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GROUND VIEW

THE GREAT EUROPEAN LEAPFROG INDIAN IT

PhillipCapital

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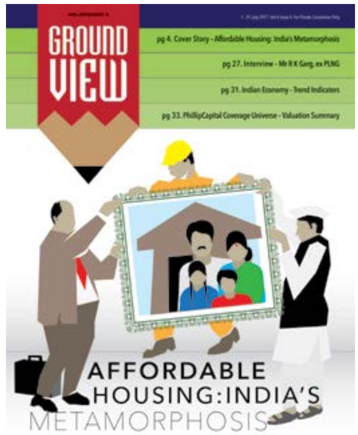
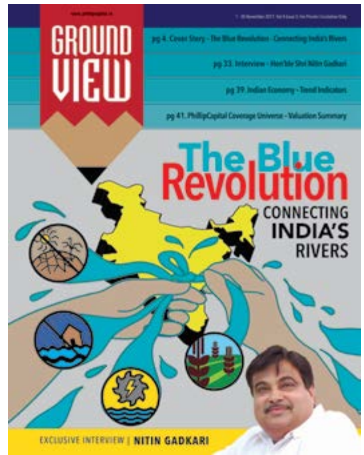
Ground View - Previous Issues

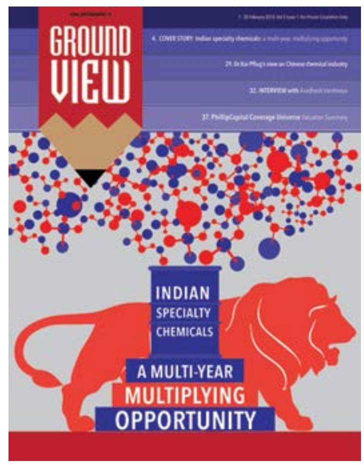


1st July 2017 Issue 4

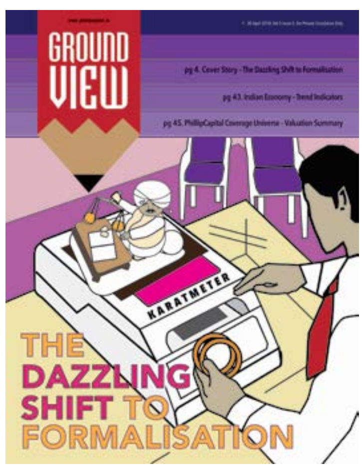


1st November 2017 Issue 5

1st December 2017 Issue 6



1st February 2018 Issue 1



1st April 2018 Issue 2

1st September 2018 Issue 3

Letter from the MD

Indian IT Services sector today forms an integral part of the Indian economy – not only in terms of its GDP contribution, but also in terms of its contribution to creating employment. It all started as a small experiment, as few Indian players offered to help overseas clients in managing their IT operations in a 'cheaper, faster, and better' manner. As the industry grew, it expanded its footprint beyond its first and traditional clientele – the US corporates.

The cover story of this report deep dives into how Indian vendors managed to leapfrog the European landscape – a geography that was initially reluctant to use their services. Our analysts, Vibhor Singhal and Shyamal Dhruve have conducted extensive research to analyse the performances of European and Indian IT vendors over the last decade, and tried to attribute reasons for the latter snatching the advantage from the former. They have also had exclusive interactions with over 20 'clients' in Europe, trying to gauge the reasons for the spectacular success of Indian vendors in the region, and also to understand their future trajectory. The analysis and the interviews were conducted in partnership with Value Leadership Group (Frankfurt), and we thank them for their contribution to the report.

In addition to the cover story, we caught up with Mr. Kaushik Banerjee, who has over 25 years of experience in India's retail financing sector and currently calls the shots at Magma as President & CEO, Asset Finance. He talked about the current liquidity challenge, demand environment, and future strategy.

