Telecoms, Media & Technology
India – IT Sector

HSBC Global Research

Indian IT sector

The changing contours of growth

What is new in this report

We illustrate demand trends which are incrementally negative for sector

- The report highlights how traditional growth drivers may no longer accelerate sector growth, unlike past cycles
- FY14 growth estimates seem modest, but still tough to beat unless there is a cyclical uptick in spending
- TCS remains our preferred play. Best placed if there is no cyclical recovery

Source: HSBC estimates

Ratings and target prices for three key stocks

Company name	Bloomberg ticker	HSBC rating	Price at 14-May (INR)	Target price (INR)
TCS	TCS IN	OW	1,226	1,365
Infosys	INFO IN	N	2,339	2,590 (2,655)
Wipro	WPRO IN	N	404	430

Source: Bloomberg, HSBC estimates

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- **Traditional outsourcing deals are unlikely to drive the next industry up-cycle**
- **Newer growth areas are coming up, but deals are small and cyclical in nature**
- **Despite higher valuations, we continue to prefer TCS. We shave our PE-based target price for Infosys modestly**

As sector growth slows in the next cycle (we forecast a CAGR of c15% over FY12-15e vs 40% in FY06-08 and 22% in FY10-12), we expect the contours of growth to shift as well, altering the rules of the game. We foresee a broad structural move from long-term annuity-based outsourcing and offshoring deals to smaller, technology-oriented deals and a higher dependence on discretionary and fresh IT spending. We expect growth therefore to become more cyclical and – importantly – less uniform across companies.

The next big thing. Our forecasts suggest that even modest growth of 15% in FY14 would require new business (in dollar terms) nearly equal to the pre-subprime era, which may not be trivial to achieve. We believe more than three-quarters of the traditional business drivers, such as banking and enterprise application services (EAS), that have led the last two up-cycles have seen a structural change and are missing the triggers this time to significantly accelerate growth in FY14.

Not the end of the road, but a tougher journey ahead. While traditional markets may not lead the cycle this time, there are multiple growth accelerators we believe may provide upside to growth estimates, such as mobility, analytics, or database technology, but most of these growth areas are technology-oriented – not specific to any market – resulting in much smaller-size deals (unlike a typical outsourcing deal). This means the resulting growth will likely be cyclical and difficult to forecast. This report addresses in detail the trends in key demand markets such as banking and EAS.

Market share game limited to few, such as TCS. A cyclical demand recovery could lift all boats, providing upside to the current FY14 consensus. However, as macro uncertainty remains high, we think companies that offer broader service portfolios in mature markets, like BFSI, and are investing in building capabilities in the newer technology areas will continue to lead the industry. We continue to prefer TCS among the top three companies in terms of revenue and market cap. Weaker INR is the key upside risk to our estimates.

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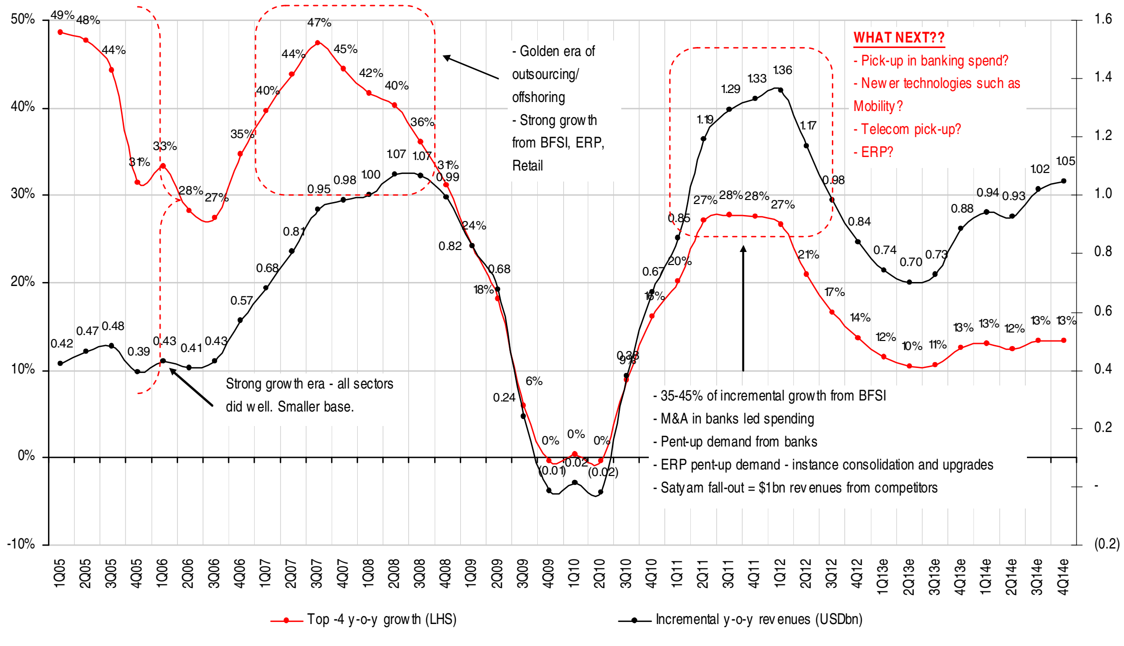
The changing contours of growth

- Traditional deals in markets/services (BFSI, ERP etc) are unlikely to drive the next industry up-cycle as in the past
- Newer growth areas are coming up, but deals are small and cyclical in nature
- Prefer companies that can gain market share in tough times and well placed to leverage cyclical recovery

The recent slowdown in IT services demand is evident from Indian IT companies' declining growth rates. The stocks have remained volatile and tracked optimistic swings in levels of demand recovery and pick-ups in growth. Looking beyond the near-term demand outlook, it is hard to ignore the structural impediments the sector is facing today as the next industry goes through another step down in growth. While it could be largely explained by the base effect itself, we believe the

Chart 1.1: Growth – past cycles were dominated by few verticals markets and services. What could trigger the next cycle?



Source: Company data, HSBC estimates

Chart 1.2: Growth – past cycles were dominated by few verticals markets and services. What could trigger the next cycle?

Industry/Service line	Contribution to revenues	Past performance	Drivers of growth in the past	Are the past growth drivers still relevant?
Banking and Financial Services (BFSI)				
Banking and Financial Services (BFSI)	30-35%	Outperformed the overall biz in the past 2 up-cycles	Wallet share from in-house staff Vendor consolidation Investment in core banking M&A led integration work Risk/Compliance requirements	MOSTLY NOT
EAS (SAP/Oracle Services)				
EAS (SAP/Oracle Services)	Near 20% (excl overap with BFSI / Telecom/Retail)	Outperformed the overall biz in the past 2 up-cycles	Mega ERP implementations/adoption of ERP/mega-upgrades Standardization to cut costs Growth from emerging markets Pent-up demand post the sub-prime crisis: bunch-up of upgrades/standardization efforts Market consolidation: Oracle in the past six years has made over 70 acquisitions, spending nearly USD45bn.	YES, but highly moderated
Telecom				
Telecom	10%	Strong growth driver pre-subprime crisis.	Vendor consolidation Investments in new technologies	MOSTLY YES, but the sector has seriously underperformed in the past few years as clients have struggled to grow
Retail				
Retail	15%	Outperformed the overall biz in the past 2 up-cycles	Wallet share from in-house staff Vendor consolidation Adoption of offshore/outsourcing model	YES, but highly moderated
TOTAL	**NEAR 3/4rth of the business is likely to moderate and may not provide the fillip we need in FY14**			

Source: HSBC estimates

contours of the growth are likely to change now and that the growth will increasingly shift from mega-outsourcing and offshoring deals to smaller, technology-oriented deals and higher dependence on discretionary/fresh IT spending. In that regard, growth profile will increasingly be cyclical and importantly not uniform across all companies.

While we expect y-o-y growth to come down, the absolute business required (in dollar terms) to achieve this growth is nearly equal to what the sector achieved in the pre-subprime crisis (see chart 1.1), and most of the traditional growth accelerators may not provide the necessary fillip in the next up-cycle.

In our view, more than three-quarters of the business drivers (such as banking and EAS) that have led the last two up-cycles are missing the triggers that could lead to significant acceleration in growth in FY14.

Revisiting the growth accelerators in the past three dominant cycles

The first cycle (FY04-06 CAGR of 36%) was just the early years of strong offshore adoption; the second cycle (FY06-08 CAGR of 40%) was the golden era of outsourcing/offshoring. Some sectors still grew faster than rest of the industry. BFSI, ERP-related services, retail, and even telecom were the key growth accelerators during this period. The recent strong cycle post the subprime crisis (FY10-12 CAGR of 22%) saw banking grow robustly, led by pent-up demand from banks as they saw improved financial performance. M&A integration-related services, regulatory/compliance requirements, vendor consolidation, etc., led to strong growth in revenue from banks for Indian IT companies.

These levers may not lift the tide this time

As we have argued in previous research (see our report of 8 February, *TCS – OW: Diversity in adversity*), wallet share of Indian companies in top global banks is high now, and the scope of

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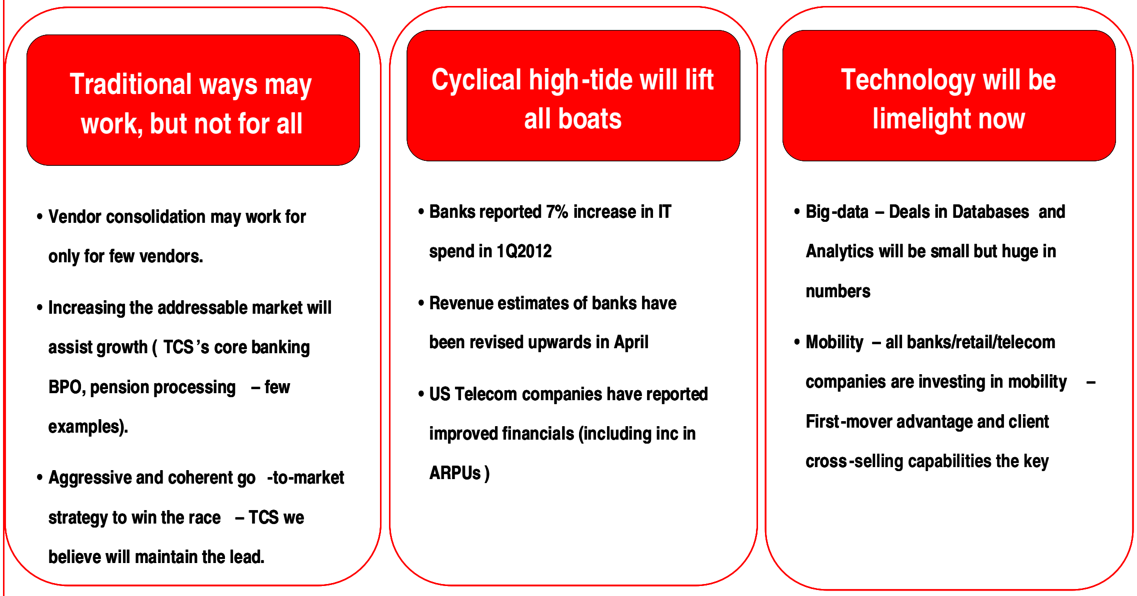
Chart 1.3: The future of Indian IT industry, in our view – IT is not a totally lost cause



Source: HSBC estimates

strong wallet share-led growth is limited, in our view. In this report, we highlight that the era of mega ERP is nearly over and that growth will be driven by smaller multiple deals. Even retail may not provide the level of fillip the sector provided in the past few years, which we believe were the early years of offshore adoption by the retailers.

