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	12 Month Rating			Catalyst Watch		
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VALUATION AND RISKS

Our target price of Rs1,645 is based on ~20x Mar 20E EPS. We estimate TCS' earnings will grow at ~8% CAGR over FY18-21E. While the performance remains commendable at this size, we expect premium multiples to come under pressure with the slowing growth as seen in the last few quarters. The company's cost optimization efforts have helped deliver good margin performance. Overall on balance, we think the stock deserves to trade similar to its historical average of ~20x 12-month forward earnings. We believe PE remains the most appropriate valuation measure, given TCS' past profitability and future earnings visibility.

Key upside risks that could cause the shares to trade above our target price include: (1) any significant depreciation of the rupee against the USD/EUR/GBP; (2) aggressive pent-up demand from corporates in the US; (3) any margin-accretive acquisition; and (4) relative preference for IT in the India context.

Our target price of Rs1,816 for LTI is based on ~22x Sep'19E EPS. Concerns around medium-term profitable growth are weighing on multiples in the sector. But LTI seems to be adapting to the industry changes relatively well and is showcasing better EBIT growth. The company also enjoys better scale, execution record and organic growth vs. other mid-cap IT services companies and thus we assign ~15% premium in that context. We believe PE remains the most appropriate valuation measure given the profitable track record in the sector.

Key downside risks that could cause LTI shares to trade below our target price include: (1) any significant appreciation of the rupee against the USD/EUR/GBP; (2) pressure on billing rates; (3) a prolonged slowdown in the US economy; and (4) immigration/tax reform.

Our target price of Rs775 is based on ~16x Sep'19E EPS, at slight premium vs. historical averages. The ISV segment continues to see headwinds and the sector is also seeing challenges to sustained profitable growth. On the other hand, the company is seeing higher scale (and consequent operational efficiencies), and is investing to foray into the Enterprise segment and adapt to the changing market. Indian IT midcaps have seen a significant rerating in the recent past, which helps multiples for all IT midcaps. We believe PE remains the most appropriate valuation measure, given Persistent's profitable track record.

The key upside risks to our investment thesis and TP for Persistent are: (1) stability, and increasing offshoring in the OPD segment, (2) inordinate share gains in the EDT space, (3) sustained INR depreciation, (4) better-than-expected near-term margin profile and timing of investments and (5) a sharp increase in fund flows into the Indian mid-cap space.

Our target price of Rs640 is based on ~15.5x Sep'19E EPS, set at a discount to the average historical multiple (18.5x) for sector leaders TCS (c.20x) and Infosys (c.17x). TechM continues to see a lower organic growth profile and higher vertical/client concentration risks with continued headwinds in the telecom vertical. But on the other hand, there are renewed expectations of margins sustaining at decent levels post the recovery - sustainability is key. We believe PE remains the most appropriate valuation measure given the profitable track record of these large IT services companies.

Key upside risks that could cause the shares to trade above our target price include: 1) any significant depreciation of the rupee against the USD/EUR/GBP; 2) a sharp upturn in IT spending among TSPs; 3) large deal announcements; and 4) inorganic activity.

Our target price for HCLT of Rs1,020 is based on ~14.5x Sep'19E EPS, near the mid-point of the stock's three-year band of 11-18x. This is at a discount to peers in the sector, which we believe is justified given growth concerns in IMS, lower organic growth guidance and higher contribution from M&A-led growth. We believe PE remains the most appropriate valuation measure given HCLT's profitable track record.

Key downside risks to our investment thesis on HCL Tech include: (1) any significant appreciation of the rupee against the USD/EUR/GBP; (2) a sharp slowdown in the US/global economy; (3) acquisition-related risks; (4) the strategy of pursuing large deals could have negative margin implications; and (5) immigration reform is a sectoral risk. Key upside risks to our investment thesis include: (1) any significant depreciation of the rupee against the USD/EUR/GBP; (2) a sharp pickup in the US/global economy; (3) significant pickup in IMS growth due to large deal wins. Any of these risk factors could cause the shares to deviate from our target price.

Our Rs970 target price for MindTree is derived from ~21x Sep-19E EPS. Our target multiple is at a slight premium to MindTree's last five-year average multiple given expected growth acceleration, "self help" initiatives of the company, better margin defence and scaling up in digital. We believe PE remains the most appropriate valuation measure given MindTree's profitable track record.

The key upside risks to our investment thesis and TP on MindTree are: (a) INR depreciation; (b) greater-than-anticipated pick-up in the global macro could lead to better discretionary spending; (c) better-than-expected pricing; and (d) M&A. If the impact of any of these upside risks is greater than we anticipate, the stock could deliver better than what we think currently.

Our Rs1,315 target price for Infosys is based on ~17x Mar'20E EPS, at around the historical average 12-month forward earnings to factor in the increasing challenges to profitable growth in the sector counterbalanced by ongoing focus on stability and execution and good ROEs and cash generation. We believe PE remains the most appropriate valuation measure given Infosys' profitability record and higher earnings visibility.

Key downside risks that could cause the shares to trade below our target price include: (1) any significant appreciation of the rupee against the USD/EUR/GBP; (2) pressure on billing rates; (3) a prolonged slowdown in the US economy; and (4) immigration reform is a sectoral risk. Key upside risks that could cause the shares to trade above our target price include: (1) any significant depreciation of the rupee against the USD/EUR/GBP; (2) better-than-expected billing rates; and (3) a prolonged uplift in the US economy.

Our target price of Rs260 for Wipro is based on ~13.5x Sep'19E EPS. Our target multiple is derived from a PE-band analysis of peer group valuations and Wipro's historical trading pattern (range of 8-22x), and at slight discount to its 5-year average multiple. We believe this discount is appropriate considering the increasing headwinds in the sector and the consequent challenges to profitable growth, but factors in a directionally better visibility for capital return and some bottoming out in parts of the business. The company's growth has lagged peers in the recent past and the recovery seems to be taking longer in a challenging macro environment. PE is the most appropriate valuation measure, in our view, given Wipro's profitability and earnings visibility.

Key upside risks that could cause the shares to trade above our target price include: (1) A better-than-expected pickup in the US/Global economy; (2) Any significant depreciation of the rupee against the USD/EUR/GBP; and (3) Any significant EPS-accretive acquisition.

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