Best wishes

Vineet Bhatnagar

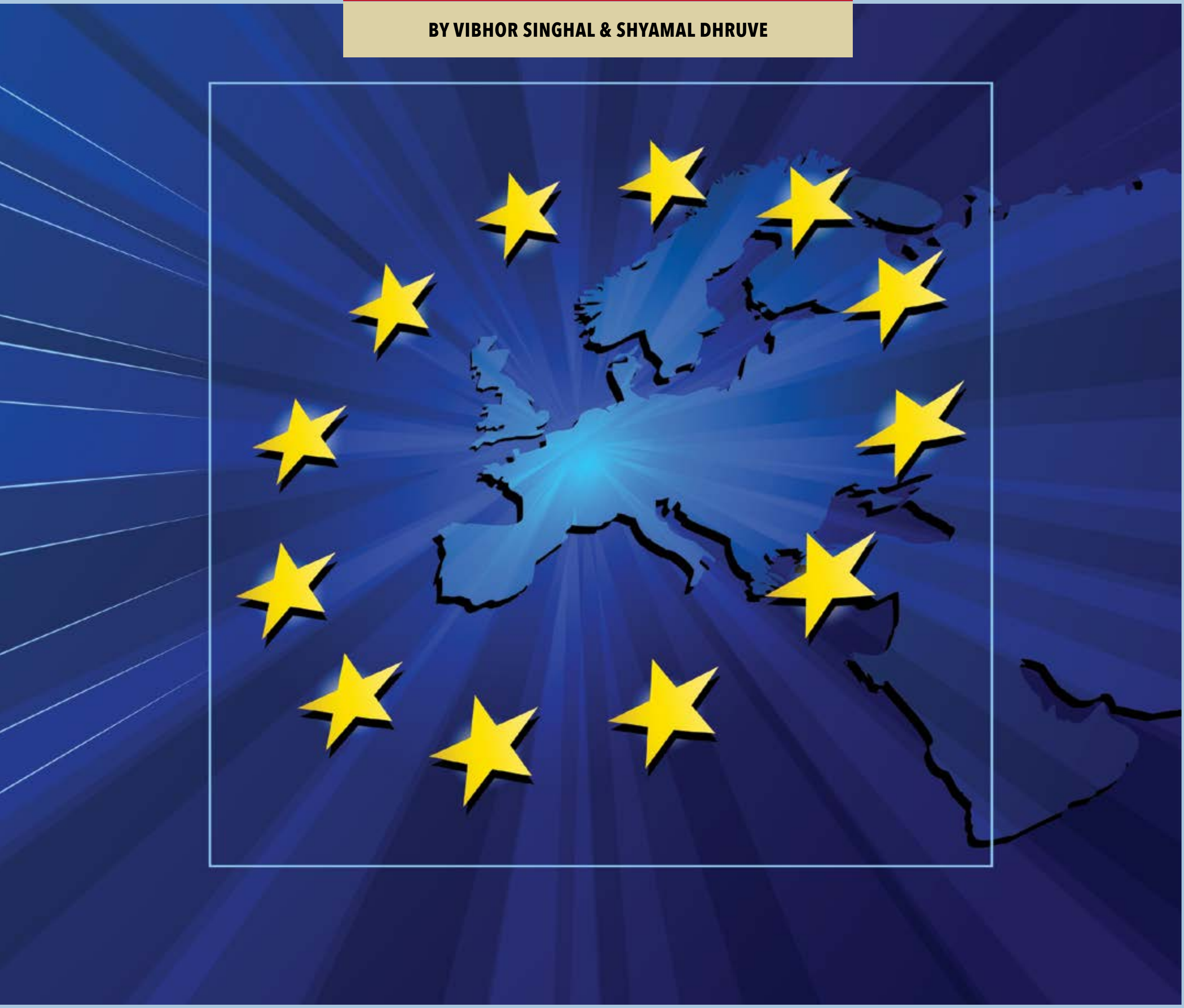
CONTENTS

THE GREAT EUROPEAN LEAPFROG INDIAN IT

At the beginning of this century, Indian IT services companies catered primarily to US-based clients – trying to penetrate the European geography. They faced twin issues: (1) Reluctance from European companies to 'offshore' their IT operations, as it was perceived to be synonymous with 'cheap' and 'poor quality'. (2) Stiff competition from local IT vendors, who had deep-rooted client relationships. However, Indian vendors kept pushing the door open, with their 'cheaper, faster, and better' alternative – all along supporting their business case by acquiring local companies or hiring local talent. The results have been sweeter than expected. Indian vendors have outgrown local EU vendors in the European region over the last decade – in turn, forcing many to merge or significantly downsize their operations. In this process, their growth rate in European markets far exceeded their growth rate in the US, though US still accounts for over 60% of their revenues. We see this 'Great European Leapfrog' by the Indian IT industry continuing over the next decade, in the wake of declining resistance to offshoring, lower competition, improvement in perception of their delivery quality, mammoth untapped potential, and above all, the significantly better 'value for money' experience offered by Indian IT companies.

COVER STORY

BY VIBHOR SINGHAL & SHYAMAL DHRUVE



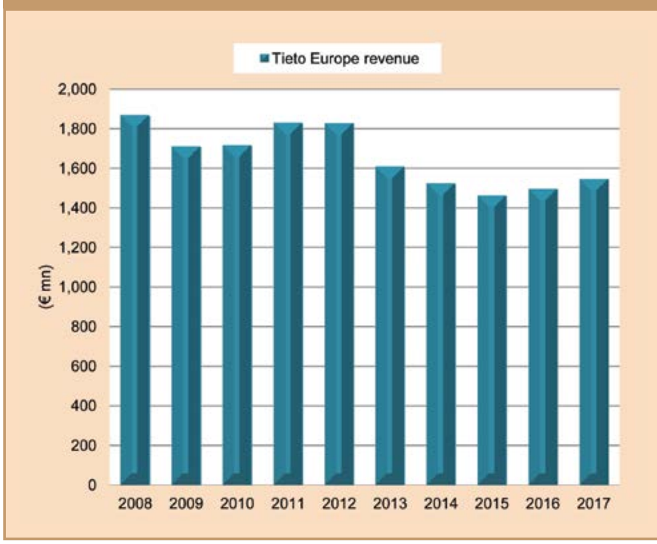
Radical transformation of the competitive landscape

Over the last decade, the European IT services landscape has undergone a remarkable transformation. Ten years ago, the landscape was dominated by home-grown IT services companies, and global majors like Accenture and IBM. Indian IT 'outsourcing' vendors, who had already established themselves in the US market, and were capturing market share at a rapid pace, were finding it difficult to break through language and cultural barriers in European companies.

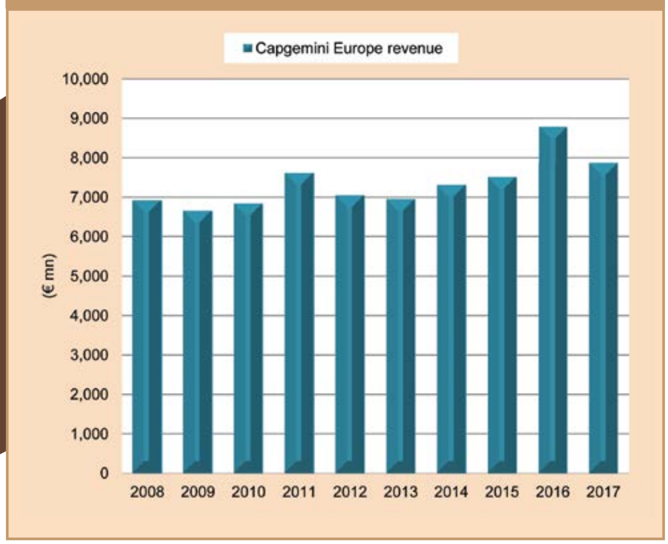
Fast-forward to 2018, and the landscape has completely changed. Over the last 10-15 years, European IT companies have struggled to remain afloat. Those that have managed to survive have lost significant market share. Tieto, with revenues of € 1.86bn in 2008, reported revenues of € 1.54bn in 2017 – a CAGR decline of 2.1%. Capgemini's European revenues increased from € 6.9bn in 2008 to touch € 7.9bn in 2017, but helped by almost 20 acquisitions over this period. Organically, it reported a muted CAGR of 0.9% over the last decade.

"This offshore business will find its niche as eBusiness did once the worst hype died down" – Tieto, in its FY03 Annual Report.

Tieto's revenues have declined over the last 10 years



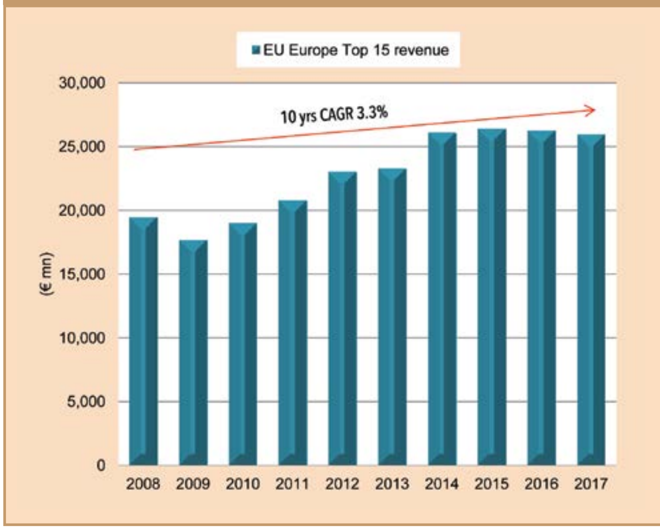
Capgemini has hardly grown in Europe, over the last decade

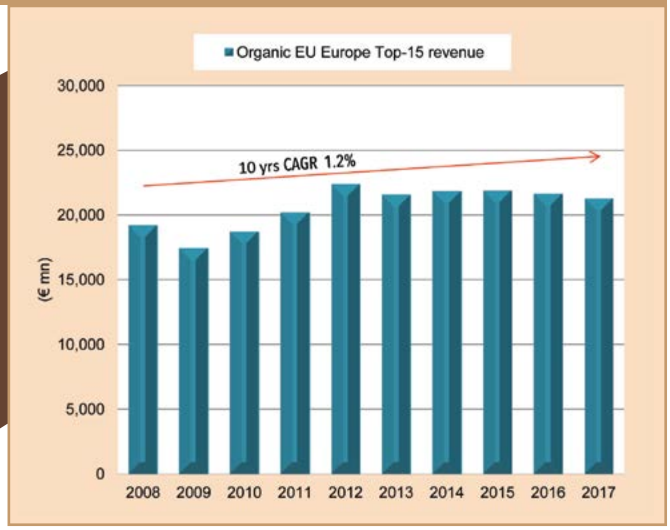


Source: Companies, PhillipCapital India Research

Cumulatively, top-15 European IT services providers had reported revenues of € 19.4bn in 2008 – that figure now stands at € 25.9bn – a measly CAGR of 3.3%. Remove some of the large acquisitions and the top-15 European vendors will report an even lower CAGR of 1.2%. During this period, some of the promising names had to merge with bigger players (Steria-Sopra), while many others had to downsize.

