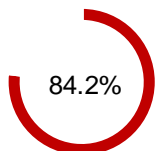


## FORTNIGHTLY NEWSLETTER – 31 MAY 2024

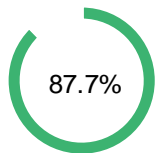
### INDIAN IT SECTOR SEES MUTED GROWTH IN FY 24

**Key Highlights:**

**AVG. UTILIZATION**

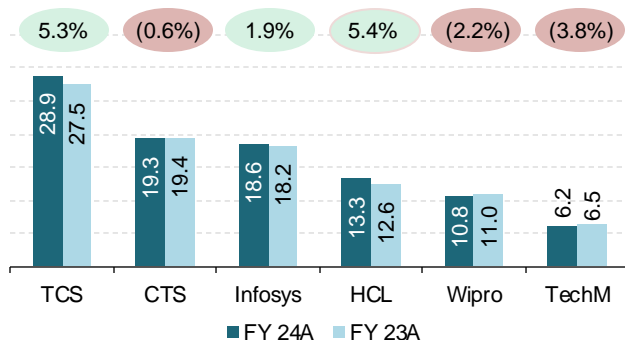


**AVG. RETENTION**

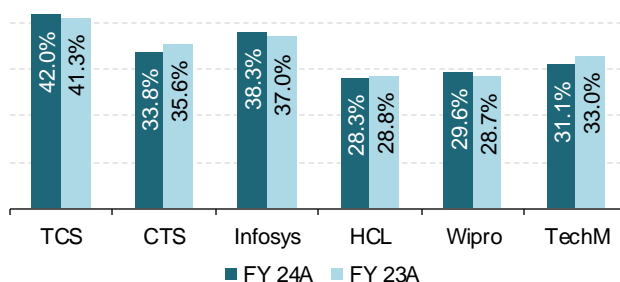


- Over the last month, India's top IT firms have announced their quarterly results for FY24. A quick look at the results show flat to negative growth in revenue for the fiscal year. However, margins for most firms have remained stable or increased in FY 24 over the previous year.
- Uncertain macro environments in key markets such as the US and Europe and conflicts in Europe and the Middle East are some of the reasons behind the weak discretionary spend from enterprises. Large customers key verticals, such as BFSI, Retail and Hi-tech, are being cautious on tech spend, thereby resulting in muted growth for IT outsourcing players.
- Given the challenges in mature markets, IT companies are looking to expand their presence in Middle East and Asia Pacific. Market such as Japan have consistently outperformed other mature markets in terms of growth.
- Inorganic growth remains one of the key levers of growth, especially in terms of adding new capabilities in the next-gen gen technologies such artificial intelligence and machine learning.

**REVENUE – FY 23A VS FY 24A (\$BN)**



**GROSS MARGIN – FY 23A VS FY 24A (%)**



Compared to FY23, FY24 hardly saw any growth in terms of revenue.

Gross margins increased by 33 bps on average due to the several cost cutting measures implemented.

