

FORTNIGHTLY NEWSLETTER – 15 OCT 2023

INDIAN IT SECTOR WITNESSES A SOFTENING IN DEMAND

7.9%

TCS revenue growth (Y-o-Y)

Overview:

- TCS, Infosys and HCL Tech have announced their 2QFY24 results and have shown a slowdown in revenue with improvements in margins and deal wins.
- The quarter saw a record-high TCV of deal wins, aided by a strong flow of mega deals, driven mainly by optimization initiatives of clients.
- To combat the shift in demand dynamics, companies have flexed a few levers to defend margins. These include raising utilization rates, increasing productivity measures, lowering the average cost of resources, further cutting subcontractor costs.

6.7%

Infosys revenue growth (Y-o-Y)

8.0%

HCL Tech revenue growth (Y-o-Y)

Key highlights:

- TCS' revenue increased by 7.9% Y-o-Y to \$7.1bn and while its net profits increased by 8.7% Y-o-Y to \$1.37bn. Sequentially, the revenue growth was muted at 0.5%.

- TCS' order book stood at \$11.2bn, the second highest TCV for the company in a quarter. While the newly won deals are converting into revenue, these revenue inflows are getting neutralized by a reduction in the existing revenue base, leading to the company missing its revenue guidance growth of 9%.
- Infosys reported a revenue increase of 6.7% Y-o-Y to \$4.7bn with net profits increasing by 3% Y-o-Y. Sequentially, the revenue grew by 2.8%. The company won deals worth \$7.7bn deals in 2QFY24.
- Infosys' growth was impacted by spend reduction in some large clients, which was partially offset by ramp-ups of large deal wins in areas like cost optimization and vendor consolidation. The company continues to face challenges in BFSI and communication vertical.
- HCL Tech's revenue grew 8.0% Y-o-Y to \$3.2bn while net profits grew by 9.8% Y-o-Y. Sequentially, the revenue grew by 1.4%. The company outlined a challenging demand situation due to tough global macro economy and slashed its revenue guidance for the fiscal year to 4-5% from the previously projected 6-8%.
- HCL Tech focused on driving efficiencies in its managed service engagements, automation and AI capabilities. It also cut down dependence on subcontractors and reduced discretionary spend on travel.

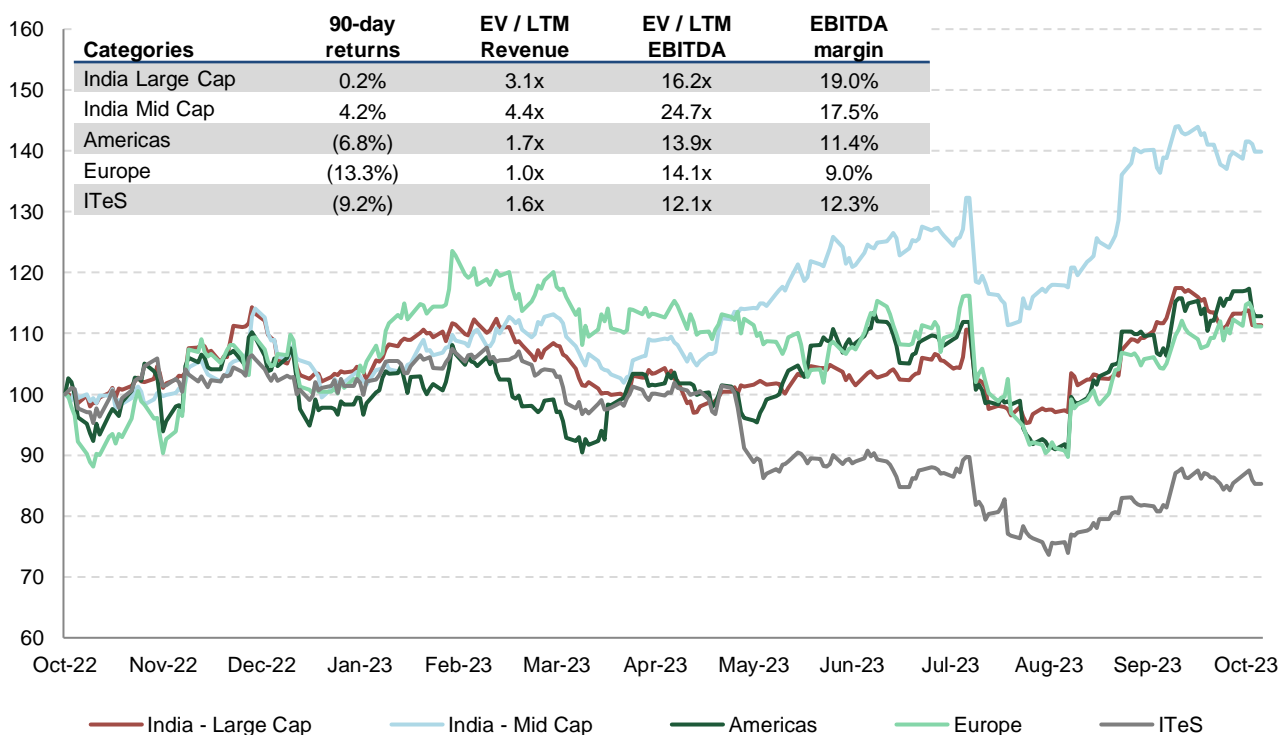
Key trends and outlook:

- Indian IT sector is facing a softer quarter due to the macroeconomic headwinds, with companies adopting diverse strategies to deal with evolving demand trends of the industry.
- Europe, especially the United Kingdom (UK), is consistently proving to be among the fastest growing markets. The region registered 10.7%, 5.4% and 10.5% Y-o-Y growth in constant currency terms respectively for TCS, Infosys and HCL Tech.
- As per Infosys CEO Saiil Parekh, Europe growth has been stronger than U.S as Europe's manufacturing and life sciences markets have been booming. TCS won quite a few major deals in Europe, largely in the U.K, including \$1bn deal with Marks & Spencer, \$700mn deal with Phoenix Group and \$300mm deal with Teachers' Pension Scheme. Similarly, Infosys signed deals with Liberty Global, British Petroleum, Danske Bank.
- Indian IT majors are likely to see a fall of nearly 50,000 in headcount this financial year, as a bleak environment for technology services globally looks set to worsen amid geopolitical conflicts in West Asia and Europe. Compared to the previous quarter, TCS reported a net fall in headcount of 6,333 while Infosys' and HCL Tech' headcount dipped by 7,530 and 2,299 respectively.
- Companies have been optimizing the capacity added in the past year and are focused on upskilling their employees. TCS has a 100,000-strong pool of Gen-AI ready consultants while Infosys has trained over 50,000 employees on Gen-AI. HCL Tech too has announced that it is working to train over 60,000 employees on Gen-AI solutions.

Market performance

MARKET METRICS (AS OF 15 OCT 2023)

Indexed to 100



HIGHLIGHTS:

















- Over the past 15 days, the valuation of Indian large cap players neither increased nor decreased while that of the Indian midcap players increased by 1.3%.
- As per J.P. Morgan, FY24 is projected to be a “washout year” for the Indian IT industry. Infosys, TCS, Wipro and HCL Tech have already noted that their U.S.-based clients are curtailing IT expenditure. These cutbacks, combined with concerns about prolonged high-interest rates, have resulted in deferred or even termination of contracts. Investors are shifting their focus to FY25, hoping for a rebound.
- Indian IT services companies are likely to report a softer set of numbers for 2QFY24 due to the macroeconomic turmoil. Brokerage firms expect a marginal decline in the IT firms’ EBIT margin Y-o-Y due to cuts in discretionary programs, the growth slowdown and the increase in costs such as travel and back-to-office expenses.
- Valuation of **Infosys** decreased by 0.5% over the last two weeks as the company announced its 2QFY24 results. The company reported a 3.2% Y-o-Y increase in its net profits, with their revenue up 2.8% Y-o-Y. Revenue growth guidance for the full-year has been trimmed to 1-2.5% from 1-3.5% previously. Nilanjan Roy, CFO noted that the company will not be hiring from campuses until the demand picks up.
- TCS** valuation increased 1% over the last two weeks as the company announced 7.9% increase in revenue Y-o-Y for 2QFY24. Their revenue growth was led by 14.8% rise in energy, resources and utilities vertical. The company also announced buyback of 40 million shares at \$49.8/share. It also noted that it is on track to hire 40,000 freshers in FY24.
- Valuation of **HCL Tech** increased by 1.5% over the last two weeks as the company registered 8.0% growth Y-o-Y for 2QFY24, meanwhile profit grew 9.8% Y-o-Y. This growth was supported by a robust deal momentum. It won 16 large deals in 2QFY24, with ten in the services segment and six in software segment. Revenue guidance for FY24 is trimmed to 45% from 6-7%.
- Atos’s** valuation fell by 26.7% over the last two weeks. CEO Bertrand Meunier has stepped down from his role due to the shareholder uproar. The sale of the company’s IT operations division Tech Foundations, is contested by several minority shareholders and some French Politicians. Philippe Oliva, deputy CEO of Evidian, has also decided to leave the company. Yves Bernaert has been appointed as the new CEO.