European Top-15 vendors have seen a CAGR of 3.3% over the last decade; 1.2% organic





Source: Companies, PhillipCapital India Research

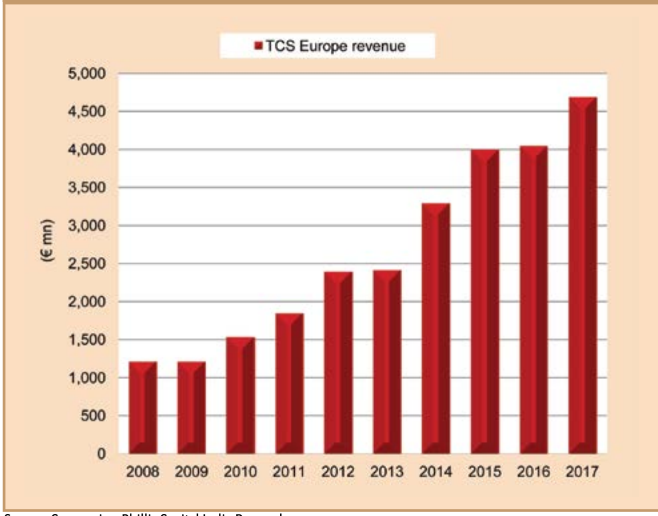
Some big-ticket acquisitions have helped the European vendors grow

Acquirer	Acquired company	Country	Consideration	Segment/Vertical	Revenue	Time
Capgemini	Getronics PinkRoccade Business	Netherlands	€ 255mn	IT Services	€ 300mn	Jul 2008
Atos	Siemens' IT Business	France	€ 760mn	IT Services	NA	Jul 2011
Capgemini	Prosodie	France	€ 382mn	Front office transaction solutions	€ 172nm	Jul 2011
Altran	IndustrieHansa	Germany	NA	Engg and Consulting Group	€ 155mn	Dec 2012
Sopra	Steria	France	€ 1.7bn	IT Services	€ 722 mn	Apr 2014
Altran	Nspyre	Dutch	NA	R&D	€ 64mn	Feb 2015
Capgemini	iGate	US	€ 3.6bn	IT Services	€ 1.2bn	Apr 2015
Tieto	Avega	Sweden	€ 47.9mn	Consulting	€ 47mn	Oct 2017

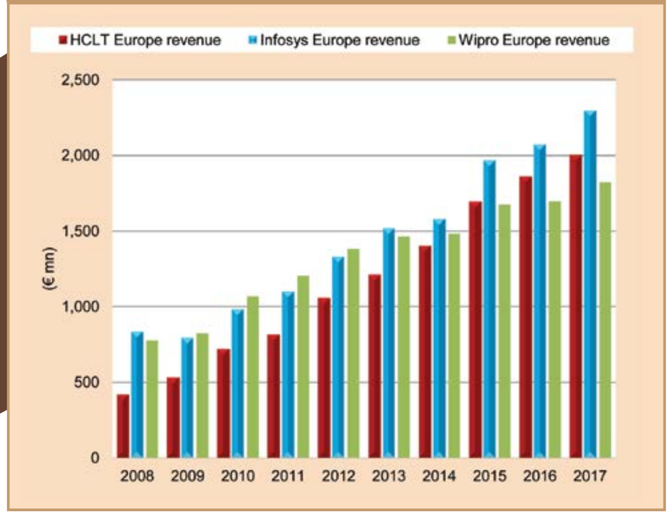
Source: Companies, PhillipCapital India Research

Over the same period, Indian IT services companies, with their so-called 'flash in the pan' outsourcing strategies, captured market share across geographies, verticals, and service lines. In 2008 (FY09), TCS' Europe revenues were € 1.2bn, which swelled to € 4.7bn in 2017 (FY18) – a whopping 16% CAGR, all organic. Similarly, Infosys and Wipro doubled their revenues from Europe over this decade, while HCL Tech, more than quadrupled from € 416mn to touch € 2bn in 2017. Cumulatively, the European revenue of top-15 Indian IT companies almost tripled from € 4bn in 2008 to touch € 15bn in 2017 – a strong CAGR of 15.6%. More importantly, very little of this growth came from acquisitions – Alti, Lodestone, DesignIT, Celent and Axon were the only notable acquisitions in Europe by these companies.

TCS has a phenomenal run in Europe - growing at 16.2% CAGR



Other large Indian vendors have also grown multifold over the last decade



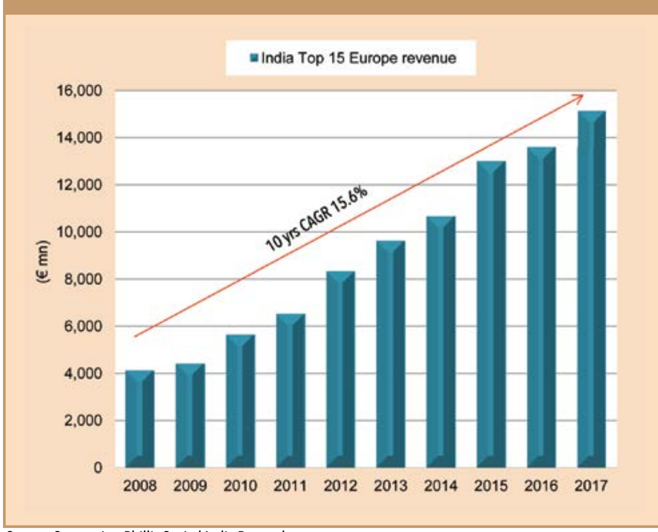
Source: Companies, PhillipCapital India Research

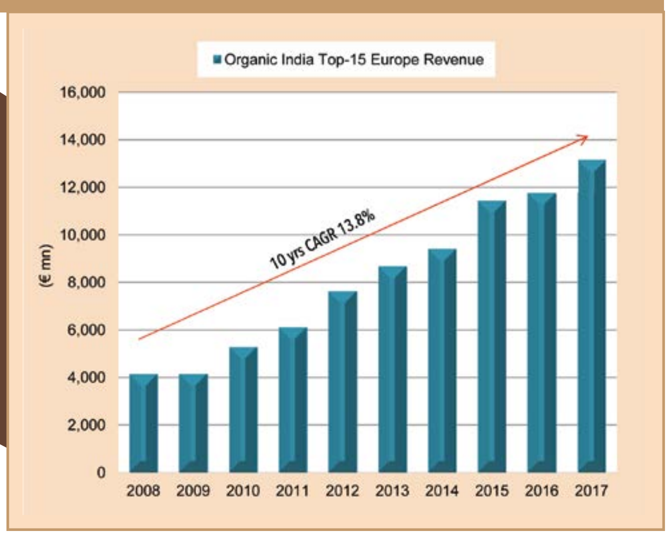
Indian vendors made few small but strategic acquisitions in Europe

Acquirer	Acquired company	Country	Consideration	Segment/Vertical	Revenue	Time
HCLT	Axon Group Ltd	UK	€ 484mn	SAP	€ 285mn	Dec 2008
Infosys	Lodestone Holding AG	Switzerland	€ 280mn	Consultancy	€ 168mn	Sep 2012
TCS	Alti	France	€ 72mn	Enterprise Solutions, Analytics	€ 126mn	Apr 2013
Wipro	Cellent	Germany	€ 73mn	Consulting	€ 87mn	Dec 2015
HCLT	Volvo External IT business	Sweden	€ 113mn	Automotive	€ 160mn	Feb 2016
HCLT	H&D International	Germany	£ 30mn	IT Infrastructure and ER&D	£ 74mn	Jun 2018

