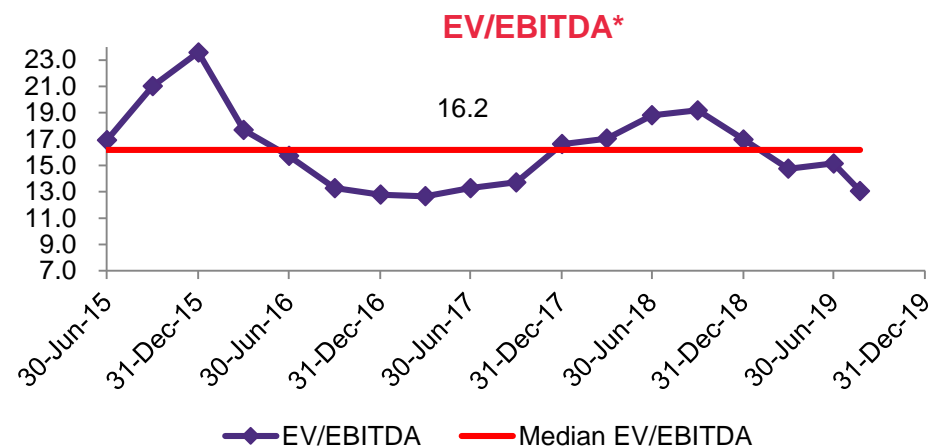
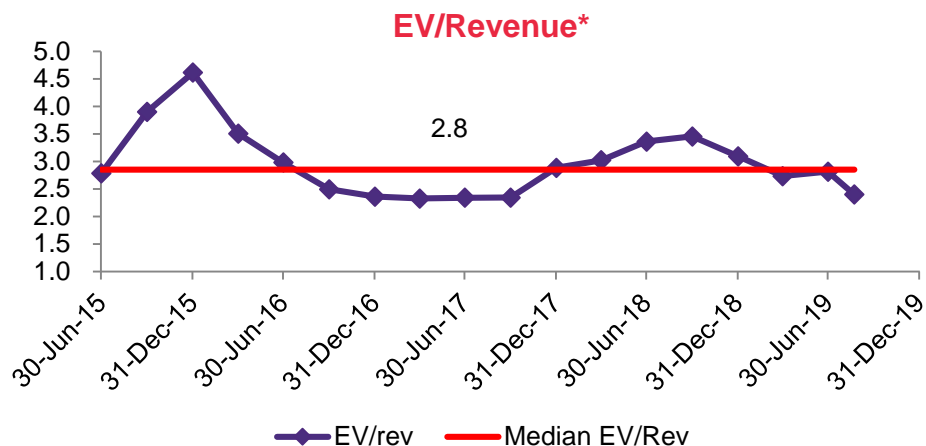
*** Companies primarily into developing software products.

IT engineering – Revenue and EBITDA margin trend



- On a sequential basis, revenues decreased from INR 29.4 billion (USD 0.43 billion) in Q4 FY19 to INR 28.0 billion (USD 0.41 billion) in Q1 FY20 at a de-growth rate of -4.8%. During the same period, EBITDA margins fell from 17.9% to 15.5%.
- On an annual basis, revenues increased from INR 26.1 billion (USD 0.38 billion) in Q1 FY19 to INR 28.0 billion in Q1 FY20 (USD 0.41 billion) at a growth rate of 7.0%. EBITDA margins decreased from 16.6% to 15.5% over the same period.
- The sequential decline in revenue was on account of client-specific issues among the top 20 clients, who drove the major business, which led to a delay in the decision-making process of finalising the deals. Further, the aerospace and automotive verticals, which are vital for IT engineering companies, recorded a slower than expected recovery from the macro economic headwinds faced in the last few quarters.
- On the margins front, the decline was due to rupee volatility and lower efficiency in terms of utilisation (idle capacity).

IT engineering – Historical multiples



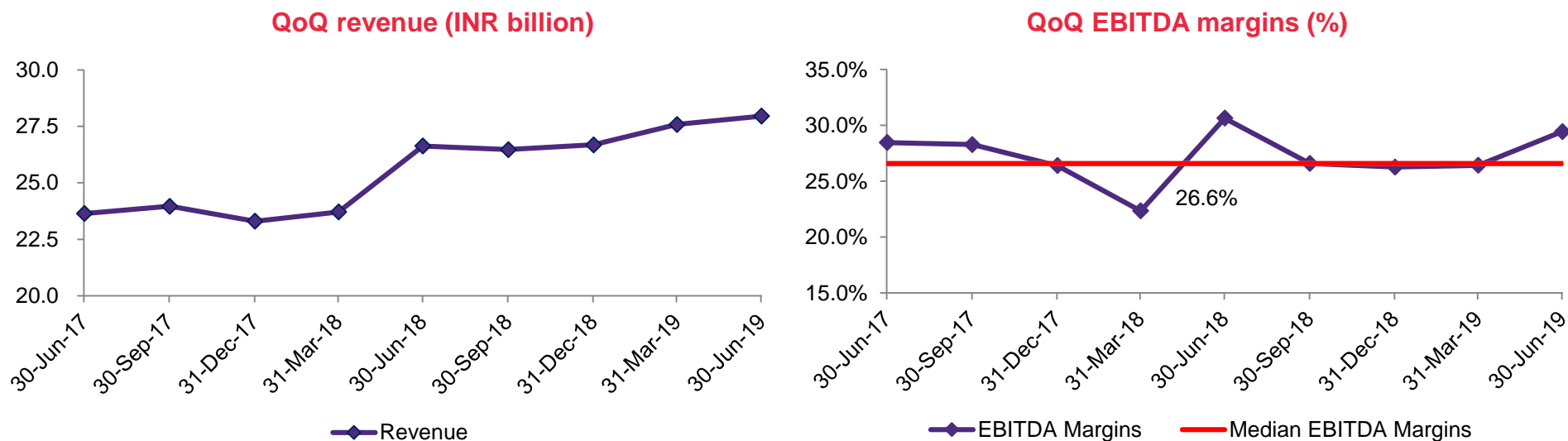
- On account of reasons mentioned on the previous page, the EV/Revenue and EV/EBITDA multiples declined on a sequential basis.
- Considering that the salary hikes are set to happen in Q2 FY20, the revenue growth, operational efficiency and cost optimisation are going to play a major role in achieving the guidance margins in the next quarter.
- Further, the macro economic headwinds and cut in client budgets are expected to be for a short-term period as these companies are optimistic about the future demand primarily deriving from 5G deployment, IoT, analytics businesses and likely recovery of auto and aerospace verticals.

*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.