Not the end of the road, but a tougher journey ahead

While traditional markets may not lead the cycle this time and are unlikely to provide upside to the current growth estimates, there are multiple growth accelerators we have identified that could save the party, such as mobility, analytics and related database technology upgrades. However, most of these growth drivers are technology-oriented and not specific to any market and, secondly, are much smaller deals (unlike a typical outsourcing deal).

More important, even 14-15% growth in FY14e would require revenue equal to pre-subprime crisis levels, and these technology deals, being smaller in size, are unlikely to provide strong upside surprise to growth.

A few cases in point:

- **Technology/Innovation led growth.** There are multiple new areas of growth, such as mobility, analytics and related database technology accelerators/upgrades etc. Vendors that have invested in developing expertise in these new technologies and have stronger client relationships to cross-sell can leverage these trends better than peers.

- **Cyclical uptick.** As growth led by traditional outsourcing deals moderates, a cyclical recovery in the demand markets and technology innovation could become growth accelerators. For instance, in the banking sector, there are early signs of a pick-up in technology spending, but it is hard to call that a trend at this stage. However, it must be appreciated that a cyclical recovery is difficult to predict and would be unlikely to get the premium valuations we have seen for the sector in the past.

- **Lastly, while we think growth will decelerate, some vendors will continue to**

benefit from vendor consolidation and traditional outsourcing deals. We believe companies that can expand their product portfolio and address a larger share of the clients' IT spend will continue to grow faster than the industry. Please refer to our report of 8 February, *TCS – OW: Diversity in adversity*, in which we discuss how TCS's acquisitions in core banking BPO and pension processing capabilities have expanded TCS ability to address larger share of the IT spend by banks and therefore helped the company to grow faster than peers.

Overall, upside drivers to FY14 estimates are cyclical in nature and may lift all boats in an upward wave. However, as macro uncertainty looms large, we believe companies that offer stronger service portfolios in mature markets, such as BFSI, and are investing in building capabilities in the newer technology areas, will continue to lead the industry. We are Overweight on TCS among the top three companies in terms of revenue and market cap.

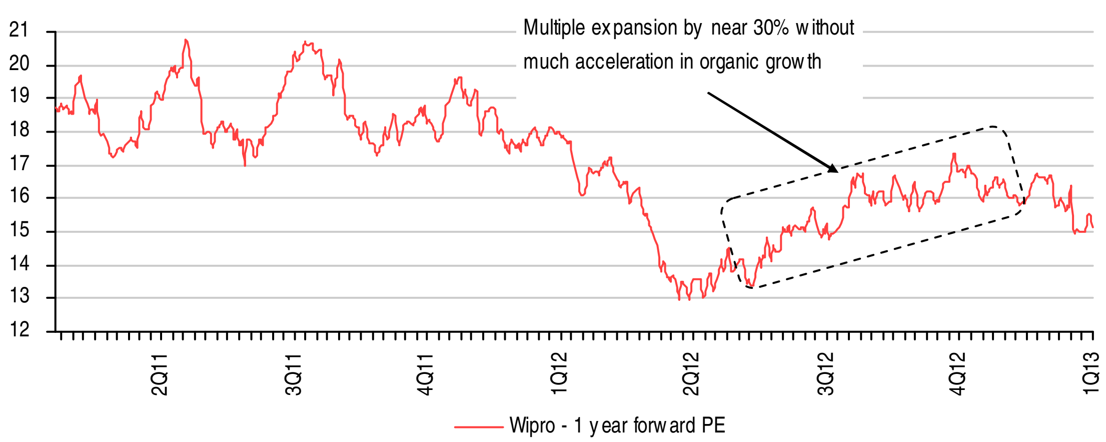
Infosys vs TCS – the valuation temptation

Infosys stock is currently trading at more than a 20% discount to TCS (from the other side, TCS is trading at a >25% premium to Infosys). The valuation gap is tempting and may attract investors. We do not dispute the possibility of a near-term valuation catch-up. Wipro is a classic case in point here: The stock continued to re-rate from its low of 13x PE in September 2011 to 17x in March 2012 (12-month forward period), but during the same period the outlook on growth did not improve (as evidenced by the reported volume growth or the guidance by the company). However, the stock continued to re-rate, led by the market's expectation/ hope of an improvement in operational outlook.

A similar optimistic build-up in Infosys would not surprise us, and it could lead to stock re-rating and outperformance in the near term.

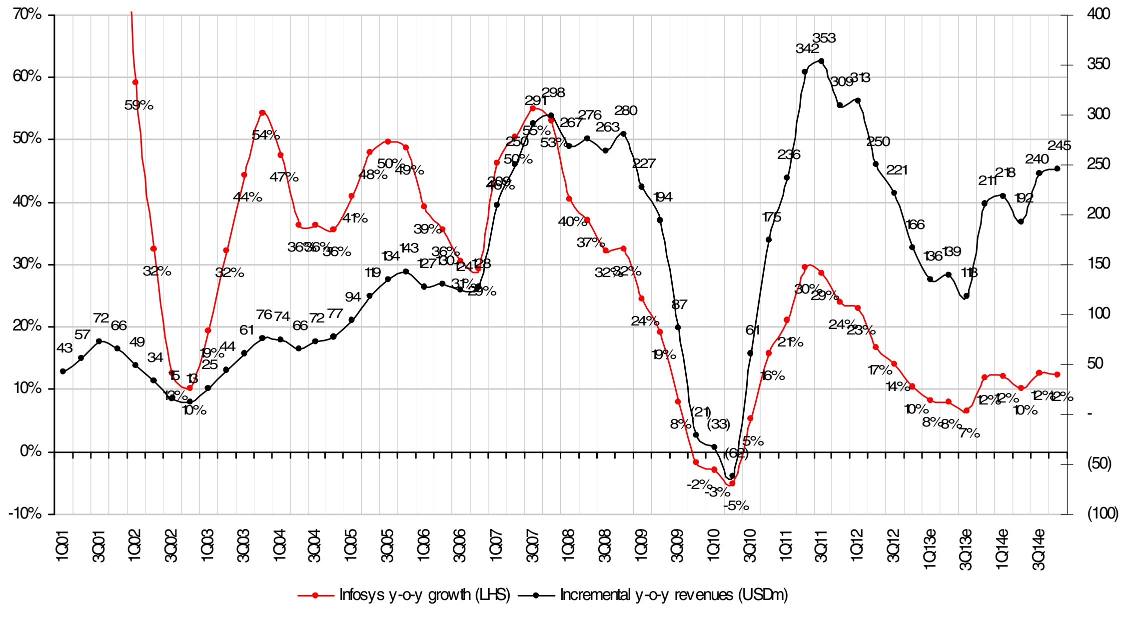
From a longer-term perspective, we believe Infosys needs to bridge the revenue growth gap with TCS to expect a structural re-rating. At this stage that seems unlikely, as discussed elsewhere in this report.

Chart 1.4: Wipro 12-month forward PE (consensus)



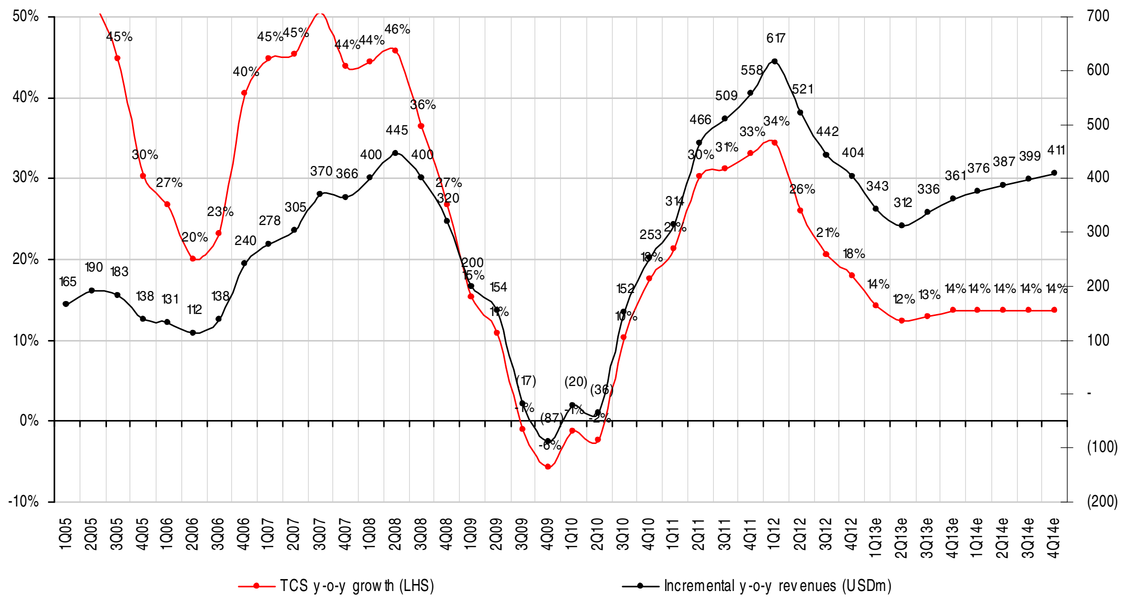
Source: Thomson Reuters Datastream, HSBC

Chart 1.5: Infosys past cycles – dominated by BFSI, EAS services and Retail



Source: Company Data, HSBC

Chart 1.6: TCS past cycles – dominated by BFSI and Retail



Source: Company Data, HSBC

Enterprise services

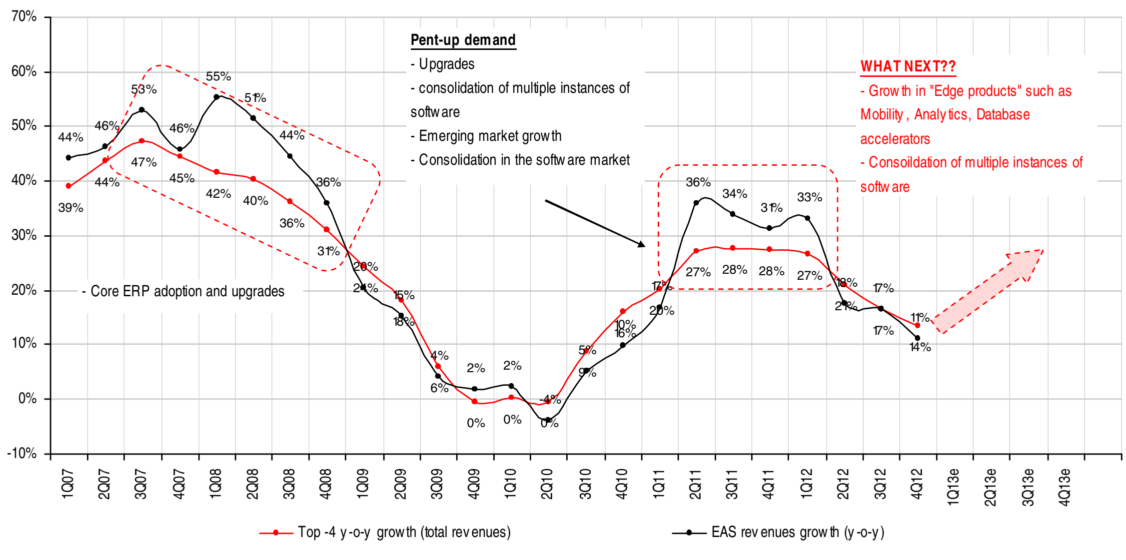
- Enterprise application services (EAS) outperformed in past cycles, driven by mega enterprise resource planning (ERP) deals
- Growth contours are changing as corporate and in line with that software companies focus on non-core ERP areas, which …
- … are growing fast but have smaller deal sizes and are cyclical

EAS: One of the stars of the past

EAS/ERP services outgrew the rest of the businesses in both the last two up-cycles. The pre-subprime crisis era was dominated by large-ticket ERP implementations as clients aggressively adopted new enterprise software applications or upgraded the older ones. The product portfolio of SAP and the licence growth during that period illustrate the near-dominance of core ERP sales.