Source: Companies, PhillipCapital India Research

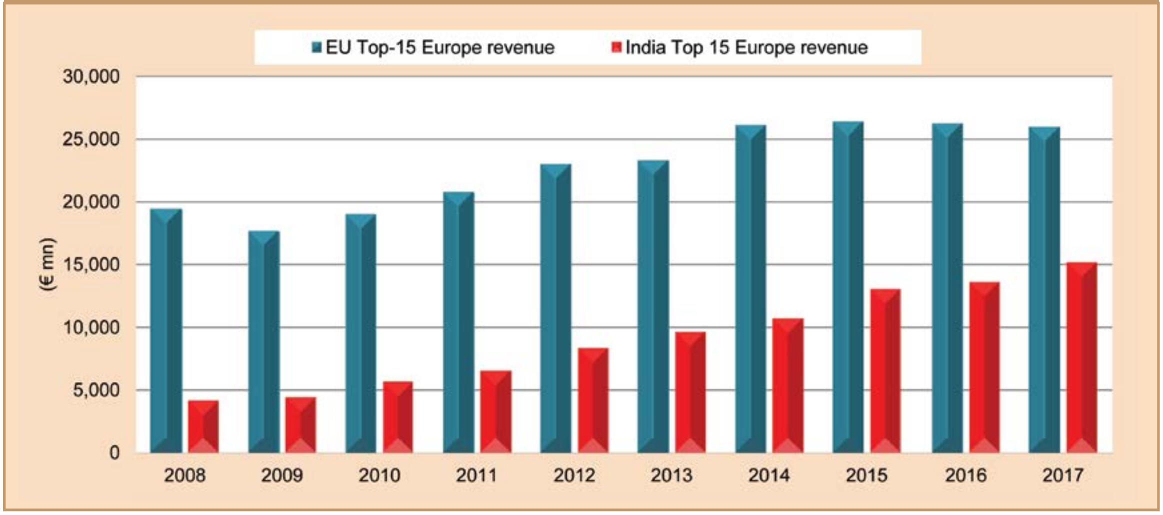
Top-15 Indian vendors have reported strong growth in the last decade - almost entirely organic





Source: Companies, PhillipCapital India Research

Indian vendors have outgrown the European vendors by a BIG margin



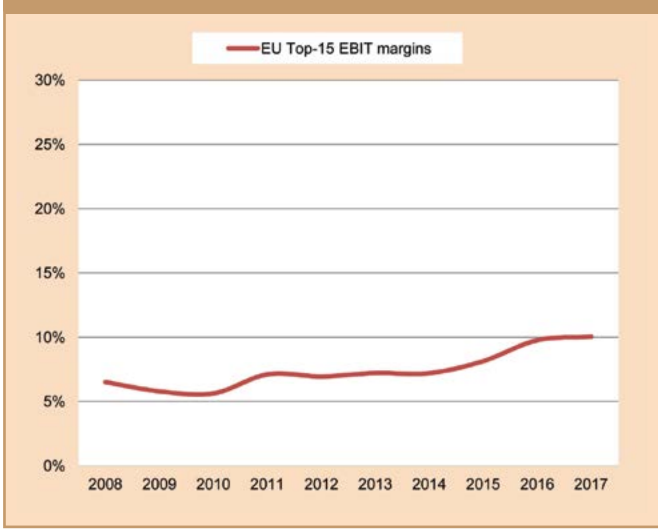
Source: Companies, PhillipCapital India Research

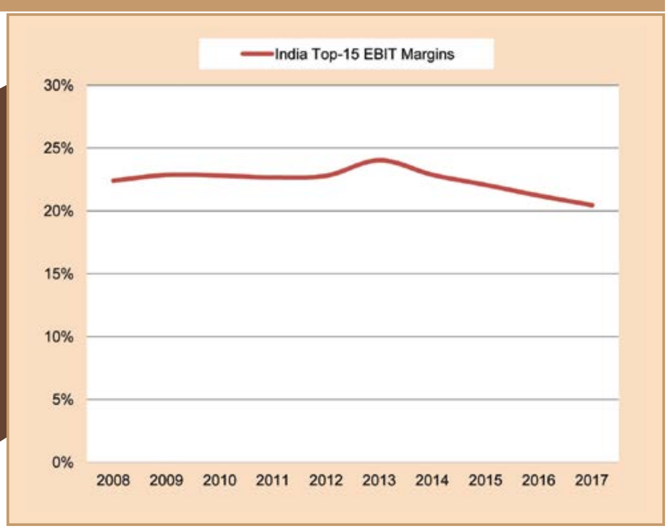
Simultaneously, profitability was also dented

While European vendors struggled to grow and tried to cling onto their fast-diminishing market share, their profitability remained significantly below the Indian vendors. Over 2008-17, consolidated EBIT margins of the top-15 EU vendors remained between 5-10% - expandng slightly due to acquisition of higher margin offshore vendors like iGate. Indian vendors do not provide separate margins for their European business. Assuming that the margins in Europe will not be too different from US/overall margins, top-15 Indian vendors' margins were at much superior levels of 20-25%.

The primary reason for this huge difference is that the European vendors were fighting their battle with wrong weapons. Indian vendors had a low-cost surplus pool of engineers in India at their disposal. This helped them quote much lower costs than European vendors, which were mainly onsite companies deploying high-cost European talent. While the price differential led to rapid growth and market share gains by Indian companies, it also helped them maintain their margins at much higher levels– leveraging economies of scale. And of course, gradual depreciation of the INR (in which offshore employees had to be paid) also helped Indian vendors.

Not just growth, Indian vendors have clocked much superior profitability than Europeans





Source: Companies, PhillipCapital India Research

Indian vendors have vaulted in the ranking tables

Revenue (€ mn)	2008
Accenture	7,848
Capgemini	6,921
Atos Origin	3,773
Altran	1,519
Tieto	1,448
TCS	1,209
Sopra	1,130
Alten	846
Infosys	835
Wipro	775
Ordina	697
EVRY	676
Cognizant	479
HCLT	416
GFT	231
Acando	184
TechM	167
Aubay	161
KnowIT	159
HiQ	144
Mphasis	122
ICT	98
NIIT Tech	72
Bouvet	69
Cyient	52
KPIT	42
MindTree	36
Zensar	22
Persistent	7
LTI	NA
LTTS	NA
Hexaware	NA

Because of the acceleration of Indian vendors and deceleration of European ones, the pecking order completely changed over the last decade. In 2008, only one Indian vendor (TCS) figured in the Top-7 – now there are three. Some sharp movements:

• HCL was ranked 14th in 2008 – today it stands at 8th place

• Tieto was amongst Top-5 in 2008 – today it is out of Top-10

• While Accenture, Capgemini and Atos still occupy the Top-3 ranks (as in 2008), the gap between them and Indian vendors has significantly narrowed.

• Sopra's ranking was boosted its merger with Steria in 2014

Revenue (€ mn)	2017
Accenture	12,488
Capgemini	7,859
Atos Origin	6,775
TCS	4,685
Sopra	3,845
Infosys	2,296
Cognizant	2,122
HCLT	1,999
Alten	1,976
Altran	1,827
Wipro	1,824
Tieto	1,436
TechM	1,258
EVRY	773
Aubay	345
Ordina	345
GFT	299
KnowIT	293
Acando	262
HiQ	192
LTI	180
Bouvet	172
MindTree	161
Cyient	133
NIIT Tech	126
ICT	105
KPIT	98
Mphasis	80
Hexaware	61
Zensar	59
LTTS	56
Persistent	31

Why did this happen ?