Recent Transactions (1/2)

KEY DEALS

- **Mphasis acquires Silverline:** Mphasis has acquired Silverline, a digital transformation and Salesforce consultancy firm for \$133m at an EV / Sales multiple of 1.7x. The acquisition will complement Mphasis' key strategic initiative of driving the intersection across CX transformation, contact center modernization and conversational AI-enabled automation. It is a part of Mphasis' global vision to anticipate the future of applied technology and predict future trends.
- **nClouds acquires Cloudnexus:** nClouds has acquired Cloudnexus, an AWS consultancy firm. nClouds will be able to accelerate innovation on the AWS platform while keeping security and compliance as their top priority. The combined entity will become one of the top pureplay AWS partners in North America with cutting-edge technologies and service solutions. nClouds is backed by Charles Thayne Capital.
- **Onix acquires Datametica:** Onix has acquired Datametica, a Google Cloud partner specializing in data and AI. The acquisition will bring together Onix's expertise in cloud migration, application modernization, Google Workspace productivity, geospatial and gen AI solutions with Datametica's strength in data migration and modernization and data analytics. The combined entity will operate in the U.S., Canada, U.K., Singapore and India, with over 1,000+ experts in data engineering, ML and data science.

LATEST DEALS

Date	Buyer	Target	Transaction details	Target expertise
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	UK-based creative management consultancy.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Laguna Niguel, CA-based full-service cloud, communications and technology solutions firm.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – \$133m ▪ EV / Sales – 1.7x 	New York, NY-based digital transformation and Salesforce consultancy firm.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Miami, FL-based IT and business consulting firm.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Brazil-based software provider for financial transactions.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	Plano, TX-based IT solutions firm.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – \$171m ▪ EV / Sales – 2.1x 	Australia-based technology and digital transformation consultancy.
Oct-23			<ul style="list-style-type: none"> ▪ Deal size – NA ▪ EV / Sales – NA 	San Francisco, CA-based password management provider.

Continued on the next page

Recent Transactions (2/2)

LATEST DEALS (CONT'D)

Date	Buyer	Target	Transaction details	Target expertise
Oct-23			<ul style="list-style-type: none"> Deal size – \$16.3m EV / Sales – NA 	Ireland-based IT and security solutions provider.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	North Canton, OH-based wireless audio and video transmission software provider.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Newtown Square, PA-based AWS consultancy.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	India-based consulting firm specializing in data migration, modernization and BI/analytics.
Oct-23			<ul style="list-style-type: none"> Deal size – \$1m EV / Sales – NA 	Canada-based software development firm.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Atlanta, GO-based managed services provider.
Oct-23			<ul style="list-style-type: none"> Deal size – \$435m EV / Sales – 3.0x 	San Francisco, CA-based AI-driven proactive outreach provider.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Canada-based SAP consultancy.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	Raleigh, NC-based cloud-based payroll software provider.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	New Zealand-based cybersecurity and IT consulting services provider.
Oct-23			<ul style="list-style-type: none"> Deal size – \$250m EV / Sales – NA 	Canada-based provider of service and software platform.
Oct-23			<ul style="list-style-type: none"> Deal size – NA EV / Sales – NA 	France-based software development company.