However, the post-subprime demand uptick was driven both by core ERP and by new product applications such as analytics and business intelligence software. Growth in core ERP was driven by application consolidation, upgrades, expansion across countries and, lastly, consolidation in the software market. Going forward we believe this largely pent-up demand in core ERP will moderate. Growth should be dominated largely by new technologies such as analytics, database accelerators, and mobility solutions. We expect all these solutions to be much smaller in ticket size, and they are unlikely to fully offset the moderation in growth from core ERP-led IT services.

Chart 2.1: ERP services have outperformed the overall revenue growth in both the past two up-cycles



Source: Company data, HSBC estimates

Growth drivers – past cycles of the EAS market

Post a steep decline in 2009, the enterprise software market (SAP and Oracle) have seen strong growth in their licence sales. Driven by this recovery in the licence sale the revenues for Indian IT companies from the EAS market also performed well (refer to chart 2.2). We find the following growth drivers behind this pick-up:

- **Growth in core ERP** – pent-up demand as companies consolidated multiple instances of software applications on one EAS platform
- **Consolidation in the software industry** helped the large IT services partners as the addressable market expanded for IT services companies.
- **Growth in the non-core software applications** such as Business Intelligence (BI) and Analytic Solutions.

SAP's Core ERP growth in the past few years

Despite its maturity, we believe the core ERP business grew 15-20% in 2011. This is in line with the overall software licence growth of 22% reported by SAP in 2011. In our view, this growth has been driven by multiple factors:

Standardisation to cut costs

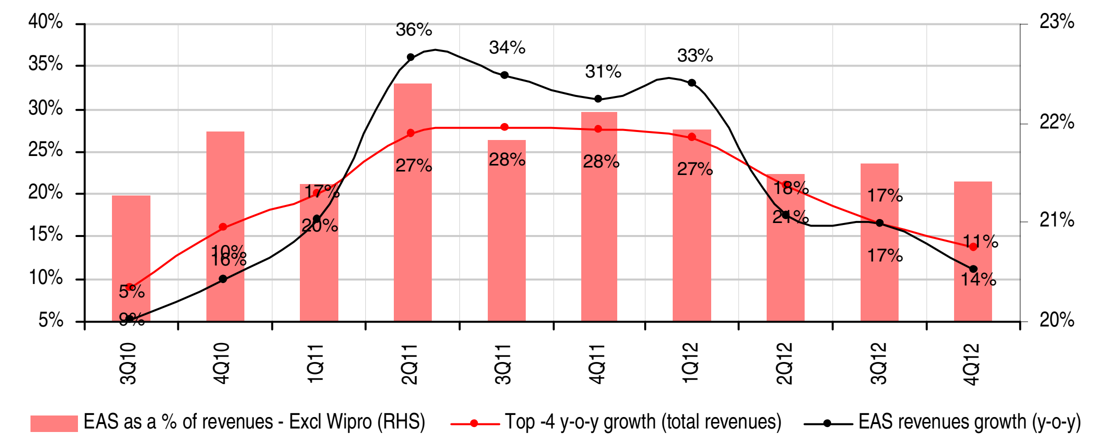
Post the subprime crisis, companies have tried to cut down on system support costs and improve on the agility of the enterprise. That has led to an extensive standardization of multiple instances of software applications on SAP. This has also resulted in a system wide increase in seat counts, one of the key licence growth drivers for software companies such as SAP.

Growth from emerging markets

Secondly, companies such as SAP have seen strong growth in emerging countries such as China and Brazil, contributing to their overall licence sales.

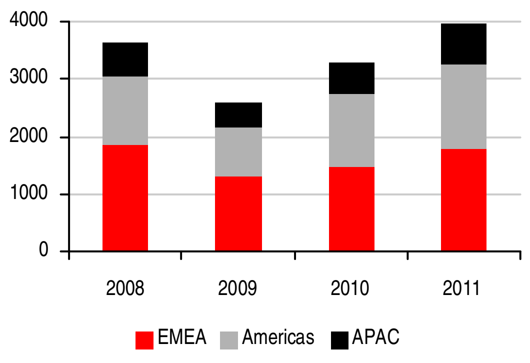
Growth in emerging countries has not just been led by the local companies adopting enterprise software, but multiple global MNCs expanding in these countries or more importantly integrating their systems in these countries with their core installations in the parent counties.

Chart 2.2: Growth of EAS services vs total growth – post subprime crisis



Source: Company data, HSBC estimates

Chart 2.3: SAP geographic licence sales mix in 2008-11 (EURm)



Source: Company Data

We have seen multiple instances of global companies that have been operating in India for a long time but have only recently initiated efforts to integrate supply chain or other back-office ERP functions such as human resources management with the global systems in their home countries. This has been driven by the increasing importance of emerging markets in the overall growth of global MNCs and also the need to cut costs and manage global procurement/supply chain better and more efficiently.

Pent-up demand post the subprime crisis

After the subprime crisis there was a bunch-up of such upgrades and standardization efforts resulting in strong growth in 2010 and 2011. We believe this pent-up demand resulted in stronger than normalization growth in the past two years.

Consolidation in the software industry helped growth of IT services as well

The enterprise software market has gone through significant M&A activity in the past 10 years, resulting in polarisation of the software market.

Chart 2.4: Recent M&A and software stack

Stacks	ORACLE	SAP	IBM	MICROSOFT
Management	Enterprise manager		Tivoli	System Center
Edge products (BI/Analytics)	Hyperion/Oracle BI 11g	BOBJ	Cognos	
Applications (ERP/SCM/HR)	Fusion Apps/ Peoplesoft/Siebel	Business Suite 7		Office, MSFT Dynamics
Middleware	Fusion Middleware	NetWeaver	Websphere, Rational, Lotus	Intenet InfServer Biz Talk
Database Software	Exadata, Oracle 11g	Sybase	DB2/Netezza	SQ Server
Operating System	Solaris/Linux		z/OS, AIX	Windows X
Virtualization	Oracle VM		Power VM	Hyper-V
Server hardware	Sun Blade/SPARC		p/x/z series	
Storage	Sun storage/Exadata/ Storage Tek	Sybase	IBM system storage	

Source: Company data, HSBC estimates

Oracle's M&A history is illustrative

To illustrate the extent of consolidation, Oracle in the past six years has made over 70 acquisitions, spending nearly USD45bn. In the process, Oracle has consolidated many large software companies such as PeopleSoft (HRM), Siebel (CRM), Hyperion (Analytics), Agile (SCM) and BEA (Middleware). IBM and SAP have been equally active with IBM gobbling up Cognos (BI/Analytics), Ascential (Data Integration), Netezza (Data warehousing) etc and SAP picking up BOBJ (BI /Analytics) and Sybase.

How Indian vendors benefited?

Indian vendors usually have strategic partnerships with the large software providers such as SAP and Oracle. As large companies acquire smaller software companies and integrate their product portfolios, the addressable market for IT services vendors expands as well.

Taking Infosys as an example, the company has nearly 45% of its EAS revenue coming from the Oracle market, with 35% from the SAP market and nearly 20% from other software companies such as TIBCO and Microsoft. Due to its strong relationships with Oracle, Infosys has been able to grow its Oracle services business strongly as its addressable market expanded through the M&A performed by Oracle in the past decade.

Most big-ticket M&A is behind the industry now

Going forward, the opportunities for market consolidation seem limited, and companies may have to rely more on organic growth. Most recent M&A has happened in the cloud computing space, which remains a threat to the Indian IT services model. Think about this: in the analytics business intelligence (BI) space, IBM acquired Cognos, Oracle acquired Business Objects, Oracle got Hyperion, and lately Autonomy was bought by Hewlett-Packard. Hardly any large independent analytics/BI companies now remain.

Growth from EAS likely to moderate for Indian IT

There are many moving parts to the recovery in SAP's licence sales. We gather that SAP's licence sales are driven by four primary components: (1) upgrades/migration, (2) new modules to the existing customers, (3) seat/headcount growth and (4) new deals/installations projects (chart 2.5).

Seat/headcount increase contributing majority of the licence sales growth

Usually, new deals/installation projects and upgrades lead to significant downstream IT services revenue. However we believe seat/ headcount growth is likely to be the major contributor to the licence sales growth of SAP in the coming quarters. Usually, increase in seats is not a major opportunity for Indian companies as the incremental implementation work is minimal.

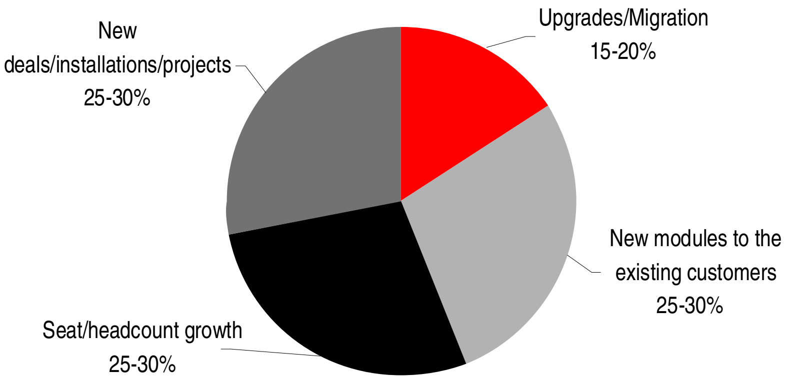
The big data conundrum for Indian IT

As mentioned earlier for software companies increasing focus is on edge products (such as database accelerators, analytics etc) and not Core ERP solutions. For SAP, for instance its new products addressing database market (in-memory database – HANA and mobility solutions) are taking increase share of the licence sales. This is clearly an indication of the increasing proportion of non-IT intensive components in total licence sales by software companies such as SAP.

Historically, ERP has been the core competitive advantage for corporate. Production efficiencies, agile manufacturing, supply chain management, inventory management, etc., served as the key strengths through which corporations could differentiate themselves in the market by giving them agility to innovate along with cost-effectiveness. This increased demand for software customization as companies modified ERP software to suit their production and process modifications. Every dollar of spend on ERP software licence sales has been generating four to five dollars of downstream customization, implementation and maintenance services.