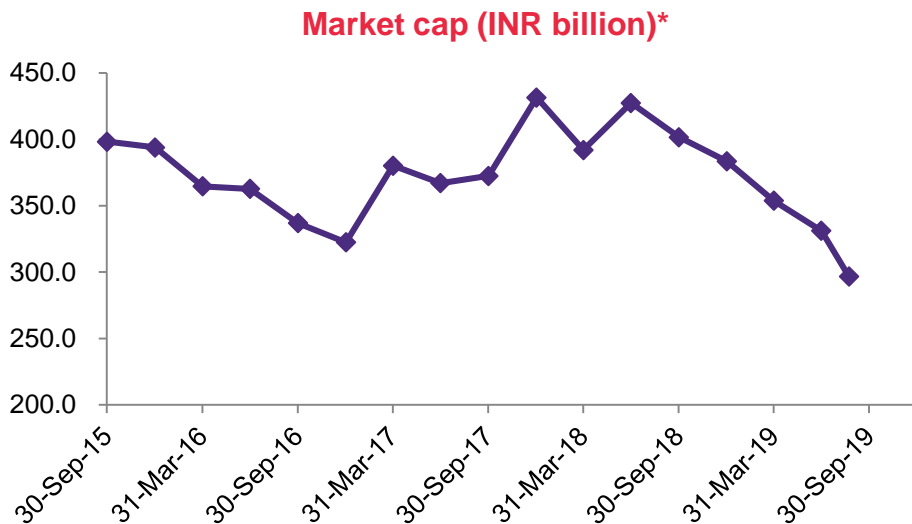
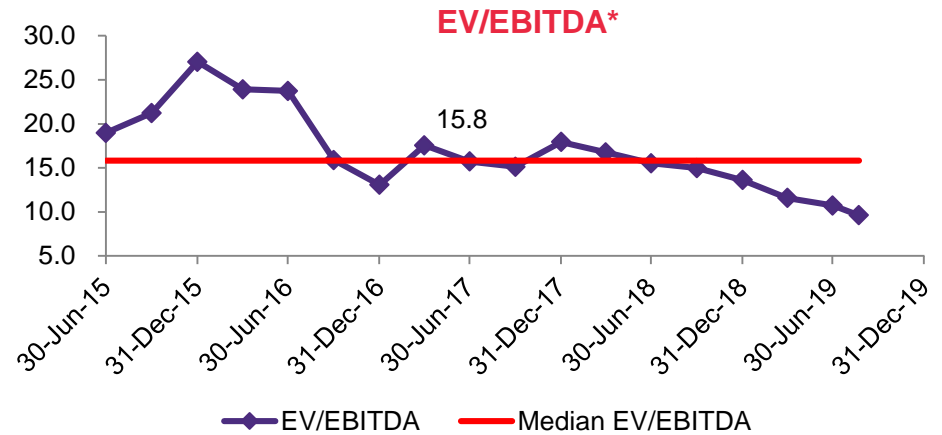
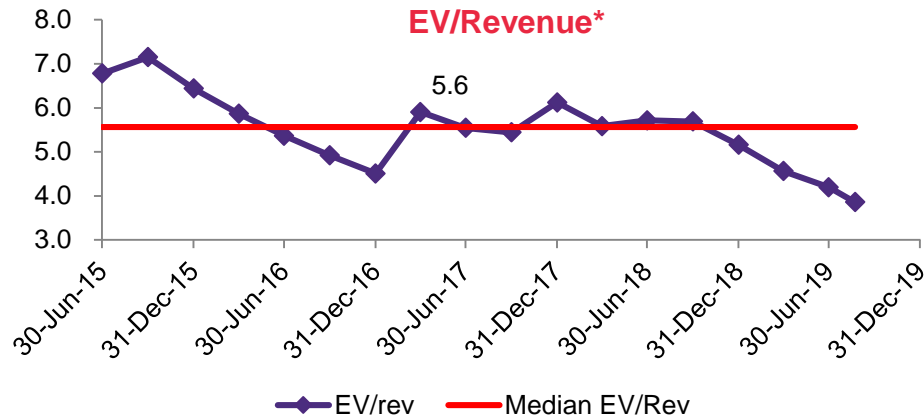
* Market cap and multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

Software products – Revenue and EBITDA margin trend



- On a sequential basis, revenues increased from INR 27.6 billion (USD 0.40 billion) in Q4 FY19 to INR 28.0 billion (USD 0.41 billion) in Q1 FY20 at a growth rate of 1.3%. EBITDA margins increased from 26.4% to 29.4% during the same period.
- On an annual basis, revenues increased from INR 26.6 billion (USD 0.39 billion) in Q1 FY19 to INR 28.0 billion (USD 0.41 billion) in Q1 FY20 at a growth rate of 5.0%. Further, EBITDA margins decreased from 30.6% to 29.4%.
- Even though the overall software segment has witnessed a marginal increase in revenue growth and margins, software companies have not achieved the guidance estimates.
- Further, a few companies have witnessed a decline in revenue and margins due to a slowdown in certain key verticals such as BFSI and increase in R&D costs.

Software products – Historical multiples



- Despite a marginal increase in overall revenue and EBITDA margins in Q1 FY20 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.
- However, software companies are optimistic on the Q2 FY20 performance owing to a strong order book.
- 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 segments in the last few quarters.

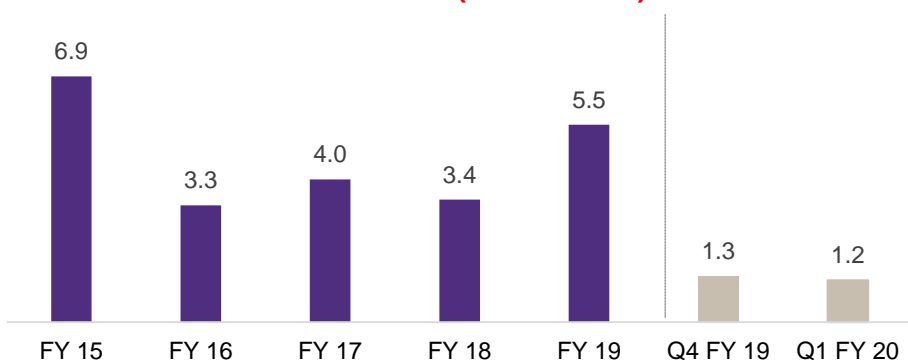
* Market cap has been presented from Q2 FY16 considering that Majesco is listed only from that quarter.

* 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.