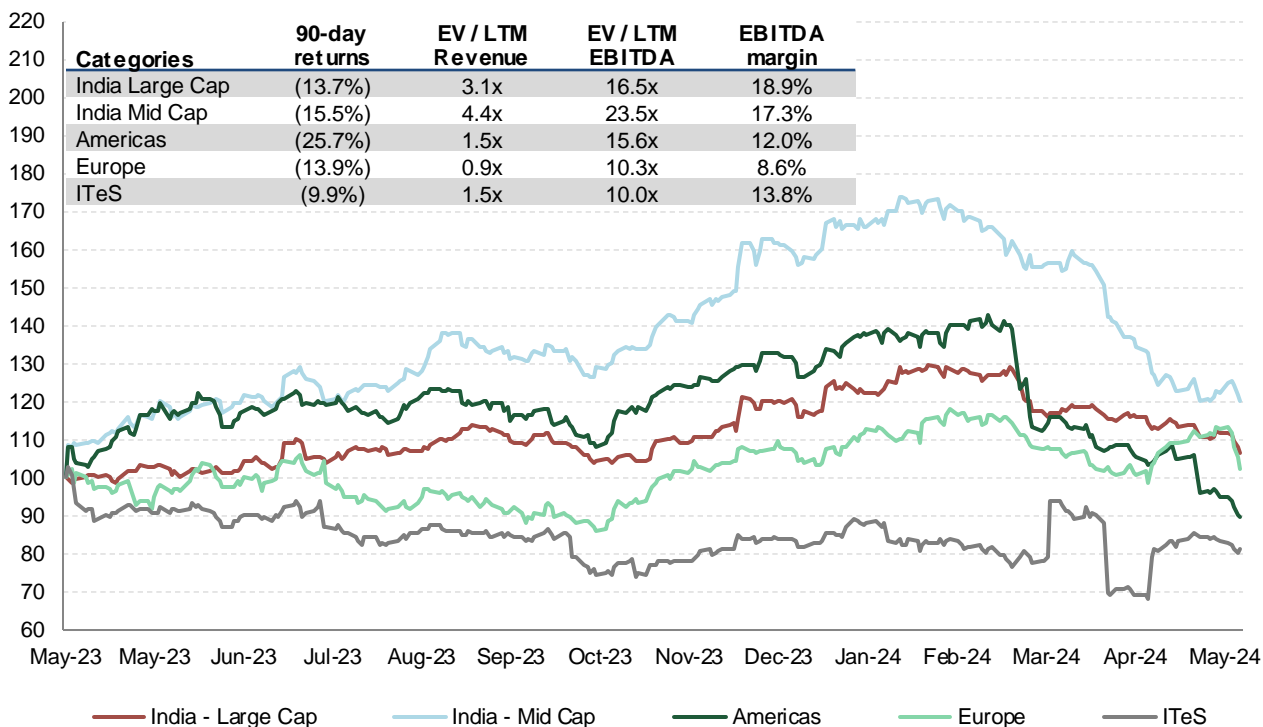
**Cautious future outlook despite strong orderbook:**

- Despite increased deal wins in FY 24, companies have reduced their revenue projections for the next 12 months. For example, Infosys has reduced its revenue growth guidance to 1-3% from 4-7% previously for FY 25, despite securing contracts worth \$17.6b in FY 24.
- In general, IT companies are remaining cautious about the outlook in 2024-25 as they wait for US and European markets to recover.
- Europe has been the target market for several large acquisitions over the past 12 months, and reflects a strategic pivot towards this region due to its faster growth compared to North America. Infosys acquired in-tech, a German automotive industry focused firm for \$480m; Wipro acquired Capco for \$1.45b to enhance its BFSI capabilities.

# Market performance

## MARKET METRICS (AS OF 31 MAY 2024)

Indexed to 100



### HIGHLIGHTS:

















- Over the past month, the valuation of Indian large cap players reduced by 3.1% and that of mid cap players remained flat.
- As per Forrester, global IT service spending will reach \$2T over the next five years averaging 4.6% annual growth. The growth will be fastest in the Asia-Pacific region, reaching almost 6%. The near-term growth will be largely driven by financial services, managed services and cybersecurity.
- Indian IT services firms are witnessing revenue growth in parts of Europe and regional market– MEA and APAC, outpacing the traditional stronghold of North America, which is experiencing flattening demand. This is due to North American market being conservative with their spendings, especially the BFSI and retail clients, while MEA and APAC region is seeing inflow of investments. Although margin realization is relatively lower in these regions, IT services firms are trying to focus places they can see potential growth.
- Wipro's** fell by 4.2% in the past month due to the exits of Anis Chenchah (President, APMEA) and Amit Choudhary (COO). The company has adopted a cautious approach to technology investments, leading to reduced discretionary spending.
- Coforge** rose by 7.6% in the past month as the company's 4Q FY23 revenue grew by 8.7% Y-o-Y and the net profit grew by 94.8% Y-o-Y. It also acquired 54% stake in Cigniti Technologies, a digital assurance and engineering services provider for \$220m. This acquisition will help Coforge grow to \$2b over the next 3 years. The transaction is expected to close by Q2 FY 25.
- Percipient** jumped by 52% in the past month as the company is being acquired by EQT Asia for \$3b. EQT Asia will pay \$3b in cash, which amounts to \$76 per share, which is a 75% premium. The deal is expected to close by the end of 2024.
- EPAM Systems'** valuation dropped by 25.2% as the management pointed to a softer demand and projected a delayed recovery, hence lowering the guidance for the full year. Its full year revenue guidance is in the range of \$4.5- \$4.6b, reflecting a Y-o-Y decline.
- Atos** fell by 16.4% in the past month. Czech billionaire Daniel Kretinsky and David Layani's One point have made bail out offers to Atos. Bain Capital also approached the firm, but it decided not to pursue the discussions. It got another offer from a consortium of the company's bondholders and bank creditors. It will reach a final decision in July 2024.