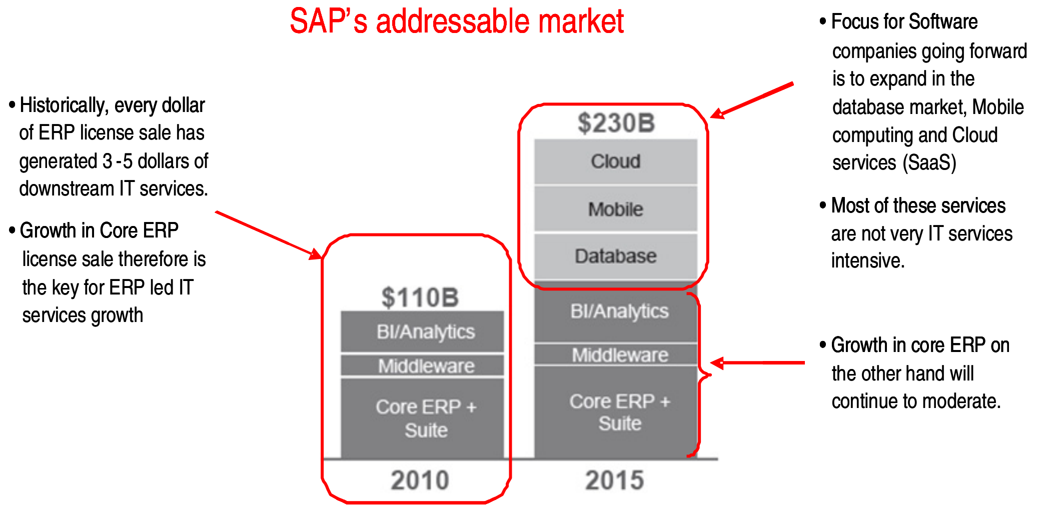
However, in the recent years ERP is no longer the competitive strength of companies. Most of the companies have similar ERP installations currently and industrial processes are no longer the key differentiating factors for companies. With the proliferation of myriad sources of customer interaction and awareness, understanding of customer needs and then modifying your production and procurement processes provides the competitive edge to any

Chart 2.5: SAP new application licence sales breakdown



Source: HSBC estimates

Chart 2.6: SAP's addressable market target



Source: SAP, HSBC

corporate. In that regard, managing the customer data, in terms of profiling the customers, tracking the change in customer behaviour and consumption trends are the key.

In addition, the agility of analytic solutions/data is the key. Every company wants to be the first to pick up on any change in market dynamics and thereby customise and accelerate its go-to-market strategy. It is not surprising that most software giants such as SAP and Oracle are therefore investing a large proportion of their R&D and advertising on their "managing data" efforts.

The endeavour is not just to manage an enormous quantity of data generated from various sources such as social networking, e-commerce, and m-commerce today, but also to accelerate the analytics running on that data so as to pick up trends before competition. That is probably the reason, for both SAP and Oracle, that products such as HANA and Exadata are increasing their contribution to the total software sales of these companies.

Rapid Deployment Solutions (RDS)

Historically, SAP has been known for horizontal solutions addressing a particular business process. For instance, most of the sales historically have been for ERP, HRM, SCM or CRM[1]. These software applications needed a lot of customization to address the specific needs of the industry.

Increasingly, SAP is focusing on and selling vertical solutions that are already fine-tuned for a particular industry. These are called rapid deployment solutions (RDS). These are configurable vertical solutions developed for disparate industries and already encompass the best practices and unique features of that industry. We have heard of multiple instances where the deployment time was reduced to three to six months from the earlier one-and-a-half to two years. This would mean lower involvement of channel partners such as Infosys in customizing the deployment. SAP's endeavour would be to further integrate this to its database products (such as HANA[2]) and this would further lead to a decline in demand for customization and integration services by corporate clients.

1 ERP – enterprise resource planning, HRM – Human Resource Management, SCM – Supply chain management, CRM – Customer Relationship Management

2 HANA – High-Performance Analytic Appliance

Upside risks in 2012

We believe these will be a continuous decline in the importance of IT services in the world of enterprise applications, but it might take one or two years for the real impact to show up in the revenue growth of companies more dependent on enterprise services. In the near term, the following factors could lead to stronger growth in revenue from SAP for Indian companies:

Lag effect of licence sales

The last two years have seen strong growth in SAP's core business (as described earlier). This suggests that a number of SAP clients would have bought the licence to upgrade to the latest version of SAP in the past two years, and this would mean a robust shelf-ware for Indian companies to go and implement. Multiple times, companies wait for few months – or to even quarters – after buying the licence for an upgrade to initiate the upgrade process due to the business disruption an upgrade could lead to. That could mean strong growth for companies such as Infosys and HCLT; however, the upside would be limited.

Upgrade of SAP ERP 4.7

One of the key areas of growth for software product companies (and so also for IT services companies) is the continuous upgrade of legacy products. On a regular basis, software product companies upgrade their older versions of software with new functionality and technology. The upgradation process requires assistance from channel partners such as Infosys, TCS, etc. to help customers perform the upgrade and transition seamlessly with minimal business disruption. Successful adoption of any new version of software therefore results in stronger demand for IT services (upgrade/transition). Clients that are running older versions of the software continuously need to pay more to SAP for maintenance updates, and they lose out on the new functionalities introduced by SAP in the newer versions of the software. In that context, customers with SAP 4.7 are coming out of the regular maintenance schedule from March 2013. This would mean a steep increase in the maintenance costs for these clients. This in our view could be a trigger in the client-base to upgrade their SAP footprint. Again, however its too simplistic an assumption to make that clients could be forced into an upgrade and any company who has been procrastinating an upgrade expense for last more than five years could be pushed to do so immediately.

Increased offshoring of core ERP services

Since the focus will increasingly be on data and data analytics, clients may look to outsource and further offshore core ERP maintenance/upgrade services. SAP, by virtue of its origins, is stronger in Europe, and Indian companies are weaker in Europe. In that regard, any acceleration in adoption of outsourcing/offshoring of SAP services could provide strong growth for Indian companies. At this stage, however, it is hard to quantify the size of opportunity and also the face of progression on that path.

INR weakness

The INR has been depreciating against the USD and, considering that Indian companies still earn 50-60% of their revenue in USD, INR weakness could result in upside to our estimates. We have factored an INR/USD rate of 50 into our FY13/14 estimates. Every 1% depreciation in INR adds 20-35bp to EBITDA margins (depending on the company's relative exposure to the US and cost structure). Which means, hypothetically for Infosys (assuming no hedging), every 1% depreciation in INR adds 1-2% to the earnings.

News flow from US could be more anti-offshoring

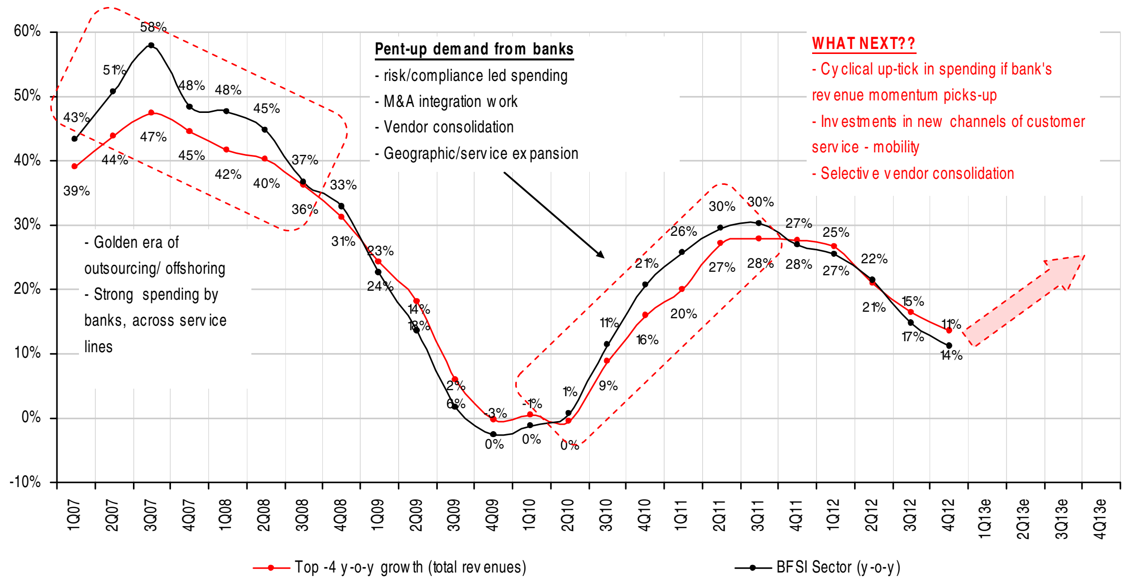
In the next few months, running up to the US presidential elections, news flow from the US could be increasingly biased towards anti-offshoring. This could dampen sentiment and discourage prospective mega-business deal announcements and therefore weigh on the stocks.

Banking and financial services

- The banking, financial services and insurance (BFSI) sector has been the key growth accelerator in the past cycles …
- … led largely by vendor consolidation, M&A integration work, and risk/compliance work (particularly post the subprime crisis)
- We expect growth-led wallet share gains to moderate and to be driven largely by new spending, which is cyclical

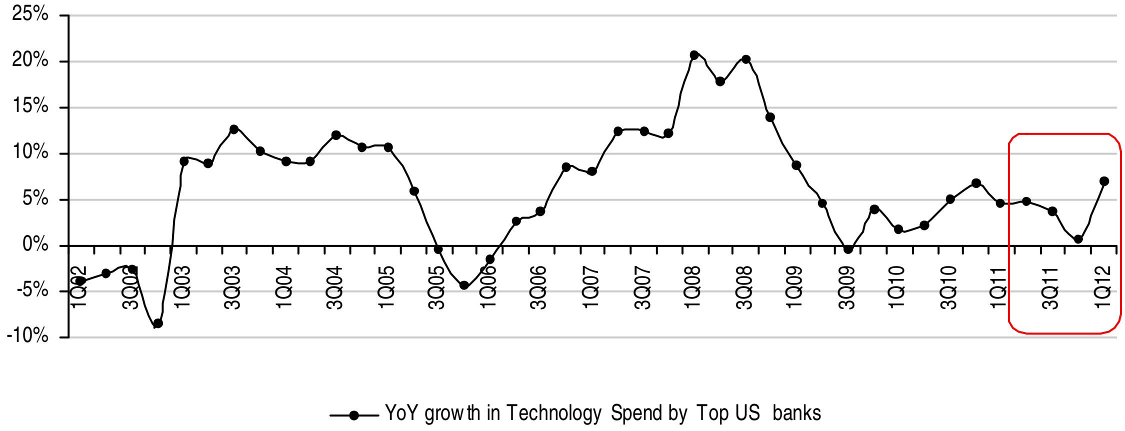
BFSI has been the key growth accelerator in past IT growth cycles. Weak revenue growth from the this sector in 4QFY12 for most of the top Indian IT companies supports our view that growth from the largest market will continue to be more cyclical than in the past. In the past, growth from the BFSI sector has been underpinned by vendor consolidation (wallet share gains from in-house staff and US-based competitors), risk/compliance-led spending, and M&A integration work. Revenue growth was stronger from BFSI compared with rest of the industry growth, in previous cycles, as shown in chart 3.1.

Chart 3.1: Banking and Financial services (BFSI) sector has led the growth in the past 2 cycles



Source: Company data, HSBC estimates

Chart 3.2: IT spend by top US banks picked up in 1Q2012



Source: Company data, HSBC estimates

After years of market share gains, we believe Indian companies already have high wallet share in IT spend from large global banks, and any incremental market share for an Indian company would come at the cost of other Indian companies. Companies with diversified service mix (broader range of services) and an aggressive go-to-market strategy to win vendor consolidation are likely to outperform others.