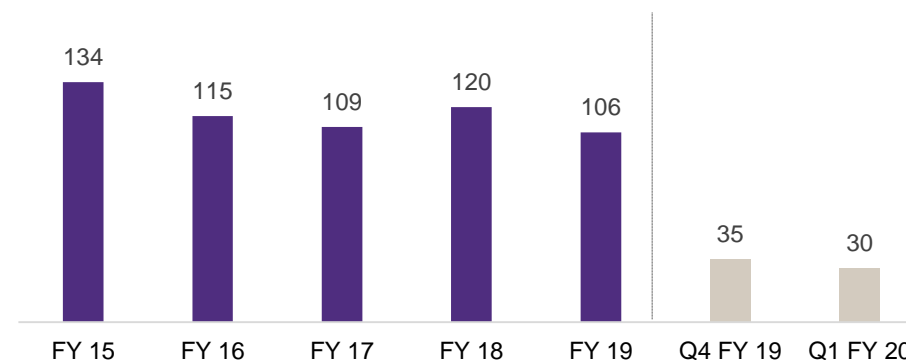
* Market cap and multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

Deals – IT and ITeS industry

Deal values (USD billion)



Deal volumes



* 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.

Break-up of the above deal values and deal volumes for FY15-FY19, Q4 FY19 and Q1 FY20

Deal 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
Q4 FY19	0.6	-	0.1	0.1	0.5
Q1 FY20	0.1	-	0.02	0.4	0.6

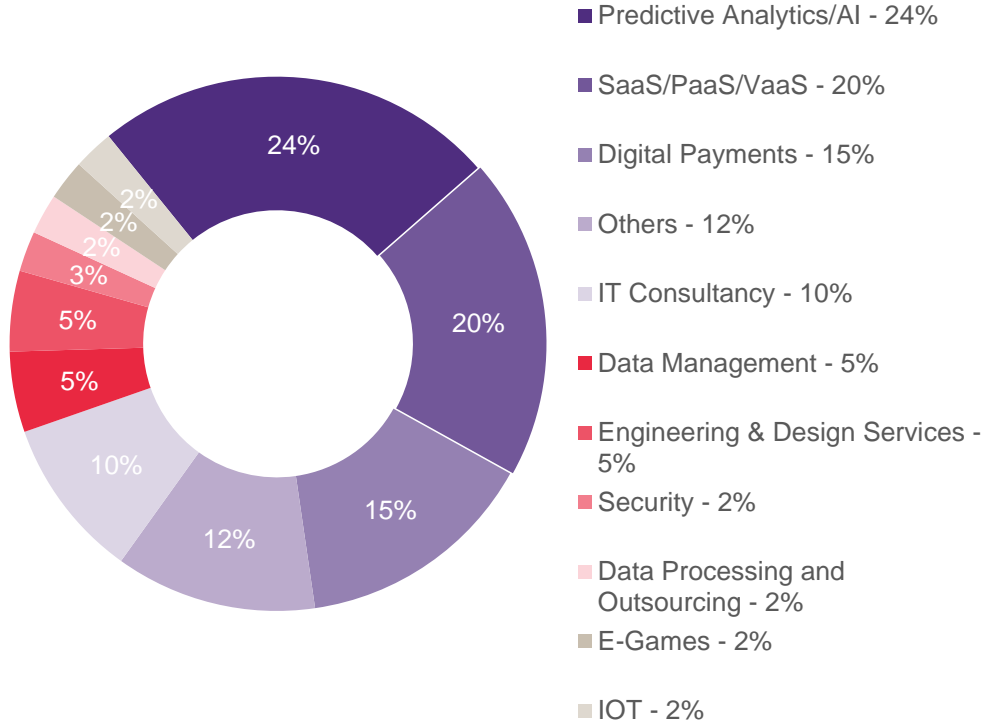
Deal volumes

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
Q4 FY19	14	-	6	5	10
Q1 FY20	4	-	3	10	13

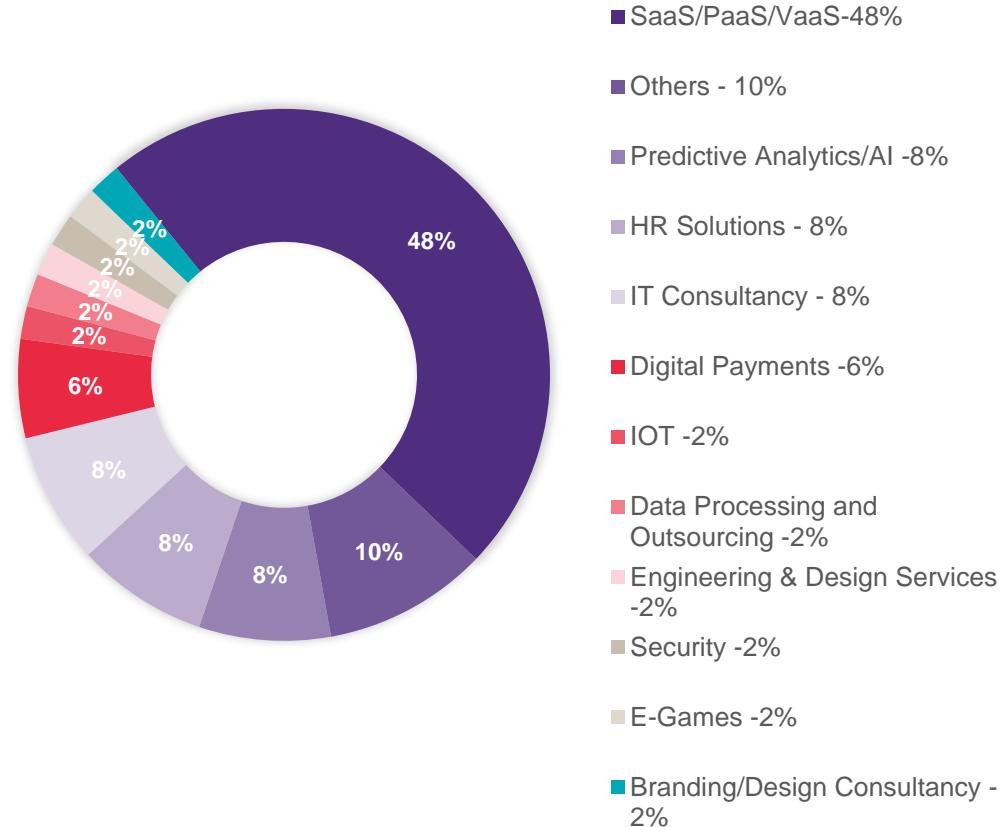
Deals – IT and ITeS industry: Areas of interest (QoQ)

MAJOR SECTORS WHERE IT INDUSTRY IS INVESTING

Q1 FY20



Q4 FY19



* 'Others' majorly includes deals which took place in sub-segments such as blockchain technologies, network solutions, social media and implementation services.