# Recent Transactions (1/2)

## KEY DEALS

- **HCL Tech acquires Communication Technology Group of HP:** HCL Tech acquired Communication Technology Group of HP which delivers engineering services for \$225 million. As a part of the agreement, 1,500 employees and 700 contracts of engineering services for telecom industry in various countries will be transferred to HCL Tech. This will strengthen HCL Tech's telecom vertical in Europe, Japan, Americas and APAC region.
- **EQT Asia acquires Perficient:** EQT Asia acquired Perficient, a digital consulting firm for \$3.0 billion, representing \$76 per share in cash for a 75% premium. Perficient will be acquired by an affiliate of BPEA Private Equity Fund VIII.
- **Coforge acquires Cigniti Technologies:** Coforge acquired 54% stake in Cigniti Technologies, a software testing services provider for \$220 million. Coforge stated that this acquisition will help them grow into a \$2b firm by FY 27 and shall improve its operating margins by 150-250 bps. It will also create three new scaled up verticals – retail, technology and healthcare and scale its presence in South-West, Mid-West and Western US markets. Coforge aims to acquire 100% stake in Cigniti within the year. The acquisition is expected to be completed by Q2 FY 25.

## LATEST DEALS

Date	Buyer	Target	Transaction details	Target expertise
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – \$225m</li> <li>▪ EV / Sales – NA</li> </ul>	US-based business outsourcing unit of HP.
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – \$3.0b</li> <li>▪ EV / Sales – 2.9x</li> </ul>	Saint Louis, MO-based digital consulting firm.
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – \$220m</li> <li>▪ EV / Sales – 1.9x</li> </ul>	India-based software testing services provider.
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – NA</li> <li>▪ EV / Sales – NA</li> </ul>	Boston, MA-based developer of crypto trading infrastructure.
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – \$11m</li> <li>▪ EV / Sales – NA</li> </ul>	India-based provider of HT analytics platform.
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – NA</li> <li>▪ EV / Sales – NA</li> </ul>	Reston, VA-based managed security services provider.
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – NA</li> <li>▪ EV / Sales – NA</li> </ul>	Foster City, CA-based open data delivery platform for data analytics and AI applications.
May-24			<ul style="list-style-type: none"> <li>▪ Deal size – NA</li> <li>▪ EV / Sales – NA</li> </ul>	Australia-based management consultancy.

Continued on the next page

# Recent Transactions (2/2)

Date	Buyer	Target	Transaction details	Target expertise
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Israel-based cloud-based business management and ERP solutions provider.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Japan-based IT and systems integration services provider.
May-24			<ul style="list-style-type: none"> <li>Deal size – \$7.2b</li> <li>EV / Sales – 6.6x</li> </ul>	New York, NY-based platform for creators and businesses to build online presence.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Minneapolis, MN-based IT and professional solutions provider for SMEs and Fortune 500 firms.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	US-based cloud native managed service provider.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Los Angeles, CA-based developer of AI production tool for filmmakers.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Germany-based IT consulting and services firm.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Centennial, CO-based firm specializing in building cloud, AI and edge solutions.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	New York, NY-based data strategy, governance, modernization and monetization solutions.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Germany-based management consulting services provider.
May-24			<ul style="list-style-type: none"> <li>Deal size – \$1.1b</li> <li>EV / Sales – NA</li> </ul>	UK-based developer of AI software for self-driving cars.
May-24			<ul style="list-style-type: none"> <li>Deal size – NA</li> <li>EV / Sales – NA</li> </ul>	Canada-based IT consulting services provider.