Again, a cyclical recovery and investment in new technologies such as mobility are the key to upside

As wallet share saturates in large banks, we believe sector growth will depend mostly on the increase in absolute technology spend by banks, rather than on market share gains from in-house spend or US companies. Increase in overall IT budgets (as banks see improved financial performance) and investments in newer technologies such as enterprise mobility should lead to incremental spend. But most of these deals are likely to be smaller in size and therefore difficult to predict.

In addition, as in ERP services, smaller deal sizes may make it tough to see an acceleration in growth similar to that of the past cycles.

Cyclical recovery – early signs, but no clear trend so far

As shown in Chart 3.2, IT spending by top banks in the US (most of them are the top clients of Indian companies) had a decent pick-up in 1Q 2012 following a weak 2H 2011. While just one quarter of growth could be a one-off, a continued trend might lead to upside to our FY13 estimates for Indian IT companies.

Please refer to our reports *TCS – OW: Diversity in adversity* (8 February 2012) and *Indian IT sector: Banking market – looking ahead following dismal 4QFY12* (26 April 2012) for detailed discussion around the slowdown in traditional IT spend by banks and the outlook on discretionary spending.

Valuations, investment theses, and risks

HSBC

Tata Consultancy Services

TCS IN – INR1,226; Overweight; TP INR1,365

The stock is trading at 19x our FY13e EPS. TCS, in our view, is the best-placed Indian company to continue to gain market share in the banking market. We believe that TCS has a diversified service mix and a go-to-market strategy that encourages banks to consolidate their vendor landscape and therefore plays out in favour of TCS's strengths. If IT spend by banks were to continue to improve in the coming quarters, that would add incremental growth to TCS, possibly above our current forecasts.

We value the stock at 20x our FY14e EPS, for a 12-month target price of INR1,365.

Under our research model, the Neutral rating band for non-volatile Indian equities equals the local hurdle rate of 11% plus or minus 5%. At the time we set our target price, it implied a potential return above this band; we therefore rate the shares Overweight. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Downside risks to our view: A macroeconomic slowdown represents the primary downside risk. Weakness in the BFSI sector also could materially impact TCS's revenue. INR appreciation could affect margins negatively.

HCL Technologies

HCLT IN – INR488; Overweight, TP 570

The stock is trading at 13x our FY13e EPS. HCLT is benefiting from its strategy of targeting the restructured deal business and thereby market share-led growth. These are mostly integrated deals and lower in profitability than the usual T&M ADM business, in our view, but much more strategic in nature. We believe, as suggested by the outsourcing advisers TPI as well, that the number of restructured deals will increase 20% in 2012. This would mean further opportunities for HCLT to gain market share and continue its above-sector growth trajectory. We still do not believe the company can see margin expansion as large deals ramp up. We estimate margins will fall by 100bp y-o-y in FY13 and expect HCLT to have top-line-led earnings growth. Among positive factors, consensus margin expectations have decreased in the past few months and now are in line with our forecasts, lowering the risk of disappointment.

We value HCLT at 14x earnings for end-March 2014e (in line with other companies in our coverage), and our 12-month target price is INR570.

Under our research model, the Neutral rating band for non-volatile Indian equities equals the local hurdle rate of 11% plus or minus 5%. At the time we set our target price, implied a potential return above this band; we therefore have an Overweight rating on HCLT shares. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Downside risks to our view: Macro uncertainty remains the primary downside risk to our rating and estimates. Also, INR appreciation versus the USD (every 1% appreciation affects margins by 30-40bp) remains a concern.

Wipro

WPRO IN – INR404, Neutral, TP INR 430

Wipro is currently trading at a multiple of 16x our FY13 earnings estimate. We value Wipro on 15x FY14e (in line with Infosys). We maintain our Neutral rating and INR430 (rounded) target price.

Under our research model, the Neutral rating band for non-volatile Indian equities equals the local hurdle rate of 11% plus or minus 5%. At the time we set our target price, it implied a potential return within this band; we therefore rate the shares Neutral. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Risks to our rating and estimates: On the downside, macroeconomic deterioration remains the primary risk to achieving consistent volume growth and pricing stability. The poor cash conversion of previous quarters remains a concern as well. On the upside, faster-than-expected conversion of deals and client mining remain the primary risks.

Infosys Limited

INFO IN – INR 2,339; Neutral, TP INR2,590

Infosys is seeing a significant slowdown in growth and we believe a valuation de-rating is justified. However, we note that the company has a strong balance sheet, with >50% ROCE, >30% ROE and USD4bn in cash. The stock is trading at 15x our FY13e EPS and 13x our revised FY14e EPS. We cut our earnings estimates for FY14 by 2.3% to account for its high exposure to EAS. We value the stock at 15x FY14e EPS (from 18x FY13e EPS historical average), as we expect earnings growth to significantly slow) and lower our target price to INR 2,590 from INR 2,655.

Under our research model, the Neutral rating band for non-volatile Indian equities equals the local hurdle rate of 11% plus or minus 5%, which translates into a potential return range of 6-16%. Our new target price implies a potential return (including forecast dividend yield) of c13%, which is within this band; we therefore continue to rate the shares Neutral. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated.

Risks to our view: On the downside, deteriorating macroeconomic conditions is the primary risk, as this could result in delays in decision-making and, therefore, project ramp-ups. Although management is confident of maintaining an EBIT margin of around 27% even if the rupee appreciates to 46, we believe any INR appreciation would impact sentiment and the stock's valuation. On the upside, a more aggressive go-to-market strategy and faster-than-expected conversion of deals is the primary risk.

Valuation comparison

Company	Ticker	Rating	Target price (INR)	Current price (INR)	Difference to target	52-week range High	Low	Year-end (month)	Shares in issue (m)	Market cap (USDm)*	Net debt (USDm)*	EV (USDm)*
Tata Consultancy Services Ltd	TCS.BO	Overweight	1,365	1,232	11%	1,295	903	Mar	1,957	45,237	(1,149)	44,088
Infosys Ltd	INFY.BO	Neutral	2,590	2,339	11%	3,020	2,169	Mar	574	24,801	(4,069)	20,732
Wipro Ltd	WIPR.BO	Neutral	430	404	7%	453	310	Mar	2,459	18,508	(1,123)	17,384
HCL Technologies Ltd	HCLT.BO	Overweight	570	488	17%	524	360	Jun	692	6,356	39	6,395
MphasiS Ltd	MBFL.BO	Neutral (V)	410	386	6%	488	277	Oct	210	1,532	7	1,539
Tech Mahindra Ltd	TEML.BO	Underweight	580	639	-9%	798	524	Mar	127	1,526	225	1,751
Mindtree Ltd	MINT.BO	Neutral	470	581	-19%	618	321	Mar	41	442	(61)	381
Polaris Financial Technology Ltd	POLF.NS	Overweight (V)	235	124	90%	204	112	Mar	99	231	(9)	222
Persistent Systems Ltd	PERS.BO	Overweight	440	362	22%	407	281	Mar	36	272	(62)	211

*Reuters estimates

Company	Absolute Share Price Performance (%)				Rel. Performance vs Index (%)				Rel. Performance vs BSE-IT (%)			
	1m	3m	12m	YTD	1m	3m	12m	YTD	1m	3m	12m	YTD
Tata Consultancy Services Ltd	7.9	0.1	8.2	6.0	13.9	9.0	23.4	0.6	14.6	1.2	15.4	6.9
Infosys Ltd	-17.5	-16.9	-20.4	-16.4	-12.9	-9.5	-9.2	-20.7	-10.8	-15.8	-13.1	-15.6
Wipro Ltd	-9.9	-10.6	-8.8	0.5	-4.8	-2.6	4.1	-4.7	-3.1	-9.4	-1.5	1.3
HCL Technologies Ltd	-0.4	4.1	-3.1	25.6	5.2	13.4	10.5	19.1	6.4	5.3	4.1	26.4
MphasiS Ltd	-1.5	3.9	-14.1	28.7	3.9	13.2	-2.0	22.0	5.2	5.1	-6.8	29.5
Tech Mahindra Ltd	-10.4	-1.8	-5.9	11.5	-5.4	7.0	7.4	5.7	-3.6	-0.7	1.4	12.3
Mindtree Ltd	17.8	27.6	60.5	46.3	24.3	39.0	83.1	38.7	24.5	28.8	67.8	47.1
Polaris Financial Technology Ltd	-22.4	-26.3	-39.9	-0.1	-17.7	-19.5	-32.1	-6.3	-15.7	-25.2	-32.6	0.7
Persistent Systems Ltd	8.3	14.7	-7.7	10.0	14.3	25.0	5.2	4.4	15.0	15.9		10.9
Average	**-3.9**	**-1.2**	**1.0**	**13.0**	**2.8**	**9.3**	**14.1**	**6.8**	**4.1**	**1.5**	**8.3**	**13.5**

Valuation Multiples

Company	P/E (x)			PEG (x)	EV/EBITDA (x)				EV/Sales			
	FY12e	FY13e	FY14e		FY11	FY12e	FY13e	FY14e	FY11	FY12e	FY13e	FY14e
Tata Consultancy Services Ltd	22.7x	19.3x	16.9x	1.2x	17.7x	13.8x	11.7x	10.3x	5.4x	4.3x	3.8x	3.4x
Infosys Ltd	16.1x	15.1x	13.5x	1.7x	10.4x	8.7x	7.9x	7.0x	3.4x	3.0x	2.7x	2.4x
Wipro Ltd	17.6x	16.1x	14.1x	1.4x	12.0x	11.0x	9.7x	8.4x	3.3x	2.9x	2.7x	2.4x
HCL Technologies Ltd	15.2x	13.1x	11.5x	0.9x	10.6x	7.7x	7.0x	6.2x	1.8x	1.5x	1.4x	1.2x
MphasiS Ltd	9.9x	10.7x	9.4x	4.1x	5.5x	7.0x	6.6x	6.0x	1.4x	1.4x	1.4x	1.3x
Tech Mahindra Ltd	7.9x	7.5x	7.6x	3.8x	7.9x	8.7x	7.4x	7.0x	1.6x	1.5x	1.5x	1.4x
Mindtree Ltd	10.9x	10.3x	8.9x	1.0x	9.7x	5.9x	7.0x	7.0x	1.2x	0.9x	0.9x	0.8x
Polaris Financial Technology Ltd	5.6x	5.6x	4.4x	0.4x	4.7x	3.4x	3.1x	2.5x	0.6x	0.5x	0.5x	0.4x
Persistent Systems Ltd	10.2x	8.9x	8.2x	0.8x	6.0x	4.1x	3.6x	3.3x	1.2x	1.0x	0.9x	0.8x
Average	**13.7x**	**12.3x**	**10.7x**	**1.6x**	**9.1x**	**7.8x**	**6.9x**	**6.3x**	**2.1x**	**1.8x**	**1.7x**	**1.5x**