** The above deals include both mergers and acquisitions and private equity transactions.

Deals – IT and ITeS industry: Areas of interest

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

- The average deal size in Q1 FY20 marginally increased to USD 38.9 million against the Q4 FY19 average deal size of USD 36.8 million. However, the deal values and volumes marginally decreased during the same period (refer page 19).
- In the last couple of quarters, there has been an increase in transaction activity in mid cap Indian IT companies. A few of the mid cap companies are on an acquisition spree to increase their market share, while the others are busy in acquiring companies for domain expertise.
- In Q1 FY20, one of the major acquisitions was Hexaware taking over Mobiquity to increase its digital offerings and engineering services segment.
- In the last two quarters, L&T Limited along with its subsidiary L&T Infotech, another mid-cap company, has acquired three companies: Mindtree Ltd, Nielsen+Partner Unternehmensberater GmbH and Ruletronics Systems. The Mindtree acquisition is one of the biggest and first hostile takeovers in the Indian IT and ITeS industry ever.
- Similarly, mid cap company Persistent Systems has acquired Youperience GmbH to increase the geographical presence of its legacy business. Cyient has acquired Cylus Cyber Security for domain expertise and market penetration.

Deals – IT and ITeS industry: Areas of interest

- With the advent of digital technologies, innovation and customised solutions have become core in providing any services to customers. Therefore, we have seen a surge in acquisition of technology companies operating in domains such as predictive analytics, artificial intelligence when compared with previous quarter.
- With an increase in digital footprint, digital payments have become a norm, which is reflected in a constant increase in transaction activity in the digital payment space over the past few quarters.
- Similar to mid cap companies, there have been frequent acquisitions in the large cap space to gain domain expertise or increase market share. However, unlike the mid cap companies, large cap companies have been involved in acquiring relatively smaller companies, despite having a significant cash balance in their books. The following table lists the acquisitions made by large cap companies in Q1 FY20:

Large cap Company	Deal month	Target	Country	Segment	Transaction value (USD million)
TCS	June 2019	TCS Japan Ltd	Japan	IT consultancy	32.6
Infosys	April 2019	ABN AMRO – Stater NV.	Netherlands	Data processing and outsourcing	143.0
Wipro	June 2019	International Techne Group Incorporated	USA	Data management	45.0
Tech Mahindra	April 2019	Infotek Software and Systems (P) Ltd./Vitaran Electronics Pvt. Ltd.	India	Others	1.9
Tech Mahindra	June 2019	Objectwise Consulting Group	Canada	IT consultancy	2.1

Deals – IT and ITeS industry: April 2019 to June 2019

The following are some of the few big-ticket transactions which happened in Q1 FY20:

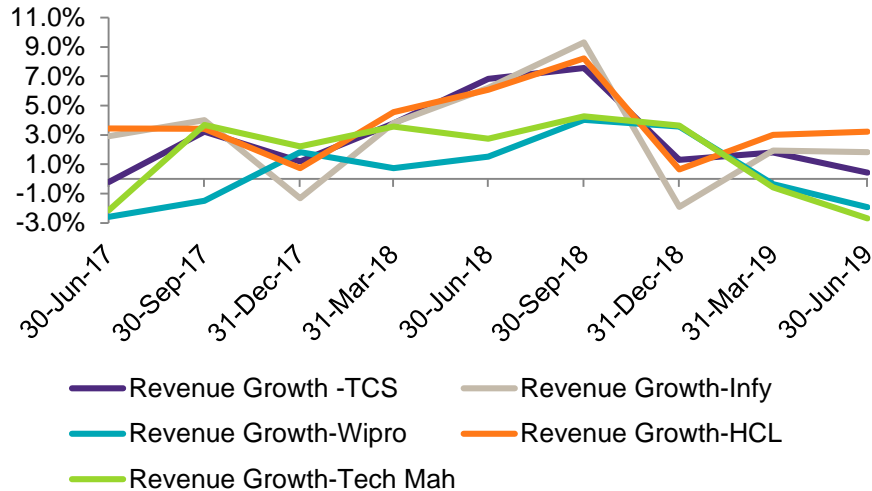
Deal month	Acquirer	Country (Acquirer)	Target	Country (Target)	Segment	Deal type	Transaction value (USD million)
June 2019	Larsen & Turbo Infotech	India	Mindtree (Open Offer)	India	IT consultancy	Majority stake	~730.0
April 2019	Hulst B.V	Netherlands	NIIT Technologies	India	IT consultancy	Majority stake	382.6**
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	Majority stake	143.0
June 2019	Multiple Investors	NA*	Druva Software Pvt. Ltd.	India	Data management	PE investment	130.0
May 2019	Alibaba Group Holding Limited	NA*	Vmate	India	Social media	PE investment	100.0
June 2019	Multiple Investors	NA*	Razorpay Software Private Limited	India	Digital payments	PE investment	75.5
April 2019	Proficient Finstock LLP	India	KPIT Technologies	India	Engineering and design services	Minority stake	68.0
June 2019	Amazon Corporate Holdings	NA*	Amazon Pay (India) Private Limited	India	Digital payments	PE investment	65.0
May 2019	Multiple Investors	NA*	Soham Online Solutions Pvt. Ltd.	India	Software solutions	PE investment	50.0
June 2019	Wipro	India	International TechneGroup Incorporated	USA	Data management	Acquisition	45.0

*NA: Not applicable

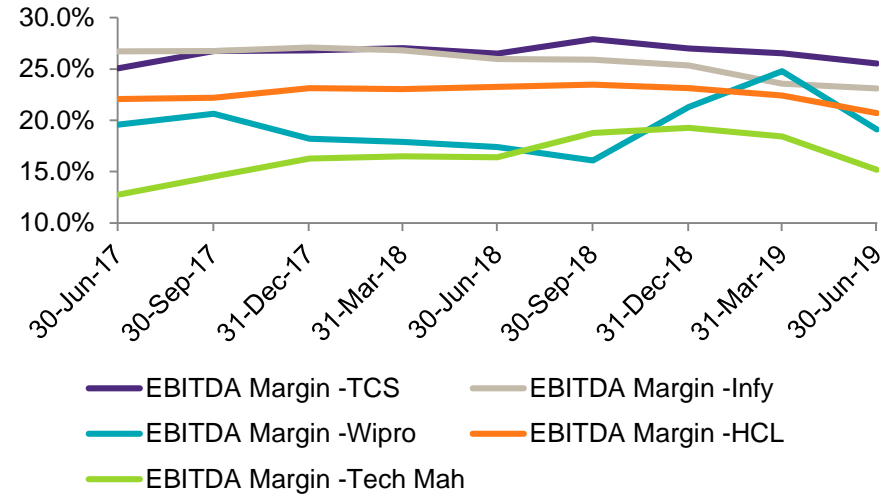
** Excluding open offer amount of USD 445.2 million which is yet to be closed.