The primary reason for this remarkable transformation in the European IT services sector (the shift to the Global Delivery Model) was that most European firms underestimated the strategic challenge that offshore firms posed. They responded inadequately, long after it had become clear to customers that Indian firms not only offered a more attractive price point, but also fundamentally better service.

This is proven by the incremental revenues added by Indian vendors in Europe over the last decade. TCS alone added € 3.5bn of revenues over FY08-17 – only second to Accenture. Even Cognizant, Infosys, and HCL added more revenues than ALL European vendors, adjusted for their acquisitions.

Our discussions with CIOs and other senior executives at leading companies across Europe *(read special section)* have revealed that European firms have not been able to overcome the strategic and structural challenges that have impeded their performance for the better part of the last 20 years. Customers believe the performance gap between European and offshore-based firms has grown and they see European services firms as ill prepared for the increasingly strong competitive pressures that they will face in the years to come from offshore-based services firms.

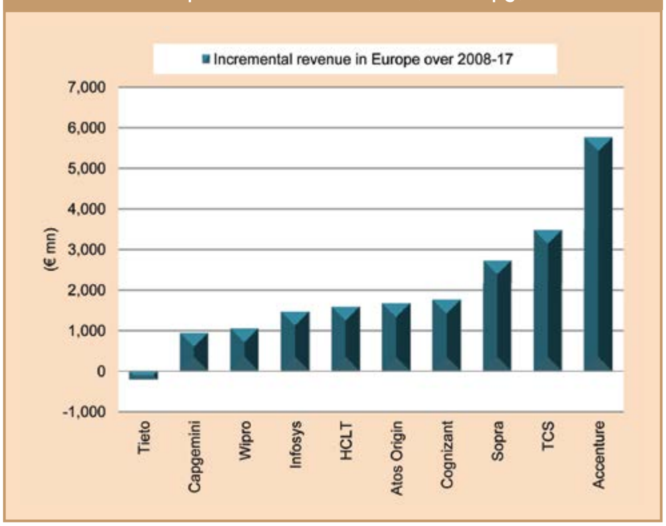
Meanwhile, India as a location for IT capabilities has gained significantly in terms of strategic importance, for many of Europe's largest corporations. Many European companies have now moved significant parts of their business to offshore-based IT services firms and their own captive centres. When it comes to IT services, European businesses are either working with Indian firms or interested in engaging them.

Moreover, the 'India focus' is shifting from gaining a cost advantage to leveraging India as a base for innovation. As the CIO of one of Europe's largest industrial corporations explained: *"We are doing increasingly higher-end work in Bangalore where we are hiring architects and people with experience in data lakes and the digital space. Offshoring for us has undergone a paradigm shift. The quality of talent has improved greatly and we are going into all the areas where the future is".*

This has been appropriately recognized by the stock markets. Over the last 10 years, TCS's market cap has grown by 7x (in US$ terms), and is now within touching distance of Accenture – which is almost twice its size in terms of revenues. In fact, all five large Indian vendors (TCS, Cognizant, Infosys, HCL, and Wipro) today have a marketcap higher than the COMBINED marketcap of top-15 European vendors (excluding Capgemini).

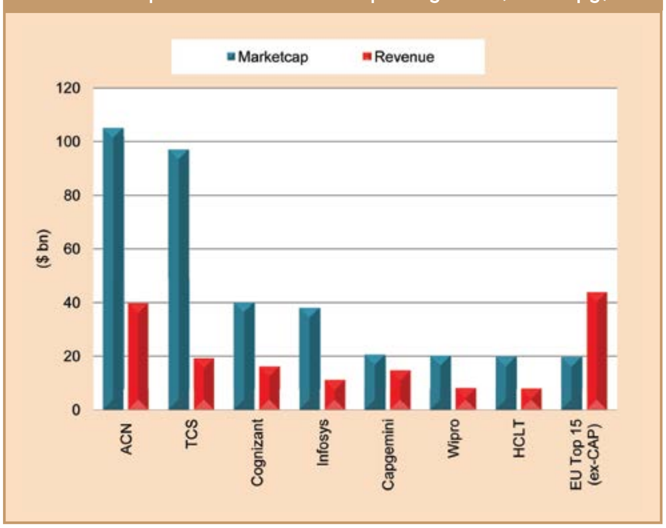
Over the last few years, many European IT services firms have undertaken enormous efforts to transform their operating models – but these have yielded only mediocre results. With few exceptions, these firms have experienced significant market share losses in their home markets, failed to meet their financial goals, and seen their strategic market position erode.

Indian vendors have generated more incremental revenues in Europe than all EU vendors (excl Capg)



Sopra's reveneus include merrger impact of Steria in 2014

All premier Indian vendors, individually, enjoy much higher marketcap, than all EU vendors put together (excl Capg)



Source: Bloomberg, Companies, PhillipCapital India Research

European IT services firms were caught off guard

European firms badly underestimated the competitive threat they faced, believing that offshoring would never grow beyond a niche in Europe. They focused on risk rather than opportunity, which the European press reinforced with an endless number of stories about failed offshore projects.

Lulled by a false sense of superiority, these firms failed to see that the very nature of IT services competition was changing. For example, a 2006 study of German IT services firms found that 92% saw no competitive threat from offshore services firms.

TietoEnator's 2003 annual report expressed an opinion typical of many European IT services firms at the time. Ari Vanhanen, Senior Vice President, Telecom & Media, compared the current interest in moving production to low-cost countries with the eBusiness boom in 1998-99. *"Companies believe uncritically that everyone should operate in the same way. I forecast that this offshore business will find its niche as eBusiness did once the worst hype died down. Certainly not all production will be moved to China or India. We have made careful analyses of operating conditions in various countries and right now we are able to offer the same advantages as low cost countries but with TietoEnator's core strengths – closeness to customers, industry expertise and reliability."*

At the same time, the Indian firms understood that the global IT services industry was going through a much more profound transition. Nandan M Nilekani, co-chairman, Infosys board, said, *"The global IT services industry is going through a major change -- the world is 'flattening' itself. Traditional models are no longer valid and are fundamentally delivering lower quality, with higher costs, delays, overruns, etc. Clients are increasingly dissatisfied with that,* he added. In the end, Nilekani said that *"This is a battle of business models. We believe that at the end of the day we have a disruptive business model that is a threat to the existing business model and older companies will have to reconfigure themselves to look more like us if they're going to be globally competitive."*

The European IT services sector faced a vicious series of interrelated problems

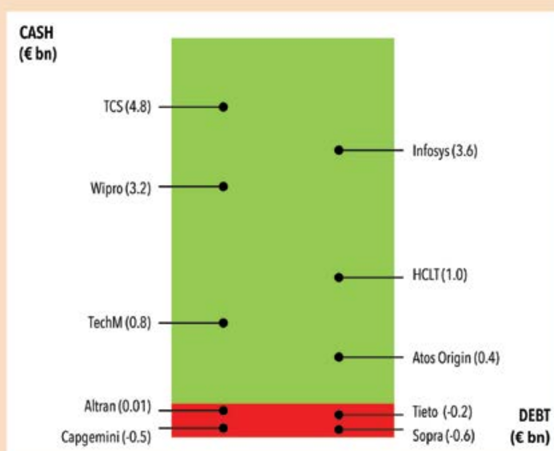
The European IT services sector has faced a vicious series of interrelated problems, many of them self-inflicted. In addition to the more fiercely competitive environment brought on by the shift to the global services model, for which most firms were unprepared, European firms also had to contend with challenges brought about by the European debt crisis and the steep declines in demand driven by the austerity programs that many countries embarked on in response.