Income Statement

Company	Revenue (USDm)				Revenue (INR bn)				EPS			
(INR,m)	FY11	FY12e	FY13e	FY14e	FY11	FY12e	FY13e	FY14e	FY11	FY12e	FY13e	FY14e
Tata Consultancy Services Ltd	8,186	10,170	11,521	13,093	373	489	576	655	44.5	54.4	63.9	72.9
Infosys Technologies Ltd	6,044	6,994	7,598	8,493	275	337	381	425	119.4	145.5	155.3	172.9
Wipro Ltd *	5,221	5,921	6,500	7,315	235	284	324	366	22.0	22.7	24.9	28.4
HCL Technologies Ltd	3,545	4,152	4,716	5,394	159	205	236	270	22.9	32.1	37.1	42.3
Mphasis Ltd	1,100	1,116	1,101	1,223	50	51	57	63	52.0	39.0	36.0	41.1
Tech Mahindra Ltd	1,127	1,155	1,167	1,281	51	55	58	64	51.6	80.4	85.0	83.6
Mindtree Ltd	331	403	445	494	15	19	22	25	24.8	53.3	56.2	65.4
Polaris Software Lab Ltd	348	428	473	540	16	21	24	27	20.3	22.2	22.1	28.0
Persistent Systems Ltd	170	207	227	257	8	10	11	13	34.9	35.4	40.7	44.0

(* IT Services)

Growth Rates & Margins

Company	Revenue (USD)				EBITDA Margins				EPS Growth			
	FY12e	FY13e	FY14e	2-Yr CAGR	FY11	FY12e	FY13e	FY14e	FY12e	FY13e	FY14e	2-Yr CAGR
Tata Consultancy Services Ltd	24.2%	13.3%	13.6%	13.5%	30.0%	29.5%	29.5%	29.5%	22.0%	17.6%	14.0%	15.8%
Infosys Ltd	15.7%	8.6%	11.8%	10.2%	32.6%	31.7%	30.9%	31.5%	21.9%	6.7%	11.3%	9.0%
Wipro Ltd	13.4%	9.8%	12.5%	11.2%	21.1%	19.1%	19.1%	19.4%	3.5%	9.4%	14.3%	11.8%
HCL Technologies Ltd	17.1%	13.6%	14.4%	14.0%	17.2%	18.1%	17.4%	17.3%	39.9%	15.7%	14.0%	14.9%
MphasiS Ltd	1.5%	-1.3%	11.1%	4.7%	25.1%	19.3%	18.5%	18.5%	-25.0%	-7.6%	14.0%	2.6%
Tech Mahindra Ltd	2.6%	1.0%	9.8%	5.3%	19.5%	16.6%	18.3%	17.6%	55.8%	5.6%	-1.6%	2.0%
Mindtree Ltd	21.7%	10.4%	11.1%	10.8%	11.8%	15.1%	11.0%	9.9%	114.6%	5.5%	16.3%	10.8%
Polaris Financial Technology Ltd	22.9%	10.6%	14.1%	12.3%	13.5%	14.2%	13.5%	15.0%	9.3%	-0.1%	26.6%	12.4%
Persistent Systems Ltd	21.8%	9.4%	13.3%	11.4%	20.4%	23.2%	23.3%	22.6%	1.6%	14.7%	8.3%	11.5%
Average	**14.9%**	**9.3%**	**12.7%**	**11.0%**	**21.0%**	**20.2%**	**20.1%**	**19.8%**	**20.0%**	**9.3%**	**15.6%**	**12.3%**

Notes: Priced at close of 14 May 2012; FY12e applies to Tech Mahindra, HCL Technologies, and Mphasis only (others are FY12a); V = volatile (see disclosure appendix for definition)

Source: Company data, Thomson Reuters Datastream, HSBC estimates

Financials and forecasts

HSBC

Financials & valuation: TCS

Overweight

Financial statements

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Profit & loss summary (INRm)				
Revenue	488,938	576,261	654,665	734,963
EBITDA	144,254	170,023	192,967	214,808
Depreciation & amortisation	9,113	12,678	14,403	16,169
Operating profit/EBIT	135,141	157,345	178,565	198,639
Net interest	7,756	10,291	9,962	12,414
PBT	139,182	166,097	188,527	211,053
HSBC PBT	139,182	166,097	188,527	0
Taxation	-31,688	-39,863	-44,743	-50,088
Net profit	106,382	125,123	142,673	159,854
HSBC net profit	106,382	125,123	142,673	159,854
Cash flow summary (INRm)				
Cash flow from operations	75,440	128,125	151,339	160,036
Capex	-19,982	-28,813	-32,733	-36,748
Cash flow from investment	-29,498	-28,813	-32,733	-36,748
Dividends	-38,670	-67,170	-75,521	-84,667
Change in net debt	22,763	-32,142	-43,085	-38,620
FCF equity	100,339	101,963	119,717	124,398
Balance sheet summary (INRm)				
Intangible fixed assets	34,929	34,929	34,929	34,929
Tangible fixed assets	64,548	80,683	99,014	119,593
Current assets	230,236	282,789	347,354	407,974
Cash & others	32,993	65,136	108,221	146,841
Total assets	411,990	480,678	563,574	644,773
Operating liabilities	68,063	78,799	94,543	100,555
Gross debt	1,266	1,266	1,266	1,266
Net debt	-31,727	-63,870	-106,955	-145,575
Shareholders funds	325,233	383,185	450,338	525,524
Invested capital	228,656	254,467	278,534	315,100

Ratio, growth and per share analysis

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Y-o-y % change				
Revenue	31.0	17.9	13.6	12.3
EBITDA	28.8	17.9	13.5	11.3
Operating profit	29.0	16.4	13.5	11.2
PBT	26.4	19.3	13.5	11.9
HSBC EPS	22.0	17.6	14.0	12.0
Ratios (%)				
Revenue/IC (x)	2.7	2.4	2.5	2.5
ROIC	64.7	57.5	59.3	59.4
ROE	36.7	35.3	34.2	32.8
ROA	29.2	28.3	27.6	26.7
EBITDA margin	29.5	29.5	29.5	29.2
Operating profit margin	27.6	27.3	27.3	27.0
Net debt/equity	-9.6	-16.4	-23.5	-27.4
Net debt/EBITDA (x)	-0.2	-0.4	-0.6	-0.7
Per share data (INR)				
EPS Rep (diluted)	54.35	63.93	72.90	81.67
HSBC EPS (diluted)	54.35	63.93	72.90	81.67
DPS	25.00	29.33	32.98	36.97
Book value	166.17	195.78	230.09	0.00

Valuation data

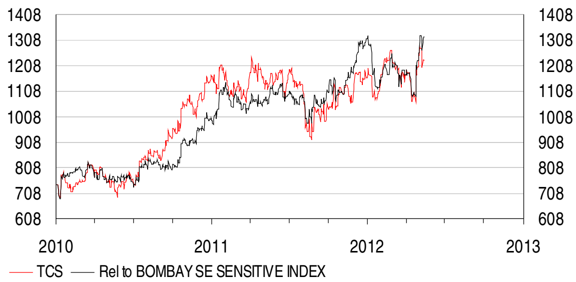
Year to	03/2012a	03/2013e	03/2014e	03/2015e
EV/sales	4.8	4.1	3.5	3.1
EV/EBITDA	16.4	13.7	11.9	10.5
EV/IC	10.4	9.2	8.2	7.2
PE*	22.6	19.2	16.8	15.0
P/Book value	7.4	6.3	5.3	
FCF yield (%)	4.2	4.2	5.0	5.2
Dividend yield (%)	2.0	2.4	2.7	3.0

*Based on HSBC EPS (diluted)

Issuer information

Share price	(INR)1,226.95	Target price	(INR)1,365.00
Reuters (Equity)	TCS.BO	Bloomberg (Equity)	TCS IN
Market cap (USDm)	44,494	Market cap (INRm)	2,399,455
Free float (%)	15	Enterprise value (INRm)	2,335,586
Country	India	Sector	IT Services
Analyst	Yogesh Aggarwal	Contact	+91 22 2268 1246

Price relative



Source: HSBC

Note: Priced at close of 14 May 2012

HSBC

Summary of financial statements for TCS

TCS (US GAAP – INRm)	FY11	FY12	FY13e	FY14e	FY15e
Summary of Profit and Loss statement					
Total Revenues	**373,245**	**488,938**	**576,261**	**654,665**	**734,963**
Total Cost of Revenues	204,296	264,580	319,573	363,242	407,805
Gross profit	168,949	224,358	256,689	291,423	327,158
Selling, general and administrative expenses	64,179	89,217	99,343	112,858	128,519
Total Operating Expenses	64,179	89,217	99,343	112,858	128,519
Operating Income	**104,770**	**135,141**	**157,345**	**178,565**	**198,639**
EBITDA	**111,986**	**144,254**	**170,023**	**192,967**	**214,808**
Net income	87,164	106,382	125,123	142,673	159,854
EPS – INR	**44.5**	**54.4**	**63.9**	**72.9**	**81.7**
Dividend per common share (INR)	14.5	25.0	29.3	33.0	37.0
Margin Ratios					
EBITDA Margin	30.0%	29.5%	29.5%	29.5%	29.2%
Operating Margin	28.1%	27.6%	27.3%	27.3%	27.0%
Net Margin	23.4%	21.8%	21.7%	21.8%	21.7%
FCF/Revenues	14.0%	11.3%	17.2%	18.1%	16.8%
CAPEX as % to sales	4.6%	4.1%	5.0%	5.0%	5.0%
Y-o-y growth					
Revenues	24%	31%	18%	14%	12%
Operating Income y/y	32%	29%	16%	13%	11%
Net Margin y/y	27%	22%	18%	14%	12%
Basic EPS y/y	27%	22%	18%	14%	12%
Summary of Balance Sheet					
Assets					
Cash & Cash Equivalents	15,539	19,836	51,978	95,063	133,684
Unbilled Revenues	13,489	22,478	22,478	22,478	22,478
Total Current Assets	**164,855**	**230,236**	**282,789**	**347,354**	**407,974**
Property and Equipment	51,996	64,548	80,683	99,014	119,593
Intangible assets and goodwill	33,791	34,929	34,929	34,929	34,929
Total Assets	**327,882**	**411,990**	**480,678**	**563,574**	**644,773**
Current liabilities	58,335	68,063	78,799	94,543	100,555
Short term borrowings	328	112	112	112	112
Total Current Liabilities	**58,663**	**68,175**	**78,911**	**94,655**	**100,667**
Preference shares	1,000	1,000	1,000	1,000	1,000
Total Liabilities	**70,692**	**81,481**	**92,217**	**107,961**	**113,973**
Minority Interests	3,147	5,276	5,276	5,276	5,276
Total shareholders' equity	**254,044**	**325,233**	**383,185**	**450,338**	**525,524**
Summary of Cashflow					
Net cash generated by Operating Activities	**69,148**	**75,440**	**128,125**	**151,339**	**160,036**
Purchase of Fixed Assets	(17,015)	(19,982)	(28,813)	(32,733)	(36,748)
Net cash used in Investing Activities	**(18,663)**	**(29,498)**	**(28,813)**	**(32,733)**	**(36,748)**
Dividends paid	(45,646)	(38,670)	(67,170)	(75,521)	(84,667)
Net cash used in Financing Activites	**(46,142)**	**(41,528)**	**(67,170)**	**(75,521)**	**(84,667)**
FCF (Operating Cash Flow – CAPEX)	52,133	55,458	99,312	118,606	123,287