Appendix - Market Multiples

Company	Market data					LTM Performance				Growth CAGR 3 years	Valuation multiples		P/E
	Price \$	52 week High	Low	Market cap \$m	EV \$m	Revenue \$m	EBITDA \$m	Net income \$m	EBITDA margin		EV / Sales	EV / EBITDA	
India - Large Cap													
Tata Consultancy Services Limited	42.9	43.7	37.6	156,897	151,313	28,461	7,268	5,375	25.5%	9.8%	5.3x	20.8x	29.2x
Infosys Limited	17.2	20.4	14.9	71,127	69,406	18,547	4,300	3,019	23.2%	12.9%	3.7x	16.1x	23.6x
HCL Technologies Limited	15.1	15.7	12.0	40,838	38,831	12,904	2,679	1,872	20.8%	9.1%	3.0x	14.5x	21.8x
Cognizant Technology Solutions Corporation	65.8	71.7	52.0	33,222	32,608	19,394	3,464	2,193	17.9%	5.0%	1.7x	9.4x	15.1x
Wipro Limited	4.9	5.3	4.3	25,732	22,772	11,185	2,017	1,420	18.0%	11.3%	2.0x	11.3x	18.1x
LTMIndtree Limited	61.2	66.8	50.6	18,101	17,282	4,172	718	543	17.2%	40.6%	4.1x	24.1x	33.4x
Tech Mahindra Limited	14.3	15.7	12.0	12,637	12,193	6,549	865	535	13.2%	9.8%	1.9x	14.1x	23.6x
Mphasis Limited	28.5	30.3	20.3	5,384	5,185	1,662	272	199	16.4%	11.4%	3.1x	19.1x	27.1x
Average									19.0%	10.2%	3.1x	16.2x	24.0x

India - Mid Cap													
L&T Technology Services Limited	56.7	57.5	39.9	5,999	5,720	1,012	201	147	19.9%	10.6%	5.6x	28.4x	40.8x
Persistent Systems Limited	69.2	72.0	44.0	5,078	5,056	1,072	182	114	17.0%	29.5%	4.7x	27.8x	44.4x
Coforge Limited	60.2	67.6	43.7	3,701	3,709	1,024	146	86	14.2%	21.8%	3.6x	25.4x	42.8x
Perficient, Inc.	57.2	96.3	57.0	1,990	2,353	923	179	103	19.4%	16.6%	2.5x	13.2x	19.4x
Cyient Limited	20.7	22.9	8.8	2,298	2,348	787	122	69	15.5%	11.1%	3.0x	19.3x	33.3x
Happiest Minds Technologies Limited	10.2	12.3	9.3	1,509	1,427	182	40	28	22.0%	24.9%	7.9x	35.6x	NM
Sonata Software Limited	13.1	13.6	6.1	1,816	1,775	937	73	57	7.8%	22.8%	1.9x	24.2x	32.1x
Latent View Analytics Limited	4.9	5.5	3.8	1,005	911	70	17	19	24.2%	NA	13.1x	54.1x	NM
Birlasoft Limited	6.5	6.5	3.1	1,797	1,685	597	62	42	10.4%	9.6%	2.8x	27.1x	42.3x
Zensar Technologies Limited	6.5	6.7	2.4	1,478	1,370	594	72	50	12.1%	3.0%	2.3x	19.1x	29.7x
Mastek Limited	28.4	29.8	18.1	871	898	331	58	35	17.4%	27.4%	2.7x	15.6x	25.0x
Accelya Solutions India Limited	20.3	21.0	12.8	303	292	57	20	15	35.8%	1.6%	5.1x	14.3x	19.6x
InfoBeans Technologies Limited	5.4	7.0	4.9	130	121	46	7	3	14.8%	26.1%	2.6x	17.6x	38.5x
R Systems International Limited	5.9	6.3	2.8	700	665	196	26	16	13.4%	0.0%	3.4x	25.3x	44.8x
Sasken Technologies Limited	16.0	17.2	9.5	242	231	54	10	13	18.4%	(4.6%)	4.3x	23.2x	18.0x
Average									17.5%	16.5%	4.4x	24.7x	33.1x

Americas													
Accenture plc	301.8	328.2	246.2	189,432	184,297	64,112	11,201	6,872	17.5%	13.1%	2.9x	16.5x	27.6x
CGI Inc.	98.1	107.5	76.2	22,866	24,552	10,600	1,869	1,193	17.6%	5.7%	2.3x	13.1x	19.2x
EPAM Systems, Inc.	238.6	379.3	203.3	13,829	12,162	4,839	745	533	15.4%	24.6%	2.5x	16.3x	25.9x
DXC Technology Company	21.7	29.9	19.1	4,448	8,683	14,169	501	(634)	3.5%	(9.6%)	0.6x	17.3x	NM
Globant S.A.	190.4	206.5	137.1	8,049	7,952	1,920	300	149	15.6%	38.0%	4.1x	26.5x	NM
Thoughtworks Holding, Inc.	3.9	11.4	3.9	1,230	1,484	1,237	55	(43)	4.5%	NA	1.2x	26.8x	NM
Grid Dynamics Holdings, Inc.	11.8	14.9	8.1	889	654	319	3	(19)	1.0%	39.2%	2.0x	NM	NM
Sonda S.A.	0.4	0.5	0.3	369	623	1,431	127	49.3	8.9%	12.5%	0.4x	4.9x	7.5x
The Hackett Group, Inc.	22.6	24.7	17.4	615	654	285	58	37	20.5%	4.7%	2.3x	11.2x	16.6x
Unisys Corporation	3.1	9.2	3.1	209	351	2,011	158	(247)	7.9%	(0.7%)	0.2x	2.2x	NM
Positivo Tecnologia S.A.	1.3	2.5	1.2	184	373	786	104	44	13.2%	33.4%	0.5x	3.6x	4.2x
Average									11.4%	8.6%	1.7x	13.9x	16.8x