Company-specific analysis of large cap companies

QoQ revenue growth (%)



Quarter wise EBITDA margins (%)



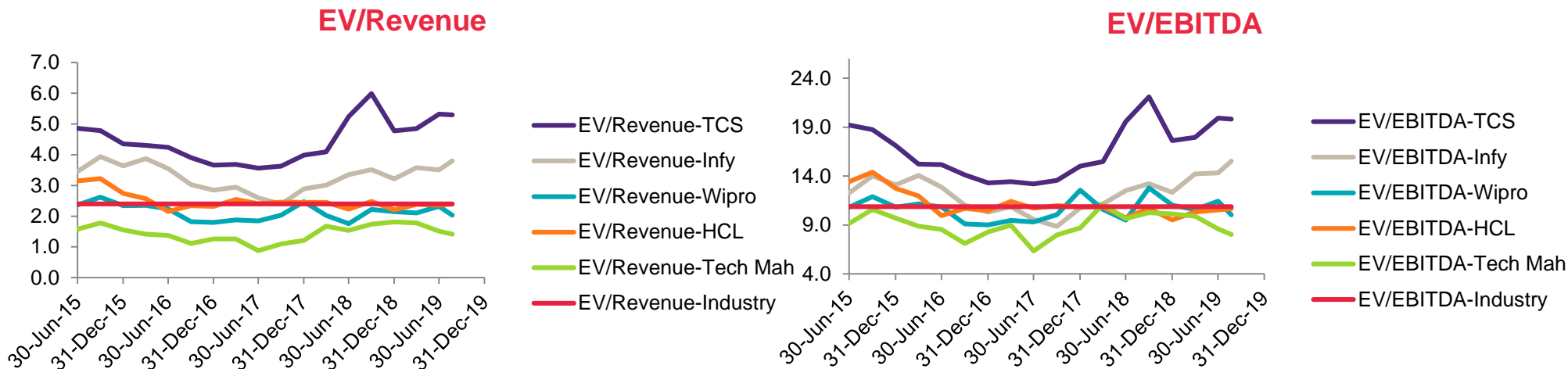
Company	Three-year CAGR (%)	Three-year median margins (%)
TCS	13.6%	26.7%
Infosys	12.2%	26.0%
HCL	15.7%	23.0%
Wipro	3.9%	19.1%
Tech Mahindra	8.6%	16.4%

HCL recorded the highest revenue growth in Q1 FY20 (in reported rupee terms) followed by Infosys. On the other hand, Wipro and Tech Mahindra recorded negative revenue growth during the same period.

However, all companies witnessed their weakest quarter when compared with the last four quarters.

Further, all large cap companies recorded a decline in EBITDA margins.

Company-specific analysis of large cap companies

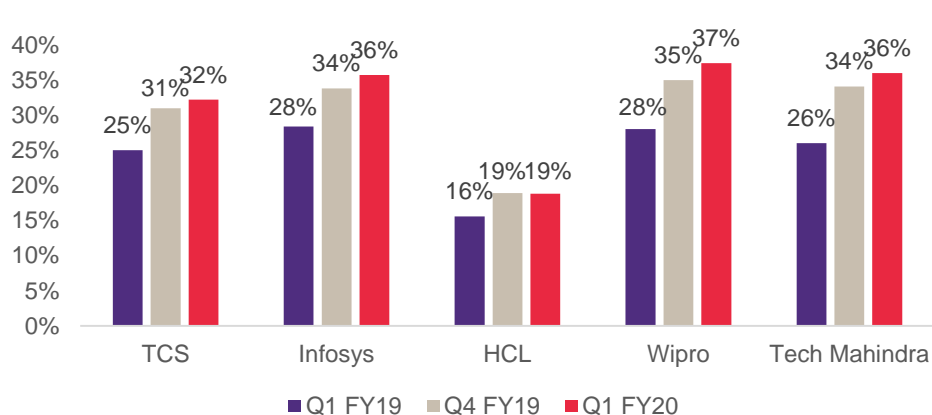


	Five-year median EV/Rev	Premium/ (Discount) on 2.4x	EV/ LTM Rev	EV/one -year forward Rev	EV/Two-year forward Rev	Five-year median EV/EBITDA	Premium/ (Discount) on 10.9x	EV/LTM EBITDA	EV/LTM one-year forward EBITDA	EV/LTM two-year forward EBITDA
Large cap companies	2.4x					10.9x				
TCS	4.3x	80.5%	5.3x	4.8x	4.4x	16.3x	50.0%	19.8x	17.7x	16.1x
Infosys	3.4x	41.9%	3.8x	3.4x	3.1x	12.4x	14.3%	15.5x	13.6x	12.2x
HCL	2.4x	1.2%	2.4x	2.0x	1.8x	10.7x	(1.4)%	10.7x	8.8x	8.0x
Wipro	2.1x	(11.3)%	2.0x	1.9x	1.8x	10.7x	(1.4)%	10.0x	9.6x	9.0x
Tech Mahindra	1.5x	(38.9)%	1.4x	1.3x	1.2x	8.9x	(17.8)%	8.0x	7.7x	7.0x

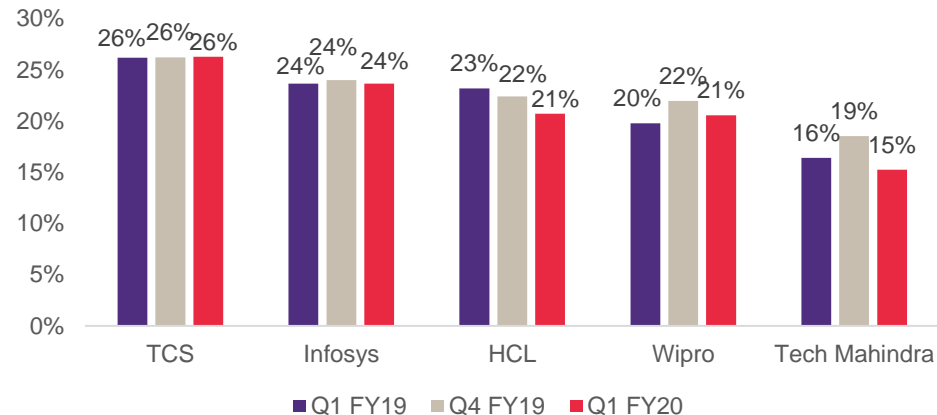
* Multiples have been presented till August 2019 in order to capture the results of Q1 FY20.