Most European IT services firms experienced plummeting volumes and prices, had to digest high impairment and restructuring costs (primarily severance pay), and simultaneously needed to pay retention bonuses and absorb significant salary increases to retain staff, which in turn negated much of the savings from the restructuring. On top of these challenges, some European IT services firms such as Tieto in the Nordics spent many years fixing self-inflicted problems resulting from overly ambitious acquisition-led expansion strategies in the past.

These developments led to enormous top- and bottom-line problems and forced firms to reposition themselves strategically, including delisting and geographic retrenchment. However, they took an incremental restructuring approach, largely because of an ill-timed decision to maintain high dividend payout ratios.

The higher growth and profitability of Indian vendors meant that they were generating significantly more cash, and were sitting on much healthier balance sheets. European vendors, while generating lower cash, invested a lot in acquiring companies across Europe (and the US) to mitigate their declining/decelerating sales. Indian vendors faced no such crunch – they made very few acquisitions in Europe – the top-5 Indian companies made very few acquisitions, of significant size, over the last decade.

Indian vendors have much stronger balance sheets, and are sitting on huge piles of cash



Source: Companies, PhillipCapital India Research

CASE STUDY - 1

The curious case of TIETO

The evolution of Tieto, the Nordics' largest independent IT services firm, has followed a unique downward path.

In 2005, the CEO had forecasted that by 2015, TietoEnator will be a leading global provider of high-added-value IT services and a larger, more international and more profitable company. However, after reaching a peak of € 1.8bn in revenue in 2008, Tieto's revenue began to fall -- and kept on falling.

In the six years between 2008 and 2014 Tieto spent € 285.8mn on restructuring, averaging 2.4% of revenue – most of which it spent on severance pay. Nor is it over yet, although restructuring costs since 2015 have dipped to less than 2% of revenue on average.

In addition, the company incurred significant impairment losses related to scaling back its international ambitions, as management divested most of its operating companies outside the Nordics. While its foreign subsidiaries were all relatively small, their sale was a long-term distraction for the company. In all, the divestitures took five years to complete and most entities were sold at a loss.

Today the geographic scope of Tieto's ambition has been cut back to the Nordic markets. Its modest goal now is "**to become customers' first choice for business renewal as the leading Nordic software and services company.**"

Divestitures

Year	Unit
2010	French
2010	USA
2012	Belarus, Denmark, Italy, Spain
2013	German, Netherlands, UK, Bangalore delivery centre closed

Source: Companies, PhillipCapital India Research

THE CASE OF TIETO VS. COGNIZANT

	COGNIZANT	VS.	TIETO
Headquarters	Teaneck, NJ, USA		Espoo, Finland & Kista, Sweden
Business Model	Offshore Services		Proximity based services
Growth Strategy	Primarily Organic, few acquisitions		Acquisitions. Multiple acquisitions/ divestitures since 2000
Current EU revenue ($mn)	2,400		1,623
Current EU FTE	NA		10752
Revenue/FTE ($)	NA		1,50,949
2008-2017			
EU Revenue CAGR	21.5%		-3.5%
Overall EBIT Margin	18.3%		9.0%
Overall PAT Margin	11.7%		7.0%
Current parameters			
Cash balance ($mn)	5,050		88
Debt ($mn)	873.0		270.0
Leverage (x)	0.1		0.5
Market Cap ($bn)	40		2

Unfortunately, even now, it is still being somewhat unrealistic, as it faces competitors that give customers higher quality offering at a lower cost.

The experience of Tieto might suggest that IT services are just one more European sunset industry. In fact, these are boom times for IT services. Compare their performance against the performance of the Indian vendors, and the true extent of the disaster becomes clear.

From the perspective of a traditional European IT services firm, Cognizant still looked like an underdog. However, a detailed comparison powerfully displays that these companies were operating based on fundamentally different operating models, with Cognizant significantly out-performing Tieto in all relevant criteria (see tables).

Over the next ten years, while Tieto was busy restructuring and retrenching, Cognizant expanded globally and on Tieto's home turf.

In a short time frame of just ten years (2007-2017), Cognizant grew its European revenue by US$ 2.1bn. As of Q3 2018, just Cognizant's European business is now more than 50% larger than Tieto in terms of revenue and twice as profitable.

These facts have not gone unnoticed by investors: Cognizant is now valued at US$ 40bn – a whopping 20x more than Tieto.

CASE STUDY - 2

Capgemini took its hands off the wheel and left Europe to offshore firms

Over the last decade, the firm rankings in the IT services sector have changed dramatically. Looking at global revenue, TCS has now surpassed the largest European firms, Atos and Capgemini.

This is particularly remarkable considering that TCS' revenue growth was all organic, while Atos and Capgemini grew predominantly through acquisitions – and unlike TCS, not in Europe.

Over the last five years, both Atos and Capgemini have made a strategic push to expand their businesses in North America, largely through acquisitions. Capgemini acquired Kanbay (2006) and iGate in 2015. Atos acquired Xerox ITO in 2015 and Syntel in 2018. Expanding their business in the USA was seen by Atos and Capgemini as a strategic opportunity to achieve group-level operating margins in excess of 10%, and additionally participate to a greater extent in a fast growing market.

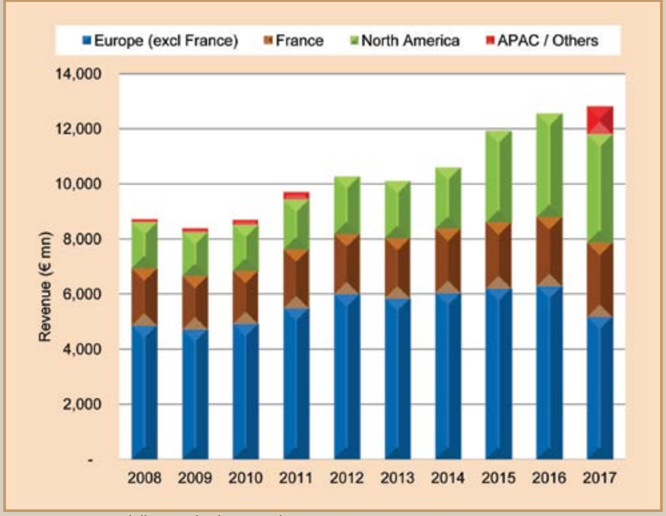
At Capgemini, North American revenue rose to 31% in 2017 up from 21% in 2013, following the acquisition of iGate. Similarly at Atos, North America represented 17.6% of revenue in 2017 versus just 11% five years earlier in 2013.

With the reorientation of Capgemini's revenue toward North America, 70% of the company's revenue growth – in the five years between 2013 and 2017 – was generated in North America, where revenue grew 90%. In Europe, by contrast, the firm's revenue grew 9.6% for the entire five-year period. Despite being a European company, its organic growth in Europe was essentially flat when demand for IT services has been extremely strong.

Even in Europe, Capgemini has fared well, only on its home turf – France. Excluding France, its revenues from other European countries have only declined over the last decade.

In striking comparison, TCS achieved organic European revenue growth of 37% during roughly the same five-year period (FY14-18). TCS added € 1.4bn in new revenue, compared to just €516mn at Capgemini. While the growth TCS created was almost entirely organic, Capgemini's numbers include the benefit of various acquisitions. Much of TCS's growth was achieved in Capgemini's home turf in markets all over continental Europe.