Europe													
Capgemini SE	174.0	205.9	154.6	29,907	34,878	24,818	3,352	1,844	13.5%	14.5%	1.4x	10.4x	16.2x
Alten S.A.	123.8	173.8	108.8	4,243	4,147	4,372	423	469	9.7%	14.7%	0.9x	9.8x	9.0x
Sopra Steria Group SA	196.1	227.7	125.4	3,962	5,050	5,892	559	271	9.5%	6.0%	0.9x	9.0x	14.6x
TietoEVRY Oyj	22.0	33.2	21.6	2,603	3,382	3,165	398	227	12.6%	6.1%	1.1x	8.5x	11.5x
Atos SE	5.1	16.3	5.1	566	4,119	12,365	853	(1,211)	6.9%	(1.4%)	0.3x	4.8x	NM
Endava plc	57.2	94.0	45.5	3,304	3,183	1,010	181	120	17.9%	32.2%	3.2x	17.6x	27.6x
Indra Sistemas, S.A.	14.1	15.1	8.0	2,489	2,651	4,479	339	213	7.6%	7.8%	0.6x	7.8x	11.7x
Capita plc	0.2	0.5	0.2	342	1,069	3,780	21	(35)	0.6%	(8.1%)	0.3x	51.3x	NM
Cancom SE	26.9	37.0	24.5	1,012	1,084	1,471	52	28	3.5%	(1.0%)	0.7x	21.0x	36.7x
Know it AB (publ)	11.3	23.3	11.0	309	402	670	54	24	8.0%	22.2%	0.6x	7.5x	13.0x
Aubay Soci�t� Anonyme	35.3	56.9	35.3	468	402	579	53	39	9.2%	6.6%	0.7x	7.6x	12.1x
Average									9.0%	6.9%	1.0x	14.1x	16.9x

ITeS													
Genpact Limited	35.9	48.7	35.5	6,500	7,606	4,408	710	408	16.1%	6.5%	1.7x	10.7x	15.9x
ExService Holdings, Inc.	29.1	37.8	27.4	4,826	4,861	1,542	272	171	17.7%	16.4%	3.2x	17.9x	28.2x
WNS (Holdings) Limited	67.8	93.2	62.0	3,213	3,452	1,255	211	134	16.8%	10.9%	2.8x	16.4x	23.9x
TTEC Holdings, Inc.	22.5	53.6	22.5	1,067	2,013	2,484	288	64	11.6%	12.6%	0.8x	7.0x	16.6x
Conduent Incorporated	3.3	4.9	2.7	716	1,887	3,800	283	(331)	7.4%	(3.8%)	0.5x	6.7x	NM
Firstsource Solutions Limited	2.0	2.1	1.2	1,374	1,522	741	91	68	12.3%	10.2%	2.1x	16.7x	20.3x
Hinduja Global Solutions Limited	12.0	17.3	11.8	558	551	547	43	40	7.8%	(6.2%)	1.0x	12.9x	13.9x
Startek, Inc.	4.3	4.4	2.7	174	259	371	32	3	8.5%	(16.6%)	0.7x	8.2x	NM
Average									12.3%	3.2%	1.6x	12.1x	19.8x

Contact us

ABOUT US

Founded in 1987, The Chesapeake Group is an independent financial advisory company with over 35 years of history in helping clients – from venture stage to large corporations – achieve their corporate development goals. We are focused on the Technology and Software services sector with significant experience in cross – border transactions. Since our inception, we have advised numerous companies on mergers and acquisitions, capital raising, recapitalization, and strategic alliances. Headquartered in New York, with an additional office in Bangalore. Team of 10 professionals with an average experience of more than 25 years.

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