# Appendix - Market Multiples

Company	Market data					LTM Performance					Growth CAGR 3 years	Valuation multiples		P/E
	Price \$	52 week High	52 week Low	Market cap \$m	EV \$m	Revenue \$m	EBITDA \$m	Net income \$m	EBITDA margin	EV / Sales		EV / EBITDA		
<b>India - Large Cap</b>														
Tata Consultancy Services Limited	44.0	50.9	38.7	159,145	154,922	28,912	7,511	5,510	26.0%	8.8%	5.4x	20.6x	28.9x	
Infosys Limited	16.9	20.8	15.4	69,808	67,538	18,562	4,206	3,167	22.7%	11.0%	3.6x	16.1x	22.0x	
HCL Technologies Limited	15.9	20.3	13.4	42,964	40,400	13,270	2,761	1,896	20.8%	9.3%	3.0x	14.6x	22.7x	
Cognizant Technology Solutions Corporation	66.2	79.8	61.3	32,890	31,924	19,301	3,422	2,092	17.7%	4.7%	1.7x	9.3x	15.7x	
Wipro Limited	5.2	6.5	4.5	27,393	24,496	10,773	1,945	1,326	18.1%	8.4%	2.3x	12.6x	20.7x	
LTI Mindtree Limited	56.3	76.3	55.0	16,682	15,785	4,263	767	550	18.0%	10.2%	3.7x	20.6x	30.3x	
Tech Mahindra Limited	14.7	16.9	12.9	12,999	12,459	6,241	596	283	9.5%	6.4%	2.0x	20.9x	45.9x	
Mphasis Limited	27.4	33.7	22.1	5,177	5,034	1,594	291	187	18.2%	6.2%	3.2x	17.3x	27.7x	
<b>Average</b>										<b>18.9%</b>	<b>8.2%</b>	<b>3.1x</b>	<b>16.5x</b>	<b>26.7x</b>
<b>India - Mid Cap</b>														
L&T Technology Services Limited	53.8	69.9	46.2	5,691	5,451	1,158	230	156	19.9%	15.5%	4.7x	23.7x	36.4x	
Persistent Systems Limited	40.9	97.1	28.3	6,003	5,902	1,179	201	131	17.1%	27.2%	5.0x	29.3x	45.7x	
CoForge Limited	59.6	81.3	51.5	3,972	4,031	1,102	171	97	15.6%	20.0%	3.7x	23.5x	41.0x	
Perficient, Inc.	74.2	96.3	42.7	2,607	2,911	890	142	84	16.0%	11.9%	3.3x	20.5x	31.2x	
Cyient Limited	20.8	28.7	15.7	2,304	2,307	858	156	82	18.2%	14.9%	2.7x	14.8x	28.1x	
Sonata Software Limited	6.2	10.4	5.8	1,713	1,673	1,034	87	37	8.4%	21.4%	1.6x	19.2x	46.3x	
Birlasoft Limited	7.2	10.3	4.0	1,999	1,835	633	100	75	15.8%	9.2%	2.9x	18.3x	26.7x	
Happiest Minds Technologies Limited	9.5	12.3	8.9	1,455	1,356	195	40	30	20.7%	22.6%	7.0x	33.6x	48.8x	
Latent View Analytics Limited	5.7	6.7	4.1	1,176	1,087	77	16	19	21.2%	22.8%	14.1x	66.6x	NM	
Zensar Technologies Limited	7.3	7.7	4.5	1,655	1,512	588	105	80	17.8%	4.4%	2.6x	14.5x	20.7x	
Mastek Limited	28.5	37.6	23.2	881	888	367	61	36	16.7%	15.9%	2.4x	14.5x	24.4x	
R Systems International Limited	5.3	6.9	3.5	626	641	204	30	16	14.9%	0.0%	3.1x	21.1x	39.6x	
Accelya Solutions India Limited	19.3	24.8	15.6	288	276	61	21	11	35.4%	18.4%	4.5x	12.9x	25.3x	
InfoBeans Technologies Limited	4.8	6.2	4.4	117	105	44	6	3	14.0%	21.5%	2.4x	17.0x	43.2x	
Sasken Technologies Limited	17.6	21.7	10.3	264	258	49	4	9	7.6%	(7.1%)	5.3x	NM	28.0x	
<b>Average</b>										<b>17.3%</b>	<b>16.2%</b>	<b>4.4x</b>	<b>23.5x</b>	<b>34.7x</b>
<b>Americas</b>														
Accenture plc	282.3	386.9	282.3	177,484	176,350	64,574	11,277	7,031	17.5%	12.2%	2.7x	15.6x	25.2x	