Company-specific analysis of large cap companies

Quarter-wise share of digital revenue (%)



Quarter-wise EBITDA margins (%)

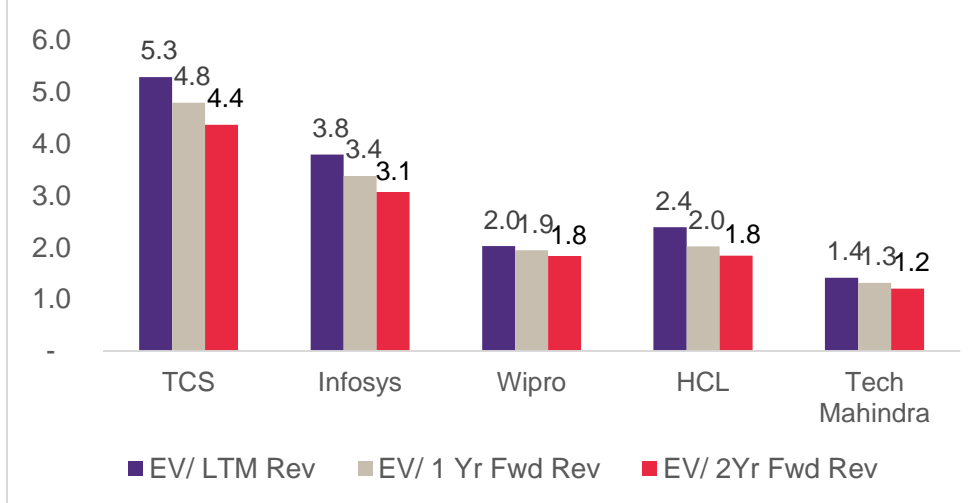


Company	Contract value won in Q1 FY19	Contract value won in Q4 FY19	Contract value won in Q1 FY20
TCS	USD 4.9 billion	USD 6.2 billion	USD 5.7 billion
Infosys	USD 1.1 billion	USD 1.6 billion (from 13 large deals)	USD 2.7 billion
HCL	27 transformational deals signed in Q1 FY19*	17 transformational deals signed in Q4 FY19*	12 transformational deals signed in Q1 FY20*
Wipro	-*	-*	-*
Tech Mahindra	USD 0.3 billion	USD 0.4 billion	USD 0.5 billion

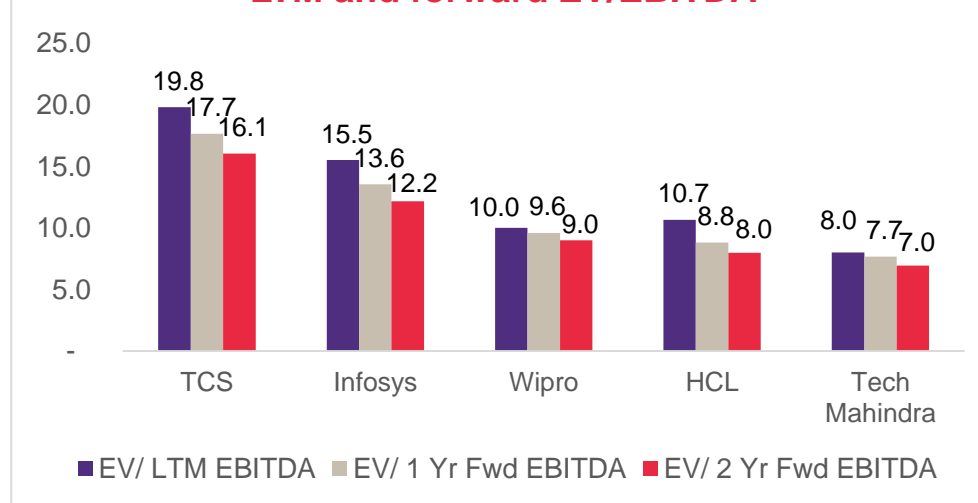
* Amount not disclosed by the company in the earnings call.

Forward estimates of large cap companies

LTM and forward EV/Revenue



LTM and forward EV/EBITDA

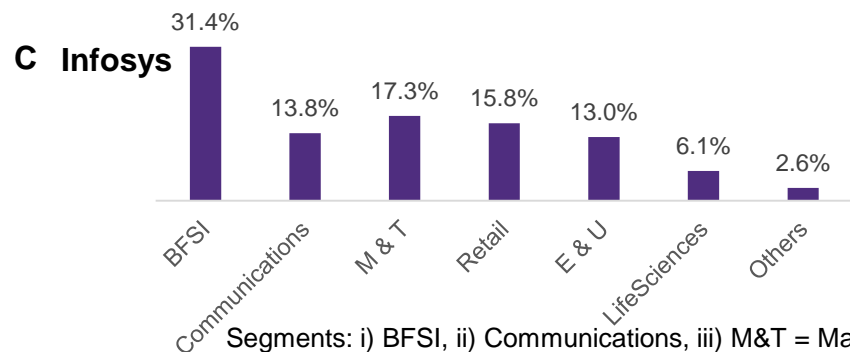
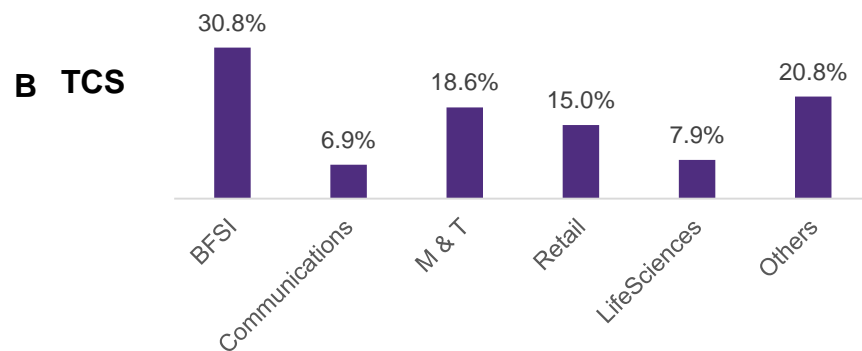
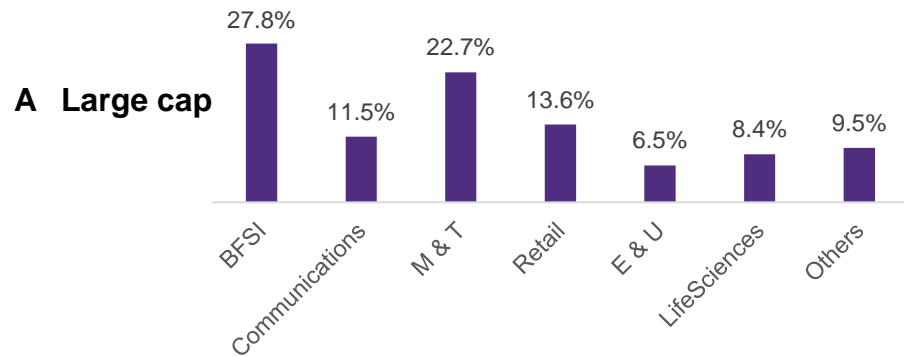