Capgemini's growth has been primarily driven by US



Source: Companies, PhillipCapital India Research

In CY18 too, the performance gap in favour of TCS has continued to grow. It showed 22.8% CC yoy growth in UK in Q2FY19 and 17.4% in continental Europe. By contrast, Capgemini achieved just 1.6% growth yoy (Q3CY 18).

In the case of Capgemini, it seems that the firm's strategic push into North America has apparently led them to take their hands off the wheel in Europe. Atos, too, pursued a similar strategy and has had similar results.

THE CASE OF CAPGEMINI VS TCS

	TCS	CAPGEMINI
Headquarters	Mumbai, India	Paris, France
Business Model	Offshore Services	Offshore Services
Growth Strategy	Strictly Organic	Organic as well as Inorganic
Current EU revenue ($mn)	5,293	7,859
Current EU FTE	NA	1,18,798
Revenue/FTE ($)	NA	72,813
2008-2017		
EU Revenue CAGR	12.4%	1.4%
Overall EBIT Margin	24.8%	11.5%
Overall PAT Margin	21.0%	7.5%
Current parameters		
Cash balance ($mn)	6,600	2,100
Debt ($mn)	0.5	2,760
Leverage (x)	0	0.1
Market Cap ($bn)	116	21

VS.

Where has the fall come from ?

As Indian vendors grabbed market share from European counterparts; they did well in some pockets, but were not able to penetrate others. Geographies such as UK, Scandinavia, and Switzerland were 'conquered' comprehensively, with Indian vendors grabbing large market share from incumbents. Even in regions such as Germany, France, and Benelux, Indian vendors saw decent growth, though language and cultural barriers still inhibited supernormal growth in these regions. Meanwhile, Italy, Spain, and Central Eastern Europe remained highly guarded by local companies and contributed little to the Indian vendors' growth in the European region.

While a deeper look at these regions (individually) follows later, major drivers of growth in these regions for Indian IT firms are as follows:

- The UK market is well entrenched now, and has a sizeable presence of almost ALL Indian IT firms with TCS being the largest with a practice of close to US$ 2.7bn. In the UK, Indian firms have captured significant market share in public-sector contracts (National Rail – TCS, Birmingham City Council – HCL), BFSI (RBS – Infosys, Lloyd – TCS), retail (Marks & Spencer – TCS, De Beers - HCL) and manufacturing (Rolls Royce - TCS, Reckitt Benckiser - Wipro). Use of English as the language of communication and a work culture similar to the US, where Indian firms already have significant presence, helped them expand their presence rapidly.
- On the other hand, growth in Switzerland was largely driven by capturing market share in BFSI (UBS – almost all, Credit Suisse – TCS) and manufacturing (Holcim – TCS, ABB - Wipro) segments. Again, TCS and Infosys have the largest presence in this region amongst Indian vendors.
- Interestingly, Scandinavian countries have seen the rise in penetration of Indian vendors, due to the latter's ability in IMS. Scandinavian companies preferred to test waters by first outsourcing low-risk IMS contracts – later deciding to outsource other critical functions (like CRM, ERP and application development). With its strong capability in the IMS domain, HCL Tech has led the growth in this region for the Indian vendors, followed by TCS and Wipro.

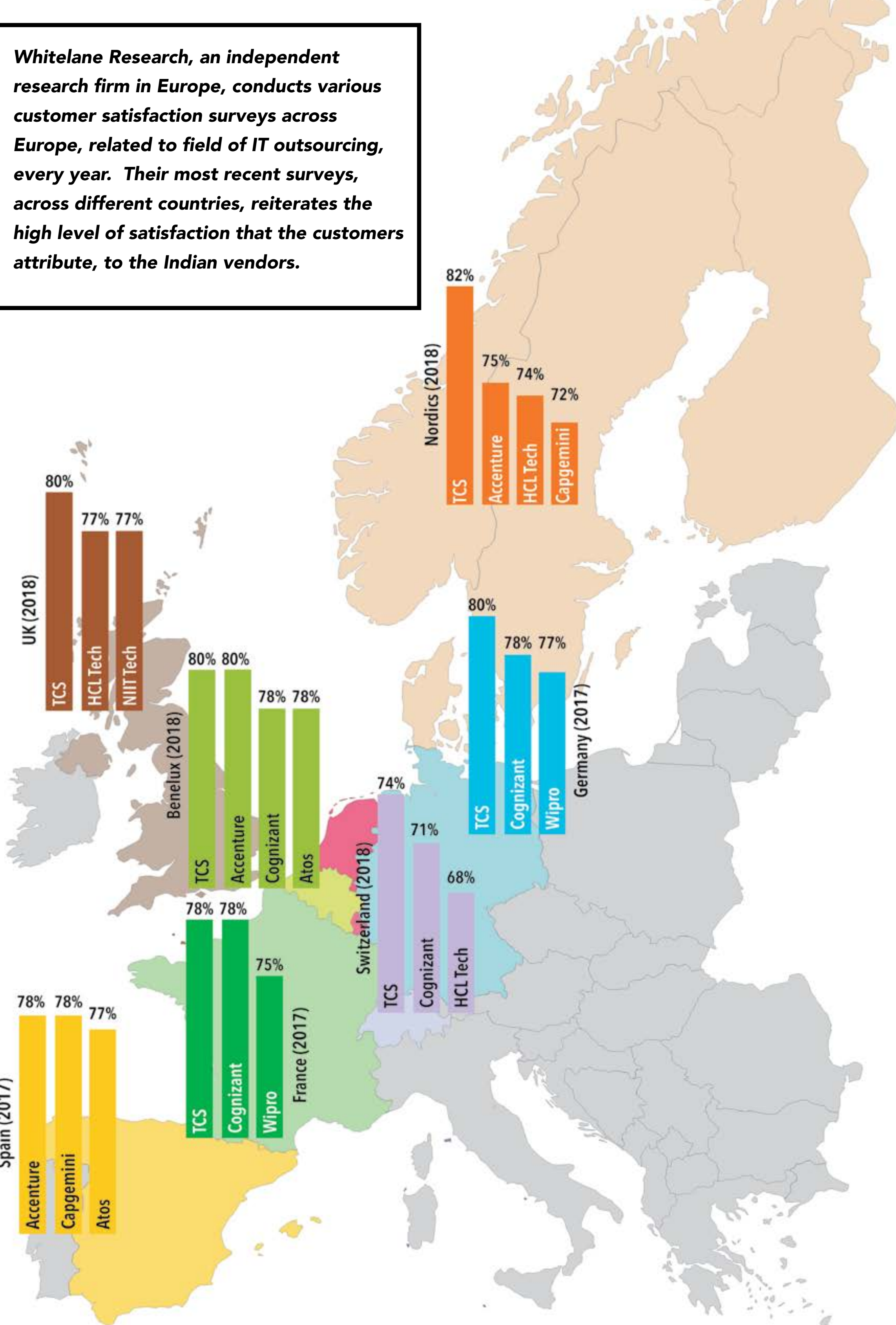
France is the only country where the local vendors have managed to defend their position

Rev (€ mn)	Tieto		EDB		Capgemini		Atos Origin		Sopra	
	2008	2017	2008	2017	2008	2017	2008	2017	2008	2017
UK	-	-	-	-	1,922	1,681	840	1,715	171	-
Germany	-	-	-	-	592	3,478	608	2,251	219	1,418
France	-	-	-	-	2,077	2,700	1,171	1,725	695	2,000
Spain & Portugal	-	-	-	-	449	-	-	-	-	-
Scandinavia	1,448	1,436	901	1,257	578	-	-	-	-	-
Benelux	-	-	-	-	1,303	-	1,154	1,084	-	-
International/Others	417	107	153	428	1,789	4,933	1,553	5,917		
Total	**1,865**	**1,543**	**1,053**	**1,685**	**8,710**	**12,792**	**5,326**	**12,692**	**1,085**	**3,417**

Source: Companies, PhillipCapital India Research

Customer satisfaction ratings too reiterating the same

Whitelane Research, an independent research firm in Europe, conducts various customer satisfaction surveys across Europe, related to field of IT outsourcing, every year. Their most recent surveys, across different countries, reiterates the high level of satisfaction that the customers attribute, to the Indian vendors.