Source: Company data, HSBC estimates

HSBC

Financials & valuation: Infosys Technologies

Neutral

Financial statements

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Profit & loss summary (INRm)				
Revenue	337,340	380,672	424,628	487,843
EBITDA	107,080	116,937	130,375	150,058
Depreciation & amortisation	-9,290	-12,562	-14,013	-16,099
Operating profit/EBIT	97,790	104,374	116,362	133,960
Net interest	18,410	18,000	18,000	18,000
PBT	116,830	122,374	134,362	151,960
HSBC PBT	116,830	122,374	134,362	151,960
Taxation	-33,670	-33,627	-35,555	-38,703
Net profit	83,160	88,748	98,807	113,256
HSBC net profit	83,160	88,748	98,807	113,256
Cash flow summary (INRm)				
Cash flow from operations	82,120	102,466	110,325	125,864
Capex	-14,420	-19,034	-21,231	-24,392
Cash flow from investment	-615,870	-19,034	-21,231	-24,392
Dividends	-23,270	-41,534	-52,022	-59,629
Change in net debt	-41,350	-42,418	-37,072	-41,842
FCF equity	58,470	78,520	83,199	96,574
Balance sheet summary (INRm)				
Intangible fixed assets	11,660	11,660	11,660	11,660
Tangible fixed assets	54,090	60,041	67,260	75,553
Current assets	302,460	348,634	394,095	446,502
Cash & others	209,680	252,098	289,170	331,012
Total assets	383,480	435,606	488,285	548,985
Operating liabilities	5,450	5,450	5,450	5,450
Gross debt	0	0	0	0
Net debt	-209,680	-252,098	-289,170	-331,012
Shareholders funds	334,610	381,824	428,609	482,236
Invested capital	153,080	162,788	178,395	197,253

Ratio, growth and per share analysis

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Y-o-y % change				
Revenue	22.7	12.8	11.5	14.9
EBITDA	19.6	9.2	11.5	15.1
Operating profit	20.7	6.7	11.5	15.1
PBT	25.4	4.7	9.8	13.1
HSBC EPS	21.9	6.7	11.3	14.6
Ratios (%)				
Revenue/IC (x)	2.5	2.4	2.5	2.6
ROIC	50.8	47.9	50.2	53.2
ROE	27.4	24.8	24.4	24.9
ROA	23.9	21.7	21.4	21.8
EBITDA margin	31.7	30.7	30.7	30.8
Operating profit margin	29.0	27.4	27.4	27.5
Net debt/equity	-62.7	-66.0	-67.5	-68.6
Net debt/EBITDA (x)	-2.0	-2.2	-2.2	-2.2
Per share data (INR)				
EPS Rep (diluted)	145.54	155.32	172.92	198.21
HSBC EPS (diluted)	145.54	155.32	172.92	198.21
DPS	47.00	62.13	77.82	89.19
Book value	585.60	668.23	750.10	843.95

Valuation data

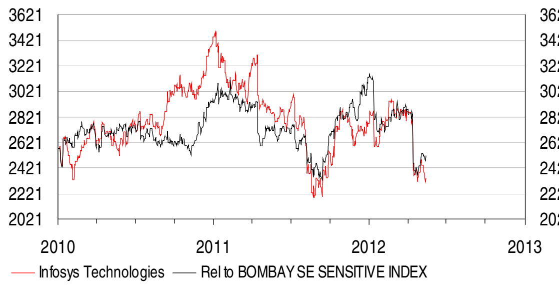
Year to	03/2012a	03/2013e	03/2014e	03/2015e
EV/sales	3.4	2.9	2.5	2.1
EV/EBITDA	10.6	9.3	8.1	6.7
EV/IC	7.4	6.7	5.9	5.1
PE*	16.1	15.1	13.5	11.8
P/Book value	4.0	3.5	3.1	2.8
FCF yield (%)	4.4	5.8	6.2	7.2
Dividend yield (%)	2.0	2.7	3.3	3.8

*Based on HSBC EPS (diluted)

Issuer information

Share price	(INR)2,338.95	Target price	(INR)2,590.00
Reuters (Equity)	INFY.BO	Bloomberg (Equity)	INFO IN
Market cap (USDm)	24,906	Market cap (INRm)	1,343,095
Free float (%)	78	Enterprise value (INRm)	1,090,997
Country	India	Sector	IT Services
Analyst	Yogesh Aggarwal	Contact	+91 22 2268 1246

Price relative



Source: HSBC

Note: Priced at close of 14 May 2012

HSBC

Summary of financial statements for Infosys

INRm	FY11	FY12	FY13e	FY14e	FY15e
Summary of Profit and Loss					
Revenues	**275,010**	**337,340**	**380,672**	**424,628**	**487,843**
COGS	150,620	188,790	215,791	242,906	279,138
S&M expenses	15,120	17,570	20,734	21,847	24,753
G&A expenses	19,710	23,900	27,210	29,501	33,893
Operating profit (EBITDA)	**89,560**	**107,080**	**116,937**	**130,375**	**150,058**
Depreciation and amortization	8,540	9,290	12,562	14,013	16,099
Operating Income	**81,020**	**97,790**	**104,374**	**116,362**	**133,960**
Other income	12,110	19,040	18,000	18,000	18,000
Profit before tax and extraordinary items	93,130	116,830	122,374	134,362	151,960
Provision for taxation	24,900	33,670	33,627	35,555	38,703
Net profit	68,230	83,160	88,748	98,807	113,256
EPS (Diluted) INR	**119.4**	**145.5**	**155.3**	**172.9**	**198.2**
Blended Realisation ('000 /year) USD	82.5	86.4	85.3	84.4	84.0
Margin Ratios					
EBITDA Margins	32.6%	31.7%	*30.7%*	*30.7%*	*30.8%*
EBIT Margins	29.5%	29.0%	*27.4%*	*27.4%*	*27.5%*
PAT Margins	24.8%	24.7%	*23.3%*	*23.3%*	*23.2%*
Y-o-Y Growth					
Revenues	20.9%	22.7%	*12.8%*	*11.5%*	*14.9%*
Volume growth (blended)	23.4%	11.1%	*8.7%*	*12.0%*	*15.0%*
Operating Income	16.5%	20.7%	*6.7%*	*11.5%*	*15.1%*
EPS	8.8%	21.8%	*6.7%*	*11.3%*	*14.6%*
Pricing growth (blended realization)	1.8%	4.7%	*-1.2%*	*-1.1%*	*-0.5%*
Balance Sheet Summary					
Cash and Cash equivalents	166,660	205,910	248,328	285,400	327,242
Trade receivables	46,530	58,820	62,576	70,965	81,530
Unbilled revenues	12,430	18,730	18,730	18,730	18,730
PPE	48,440	54,090	60,041	67,260	75,553
Goodwill	8,250	9,930	9,930	9,930	9,930
Total assets	**312,630**	**383,480**	**435,606**	**488,285**	**548,985**
Unearned revenues	5,180	5,450	5,450	5,450	5,450
Total current liabilities	36,410	47,660	52,572	58,466	65,540
Total liabilities	**39,600**	**48,870**	**53,782**	**59,676**	**66,750**
Equity					
Share Capital	2,860	2,860	2,860	2,860	2,860
Share Premium	30,820	30,890	30,890	30,890	30,890
Retained Earnings	238,260	298,160	345,374	392,159	445,786
Total Equity	**273,030**	**334,610**	**381,824**	**428,609**	**482,236**
Cash Flow Summary					
Net profit before tax and exceptional item	68,230	83,160	122,374	134,362	151,960
Depreciation and amortization	8,620	9,370	12,562	14,013	16,099
Trade receivables	(11,580)	(11,810)	(3,756)	(8,389)	(10,565)
Income taxes paid	(28,560)	(31,170)	-	-	-
Net Cash Generated by Operating Activities	**59,070**	**82,120**	(33,627)	(35,555)	(38,703)
PPE	(13,010)	(14,420)	**102,466**	**110,325**	**125,864**
Net cash used in investing activities	**22,310**	**(20,610)**	(19,034)	(21,231)	(24,392)
Dividends paid during the year	(31,410)	(20,000)	**(19,034)**	**(21,231)**	**(24,392)**
Dividend tax paid during the year	(5,240)	(3,270)	(35,499)	(44,463)	(50,965)
Net cash used in financing	**(36,410)**	**(23,210)**	(6,035)	(7,559)	(8,664)
Cash and Cash Equivalents at the end of the year	166,660	205,910	**(41,534)**	**(52,022)**	**(59,629)**

Source: Company data, HSBC estimates

HSBC

Financials & valuation: Wipro

Neutral

Financial statements

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Profit & loss summary (INRm)				
Revenue	371,971	421,531	483,099	555,427
EBITDA	70,865	80,501	93,554	104,892
Depreciation & amortisation	-10,130	-10,960	-12,561	-14,441
Operating profit/EBIT	60,735	69,541	80,994	90,451
Net interest	5,006	6,448	7,570	10,225
PBT	69,018	75,989	88,564	100,676
HSBC PBT	69,018	75,989	88,564	100,676
Taxation	-13,762	-15,613	-19,484	-20,584
Net profit	55,382	61,015	69,720	80,731
HSBC net profit	55,382	61,015	69,720	80,731
Cash flow summary (INRm)				
Cash flow from operations	37,709	44,353	68,815	81,046
Capex	-12,977	-16,861	-19,324	-22,217
Cash flow from investment	-1,203	-8,055	-9,101	-9,339
Dividends	-17,229	-17,234	-17,234	-17,234
Change in net debt	-61,199	-64,300	227,630	22,016
FCF equity	53,910	56,964	63,542	73,541
Balance sheet summary (INRm)				
Intangible fixed assets	72,166	72,166	72,166	72,166
Tangible fixed assets	58,988	64,889	71,653	79,429
Current assets	273,488	317,474	370,256	435,500
Cash & others	222,308	286,607	58,977	36,961
Total assets	436,001	485,888	545,434	618,454
Operating liabilities	47,258	53,364	60,424	69,945
Gross debt	22,510	22,510	22,510	22,510
Net debt	-199,798	-264,097	-36,467	-14,451
Shareholders funds	285,314	329,095	381,581	445,079
Invested capital	200,629	231,794	249,369	268,618

Ratio, growth and per share analysis

Year to	03/2012a	03/2013e	03/2014e	03/2015e
Y-o-y % change				
Revenue	19.8	13.3	14.6	15.0
EBITDA	8.2	13.6	16.2	12.1
Operating profit	6.1	14.5	16.5	11.7
PBT	10.6	10.1	16.5	13.7
HSBC EPS	2.6	10.2	14.3	15.8
Ratios (%)				
Revenue/IC (x)	2.1	1.9	2.0	2.1
ROIC	26.9	25.6	26.3	27.8
ROE	21.1	19.9	19.6	19.5
ROA	14.4	13.5	13.8	14.1
EBITDA margin	19.1	19.1	19.4	18.9
Operating profit margin	16.3	16.5	16.8	16.3
Net debt/equity	-69.8	-80.0	-9.5	-3.2
Net debt/EBITDA (x)	-2.8	-3.3	-0.4	-0.1
Per share data (INR)				
EPS Rep (diluted)	22.72	24.85	28.40	32.89
HSBC EPS (diluted)	22.56	24.85	28.40	32.89
DPS	6.00	6.00	6.00	6.00
Book value	106.06	123.93	145.36	171.28