EV/revenue and EV/EBITDA multiples are estimated based on the following information:

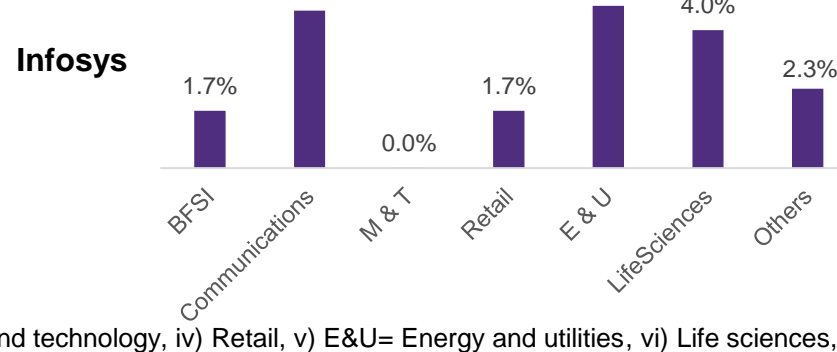
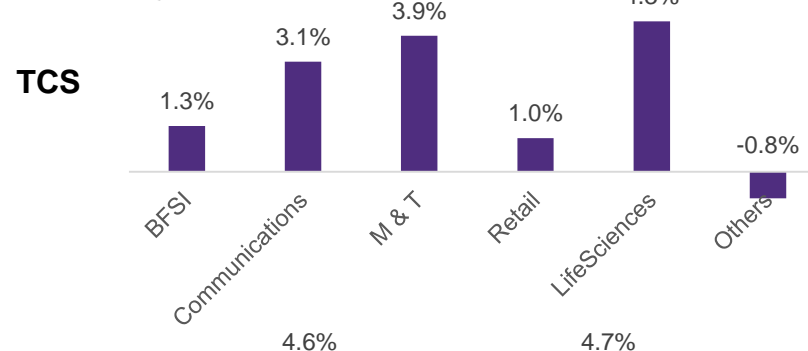
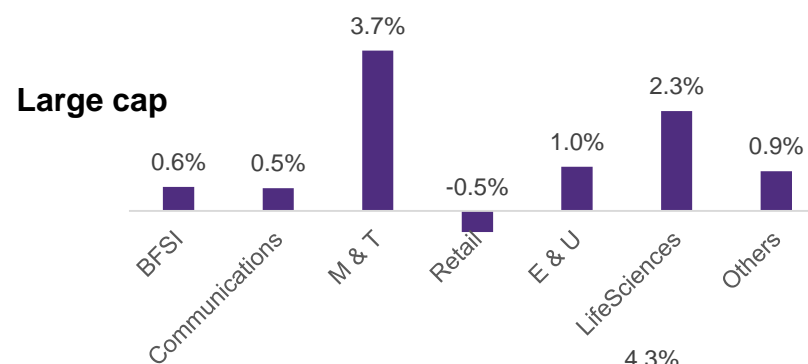
- Enterprise value as in August 2019
- Last 12-month (LTM) revenue and EBITDA as in August 2019 (reported currency)
- One-year and two-year forward estimates of revenue and EBITDA as in August 2019

Revenue contribution and growth (reported US dollar currency) in verticals for Q1 FY20

Revenue contribution in verticals for Q1 FY 20



Revenue growth in verticals for Q1 FY20 (QoQ %)

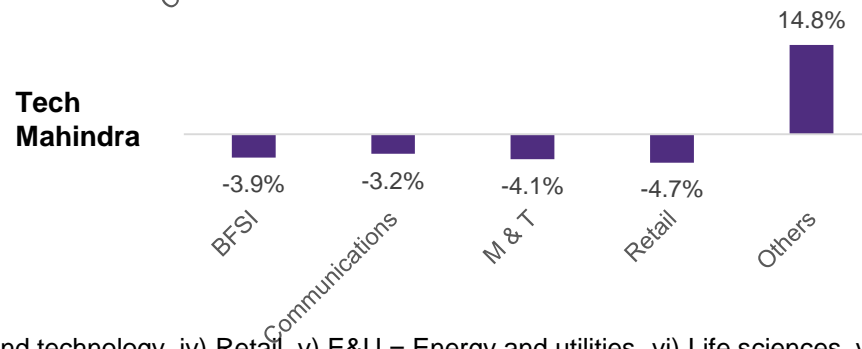
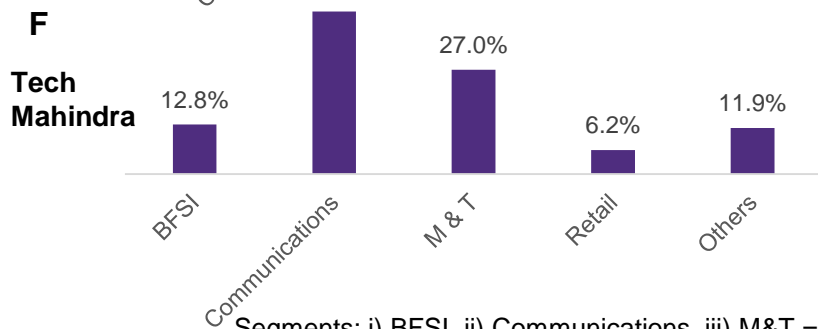
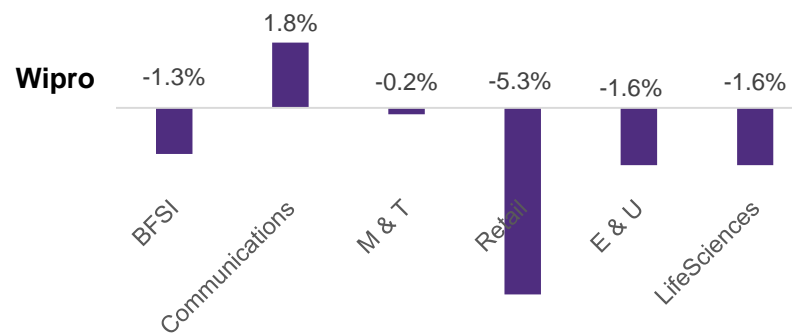
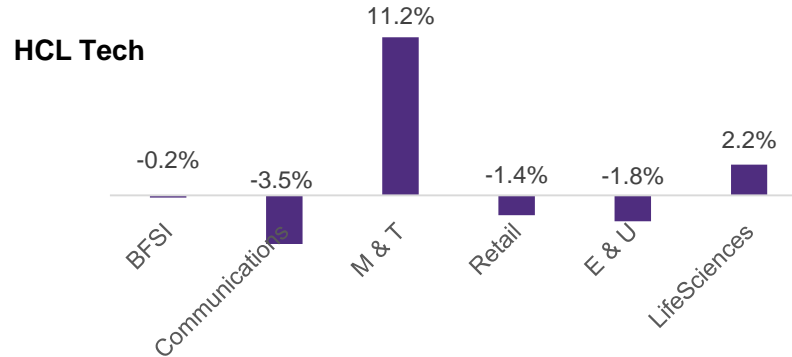
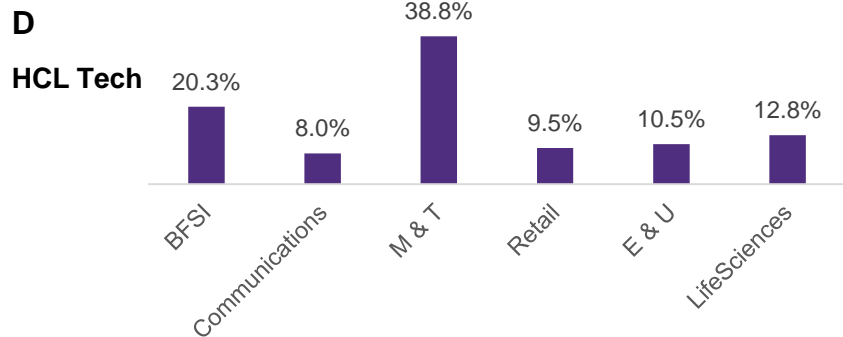