CGI Inc.	98.6	118.5	93.5	22,507	23,796	10,689	1,903	1,216	17.8%	3.6%	2.2x	12.5x	18.5x	
EPAM Systems, Inc.	177.9	314.6	176.1	10,315	8,443	4,645	662	431	14.3%	18.5%	1.8x	12.7x	23.9x	
Globant S.A.	161.1	249.7	160.4	6,951	7,005	2,195	328	167	14.9%	35.0%	3.2x	21.4x	41.6x	
DXC Technology Company	15.6	28.5	15.1	2,782	6,681	13,667	1,396	91	10.2%	(8.3%)	0.5x	4.8x	30.6x	
Thoughtworks Holding, Inc.	2.8	8.2	2.3	891	1,152	1,068	13	(91)	1.3%	8.9%	1.1x	NM	NM	
Grid Dynamics Holdings, Inc.	9.5	14.2	8.8	727	487	313	9	2	3.0%	38.4%	1.6x	51.8x	NM	
The Hackett Group, Inc.	22.3	25.1	19.4	616	635	297	60	35	20.1%	8.4%	2.1x	10.6x	17.7x	
Unisys Corporation	4.3	8.1	2.6	297	456	1,987	(293)	(405)	NM	(0.6%)	0.2x	NM	NM	
Sonda S.A.	0.5	0.5	0.4	403	753	1,406	109	30.5	7.8%	9.6%	0.5x	6.9x	13.2x	
Positivo Tecnologia S.A.	1.7	2.2	1.2	242	400	841	111	60	13.2%	24.1%	0.5x	3.6x	4.0x	
<b>Average</b>										<b>12.0%</b>	<b>7.7%</b>	<b>1.5x</b>	<b>15.6x</b>	<b>21.9x</b>
<b>Europe</b>														
Capgemini SE	201.3	247.9	168.4	34,477	37,817	24,894	3,301	1,838	13.3%	8.7%	1.5x	11.5x	18.8x	
Alten S.A.	127.6	164.8	114.9	4,435	4,388	4,497	410	258	9.1%	18.4%	1.0x	10.7x	17.2x	
Endava plc	26.9	80.0	26.9	1,569	1,402	930	93	53	10.0%	18.7%	1.5x	15.0x	29.6x	
Sopra Steria Group SA	235.8	258.7	168.6	4,755	6,382	6,417	616	203	9.6%	7.2%	1.0x	10.4x	23.4x	
TietoEVRY Oyj	20.1	29.4	18.6	2,385	3,357	3,066	352	175	11.5%	(1.8%)	1.1x	9.5x	13.6x	
indra Sistemas, S.A.	22.9	23.0	12.2	3,987	4,104	4,962	437	241	8.8%	10.8%	0.8x	9.4x	16.6x	
Cancom SE	33.4	35.5	22.9	1,170	1,102	1,779	83	40	4.7%	9.0%	0.6x	13.2x	29.4x	
Atos SE	1.8	16.3	1.8	201	3,656	11,819	674	(3,803)	5.7%	(4.7%)	0.3x	5.4x	NM	
Aubay Société Anonyme	48.6	53.2	32.1	635	557	591	53	37	9.0%	4.2%	0.9x	10.4x	17.2x	
Capita plc	0.2	0.4	0.2	307	1,031	3,585	207	(227)	5.8%	(6.2%)	0.3x	5.0x	NM	
Knowit AB (publ)	17.5	17.9	10.8	478	563	646	43	19	6.7%	17.7%	0.9x	13.0x	25.4x	
<b>Average</b>										<b>8.6%</b>	<b>4.6%</b>	<b>0.9x</b>	<b>10.3x</b>	<b>21.2x</b>
<b>ITeS</b>														
Gepact Limited	33.1	39.4	30.6	5,950	7,004	4,519	736	642	16.3%	6.6%	1.5x	9.5x	9.3x	
ExiService Holdings, Inc.	29.9	33.0	25.2	4,850	5,024	1,667	280	182	16.8%	19.6%	3.0x	17.9x	26.7x	
WNS (Holdings) Limited	50.2	78.1	40.2	2,294	2,420	1,323	236	140	17.8%	13.2%	1.8x	10.2x	16.4x	
Firstsource Solutions Limited	2.2	2.6	1.5	1,512	1,670	760	115	62	15.1%	3.1%	2.2x	14.5x	24.5x	
TTEC Holdings, Inc.	6.3	35.8	6.1	299	1,304	2,406	212	(13)	8.8%	5.4%	0.5x	6.1x	NM	
Conduent Incorporated	3.5	4.0	2.5	716	1,772	3,721	215	(191)	5.8%	(3.5%)	0.5x	8.2x	NM	
Hinduja Global Solutions Limited	9.9	13.9	8.7	461	368	611	99	16	16.3%	19.7%	0.6x	3.7x	28.9x	
<b>Average</b>										<b>13.8%</b>	<b>4.7%</b>	<b>1.5x</b>	<b>10.0x</b>	<b>21.1x</b>

# 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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