Valuation data

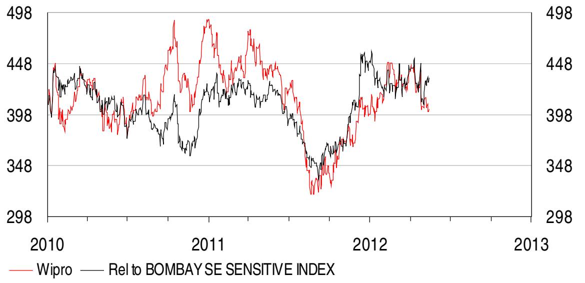
Year to	03/2012a	03/2013e	03/2014e	03/2015e
EV/sales	2.1	1.7	2.0	1.8
EV/EBITDA	11.2	9.0	10.2	9.3
EV/IC	3.9	3.1	3.8	3.6
PE*	17.9	16.2	14.2	12.3
P/Book value	3.8	3.3	2.8	2.4
FCF yield (%)	5.4	5.7	6.4	7.4
Dividend yield (%)	1.5	1.5	1.5	1.5

*Based on HSBC EPS (diluted)

Issuer information

Share price	(INR)403.50	Target price	(INR)430.00
Reuters (Equity)	WIPR.BO	Bloomberg (Equity)	WPRO IN
Market cap (USDm)	18,397	Market cap (INRm)	992,081
Free float (%)	17	Enterprise value (INRm)	727,983
Country	India	Sector	IT Services
Analyst	Yogesh Aggarwal	Contact	+91 22 2268 1246

Price relative



Source: HSBC

Note: Priced at close of 14 May 2012

HSBC

Summary of financial statements for Wipro

	FY11	FY12e	FY13e	FY14e	FY14e
Profit & Loss, IFRS GAAP, INRm					
Net sales and services	**310,542**	**371,971**	**421,531**	**483,099**	**555,427**
Cost of sales and services	212,808	263,174	299,659	339,302	392,771
Selling and marketing expenses	22,173	27,777	29,703	33,817	38,880
General and administrative expenses	18,294	20,285	22,627	28,986	33,326
EBITDA	**65,436**	**70,865**	**80,501**	**93,554**	**104,892**
Depreciation & Amortisation (INR m)	8,211	10,130	10,960	12,561	14,441
Operating Income	**57,225**	**60,735**	**69,541**	**80,994**	**90,451**
Other Income	6,651	8,895	8,806	10,223	12,878
Profit before Tax	62,387	69,416	75,989	88,564	100,676
Profit for the period	53,457	55,780	61,015	69,720	80,731
EPS (Diluted) INR	**22.0**	**22.7**	**24.9**	**28.4**	**32.9**
Balance Sheet Summary					
PPE	55,094	58,988	64,889	71,653	79,429
Inventories	9,707	10,662	12,646	14,493	16,663
Trade Receivables	61,627	80,328	109,714	125,738	144,563
Unbilled Revenues	24,149	30,025	30,025	30,025	30,025
Total current assets	232,314	273,488	317,474	370,256	435,500
Total Assets	**371,443**	**436,001**	**485,888**	**545,434**	**618,454**
Share Capital	4,908	4,917	4,917	4,917	4,917
Retained Earnings	203,250	241,912	285,693	338,179	401,677
Total Equity	**240,371**	**286,163**	**329,944**	**382,430**	**445,928**
Long-term loans	19,759	22,510	22,510	22,510	22,510
Total non-current liabilities	**30,454**	**32,153**	**32,153**	**32,153**	**32,153**
Loans and borrowings and bank overdrafts	33,043	36,448	36,448	36,448	36,448
Trade payables and accrued expenses	44,052	47,258	53,364	60,424	69,945
Unearned revenues	6,595	9,569	9,569	9,569	9,569
Total Liabilities	**131,072**	**149,838**	**155,944**	**163,004**	**172,525**
Cash Flow Summary					
Profit for the period	53,321	55,987	61,015	69,720	80,731
Depreciation	8,211	10,129	10,960	12,561	14,441
Working capital changes:	(21,378)	(19,482)	(25,263)	(10,812)	(11,473)
Trade and other receivable	(10,699)	(17,470)	(29,386)	(16,025)	(18,825)
Inventories	(1,781)	(862)	(1,984)	(1,847)	(2,170)
Trade payables and accrued expenses	5,840	4,289	6,106	7,060	9,522
Net cash generated by operating activities	**40,437**	**40,076**	**46,711**	**71,468**	**83,699**
Expenditure on PPE and intangible assets	(12,211)	(12,977)	(16,861)	(19,324)	(22,217)
Net cash generated by / (used in) investing activities	**(17,239)**	**(8,056)**	**(16,861)**	**(19,324)**	**(22,217)**
Net cash generated by / (used in) financing activities	**(26,378)**	**(17,397)**	**(17,234)**	**(17,234)**	**(17,234)**
Cash and cash equivalents at the end of the period	**60,899**	**77,202**	**90,283**	**125,193**	**169,442**

Source: Company data, HSBC estimates

Notes

Notes

Notes

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Yogesh Aggarwal

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: (1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12-month horizon; and (2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0- to 3-month horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5ppt over the next 12 months (or 10ppt for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5ppt over the next 12 months (or 10ppt for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in target price). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5ppt past the 40% benchmark in either direction for a stock's status to change.

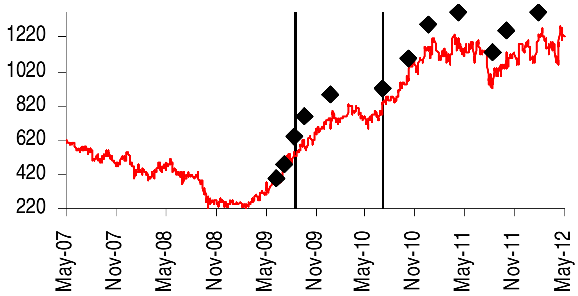
Rating distribution for long-term investment opportunities

As of 15 May 2012, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(26% of these provided with Investment Banking Services)
Neutral (Hold)	38%	(24% of these provided with Investment Banking Services)
Underweight (Sell)	14%	(17% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

TCS (TCS.BO) share price performance INR vs HSBC rating history



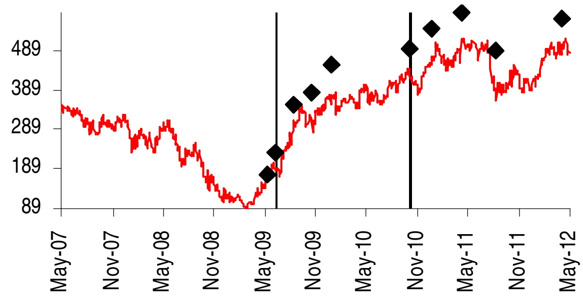
Source: HSBC

Recommendation & target price history

From	To	Date
Neutral (V)	Overweight (V)	1 September 2009
Overweight (V)	Overweight	15 July 2010
Target price	**Value**	**Date**
Price 1	400.00	25 June 2009
Price 2	480.00	20 July 2009
Price 3	640.00	1 September 2009
Price 4	755.00	7 October 2009
Price 5	890.00	7 January 2010
Price 6	925.00	15 July 2010
Price 7	1,100.00	22 October 2010
Price 8	1,300.00	2 January 2011
Price 9	1,360.00	21 April 2011
Price 10	1,130.00	23 August 2011
Price 11	1,260.00	18 October 2011
Price 12	1,365.00	8 February 2012

Source: HSBC

HCL Technologies (HCLT.BO) share price performance INR vs HSBC rating history



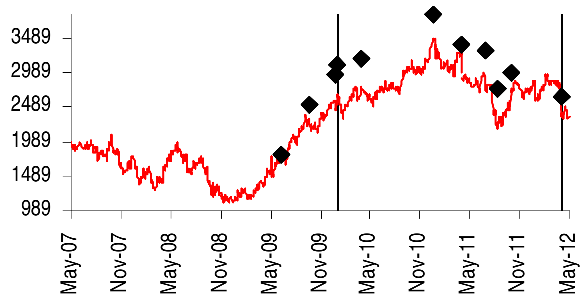
Source: HSBC

Recommendation & target price history

From	To	Date
Neutral (V)	Overweight (V)	24 June 2009
Overweight (V)	Overweight	20 October 2010
Target price	**Value**	**Date**
Price 1	175.00	26 May 2009
Price 2	230.00	24 June 2009
Price 3	350.00	25 August 2009
Price 4	385.00	30 October 2009
Price 5	455.00	7 January 2010
Price 6	495.00	20 October 2010
Price 7	545.00	2 January 2011
Price 8	585.00	20 April 2011
Price 9	490.00	23 August 2011
Price 10	570.00	18 April 2012

Source: HSBC

Infosys Technologies (INFY.BO) share price performance INR vs HSBC rating history



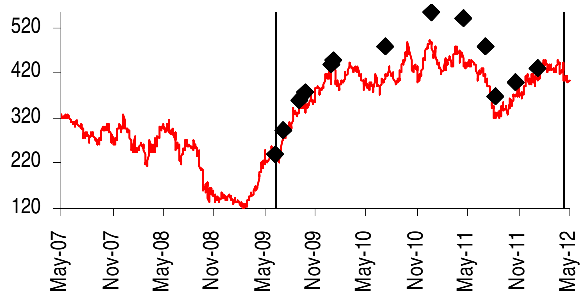
Source: HSBC

Recommendation & target price history

From	To	Date
Neutral (V)	Overweight	12 January 2010
Overweight	Neutral	13 April 2012
Target price	**Value**	**Date**
Price 1	1,800.00	24 June 2009
Price 2	2,525.00	7 October 2009
Price 3	2,950.00	7 January 2010
Price 4	3,100.00	12 January 2010
Price 5	3,200.00	13 April 2010
Price 6	3,830.00	2 January 2011
Price 7	3,400.00	17 April 2011
Price 8	3,300.00	12 July 2011
Price 9	2,770.00	23 August 2011
Price 10	3,000.00	12 October 2011
Price 11	2,655.00	13 April 2012

Source: HSBC

Wipro (WIPR.BO) share price performance INR vs HSBC rating history



Source: HSBC

Recommendation & target price history

From	To	Date
Underweight (V)	Neutral (V)	24 June 2009
Neutral (V)	Neutral	25 April 2012
Target price	**Value**	**Date**
Price 1	240.00	24 June 2009
Price 2	294.00	22 July 2009
Price 3	358.80	15 September 2009
Price 4	378.00	7 October 2009
Price 5	438.00	7 January 2010
Price 6	450.00	20 January 2010
Price 7	480.00	26 July 2010
Price 8	555.00	2 January 2011
Price 9	540.00	27 April 2011
Price 10	480.00	20 July 2011
Price 11	370.00	23 August 2011
Price 12	400.00	31 October 2011
Price 13	430.00	23 January 2012

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
HCL TECHNOLOGIES	HCLT.NS	485.05	14-May-2012	4
INFOSYS TECHNOLOGIES	INFY.NS	2,338.95	14-May-2012	2, 4, 6, 7
TATA CONSULTANCY SERVICES	TCS.NS	1,225.95	14-May-2012	2, 6
WIPRO	WIPR.BO	403.50	14-May-2012	2, 6, 7

Source: HSBC

1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 30 April 2012 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 March 2012, this company was a client of HSBC or had during the preceding 12-month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 31 March 2012, this company was a client of HSBC or had during the preceding 12-month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
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