Segments: i) BFSI, ii) Communications, iii) M&T = Manufacturing and technology, iv) Retail, v) E&U= Energy and utilities, vi) Life sciences, vii) Others

Revenue contribution and growth (reported US dollar currency) in verticals as of Q1 FY20 (cont'd.)

Revenue contribution in verticals as for Q1 FY20

Revenue growth in verticals for Q1 FY20 (QoQ %)



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

Other observations – Large cap companies: Specific analysis

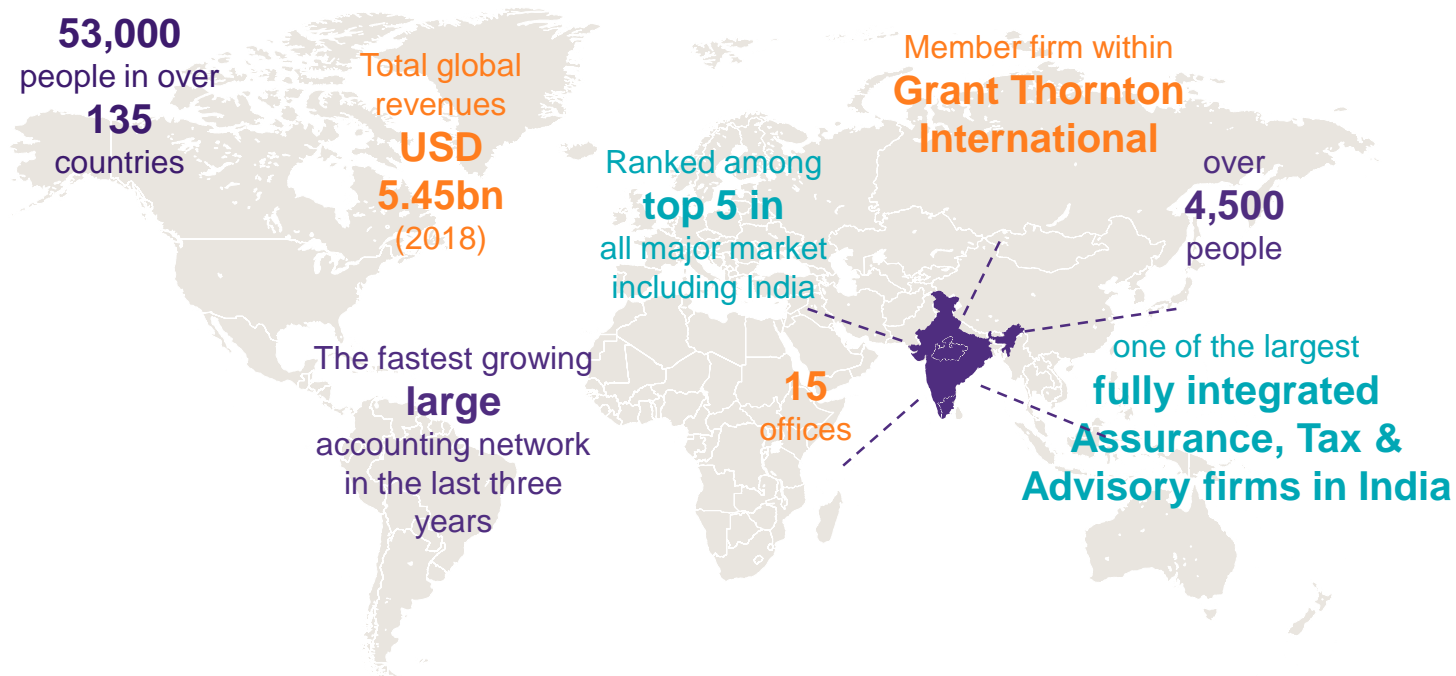
- TCS, Infosys, Wipro and Tech Mahindra led the way with 32%-37% of their total revenues coming from digital offerings in Q1 FY20. In the case of HCL Technologies, the digital revenues are classified differently than its peers. Accordingly, based on the Mode 2, Next-Generation Services segment of HCL Technologies, the share of digital offering is around 19% of its revenues.
- TCS's five-year median EV/revenue and EV/EBITDA multiples were trading at premiums of 80.5% and 50.0% respectively compared to the overall large cap median multiples. It had the highest premium among all the large cap companies.
- In Q1 FY20, the manufacturing and technology and life sciences verticals led the revenue growth among large cap companies.
- However, the major revenue contributing verticals such as BFSI, retail and communications witnessed sluggish growth due to the macro economic headwinds. This is reflected in the flattish or negative revenue growth recorded by these companies except HCL Technologies.
- In case of HCL Technologies, the major revenue contributing vertical is manufacturing and technology, which recorded the highest quarter wise revenue and led to overall positive quarter performance of HCL.
- Tech Mahindra made the most number of acquisitions in FY19 and Q1 FY20 when compared with other large cap companies. Thus, there was an increase in transition costs, which affected the EBITDA margins of Tech Mahindra for Q1 FY20.

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- Annual filings of IT services companies
- Earnings call transcripts of IT services companies
- Dealtracker published by Grant Thornton in India

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