Source: WhiteLane Research

UK – Well 'colonized'

GDP: US$ 2,624bn
Population: 66.7mn
Indian IT companies with a strong presence: All Top-4
Main sectors that can outsource: Retail, Manufacturing
Trivia: UK is the largest outsourcer from the EU region

UK is the second largest economy in Europe (GDP of US$ 2.6tn) and has a fairly distributed market for all industries, from services to manufacturing. Top spenders in this region have opted for outsourcing, and over 50% of the companies have fully outsourced as well as offshored their mission-critical business processes. The top-5 such spenders are – Vodafone, BP, RBS, BT Group, and British Airways (ICA).

UK has been a stepping stone for most outsourcing vendors of Indian and other origins, primarily due to the country's English speaking population and influence of US corporate practices. UK companies, including large government-owned enterprises such as National Rail, were the first companies in Europe to outsource their IT operations. Vendors such as TCS, Infosys, and Wipro started their EU operations from the UK, and gradually expanded them to Switzerland, Germany, France, and Scandinavia. TCS was the first to be selected for offshoring by UK's government/public owned utilities and continues to build a strong brand value among UK's PSUs.

Indian vendors in UK

UK	Revenue ($mn)	Key Clients	Acquisitions
TCS	2,732	Barclays, Lloyds, Rolls-Royce, M&S, Diageo	Unisys Insurance
Infosys	536	RBS, Brit Insurance, Reckitt Benckiser, GSK, London Energy	N.A.
Wipro	806	Allied Irish Bank, British American Tobacco, BP, Bristol Water, National Grid, Carrillion, Chelsea	N.A.
HCLT	627	Jardine Lloyd Thompson, Old Mutual Wealth, De Beers, Manchester United, ASDA	Axon, Point to Point

UK revenues above (wherever unavailable) are inferred using share of revenues in GBP as a proxy

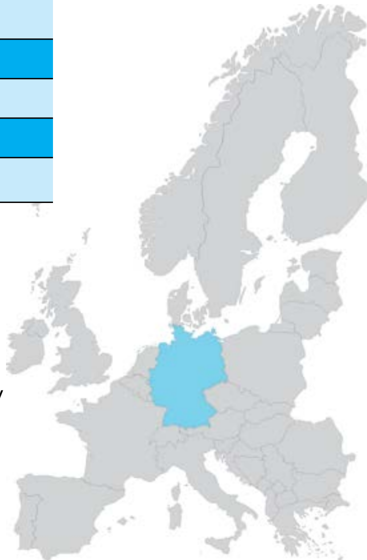
Key clients in UK

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced and/or offshored	Lloyds, RBS, Barclays, Prudential, Aviva	Rolls-Royce, Reckitt Benckiser, British American Tobbaco	Marks & Spencer, Sainsbury, De Beers	Vodafone, BT	GSK, AstraZeneca	BP, BHP, BG, Rio Tinto, Anglo American, National Grid
Companies that are yet to outsource	NA	CNH Industrial	Ryanair Holdings	NA	Hikma Pharmaceuticals, BTG	NA

Source: Companies, PhillipCapital India Research, Various sources

Germany – Meilen zu gehen (Miles to go)

GDP: US$ 3,680bn
Population: 82.3mn
Indian IT companies with strong presence: TCS, HCL Tech
Main sectors that can outsource: Telecom, Manufacturing
Trivia: Manufacturing hub; auto sector is huge but already exploited



With a GDP of US$ 3.6tn, Germany is the largest economy in Europe and a hub for banking, manufacturing (mainly automobiles and aerospace), and capital goods engineering. While a fair portion of the top spenders in this region have outsourced their mission-critical business processes, there is an overall reluctance to offshore. Companies such as TCS, Wipro and Infosys remain strong in the region with large-sized deals and long-term relationships. The top spenders in Germany that are fully outsourced and offshored are – Volkswagen, Daimler, BMW and RWE – mostly automobile OEMs.

German industry is highly scattered across the country. There are over 1,400 companies in Germany with more than € 1bn in revenues spread across hundreds of villages, making it difficult for an offshore vendor to gain economies of scale. Additionally, most German companies have captive IT. Language and cultural hurdles have also been difficult for Indian vendors to overcome, as Germans prefer primary local vendors. However, gradually, with more exposure to the outside world and more Germans now speaking English, Indian vendors are slowly making their entry into this market.

In Germany, the manufacturing vertical – relating to engineering solutions and ADM – remains fairly outsourced and offshored. Also, healthcare companies are bidding for outsourcing a sizeable part of their critical patient-data related operations to large vendors. Verticals such as E&U, TTL, retail, and BFSI have preferred MNCs (not offshoring) or local vendors for managing their IT. Also, telecom companies own large IT subsidiaries, and remain reluctant to outsource/offshore their operations.

Indian vendors in Germany

Germany	Revenue ($mn)	Key Clients	Acquisitions
TCS	470	BNP Paribas, Deutsche Bank, Bayer, Infineon	N.A.
Infosys	441	Deutsche Bank, Adidas, BMW, Bombardier, Daimler, Carl Zeiss Group	N.A.
Wipro	215	Citibank, Bosch, Daimler, Innogy, RWE	Cellent
HCLT	NA	Deutsche Bank, Linde, VW	N.A.

Key clients in Germany

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced and/or offshored	BNP Paribas, Deutsche Bank, Citi Bank	Bayer, Siemens, BMW, Bombardier, Daimler	Deutsche Lufthansa, Deutsche Post, Adidas, Henkel	Telefonica Deutschland	Merck, Celesio, Stada Arzneimittel	E.ON, RWE
Companies that are yet to outsource	NA	NA	NA	Deutsche Telekom	NA	NA

Source: Luenendonk, Companies, PhillipCapital India Research, Various sources

France – Le grand opportunity

GDP: US$ 2,580bn
Population: 65.3mn
Indian IT companies with a strong presence: TCS, Infosys, HCL
Main sectors that can outsource: Retail, Manufacturing
Trivia: Home to the world's largest retail and CPG companies

With a GDP of US$ 2.6tn, France remains a large market for banks, retail, manufacturing, and E&U in Europe. For the IT outsourcing industry, this market is the second largest in terms of potential IT spending (after Germany). Indian top-5 IT vendors have fairly established their presence in the region through partnerships or acquisitions, which helped them mitigate cultural as well as language barriers. The top-5 spenders in France that have fully outsourced and offshored their IT operations are – SocieteGenerale, BNP Paribas, EDF, and Alstom.

French people tend to be very nationalistic, and hence are reluctant to enter into any contract that entails a job migrating from France. Just like in Germany, Indian vendors have found it difficult to overcome language and cultural hurdles in France. However, gradually, with more exposure to the world and more French people now speaking English, Indian vendors are slowly making their entry into this market.

The French IT outsourcing market is of two types: (1) engineering/consulting companies, dominated by local vendors such as Altran, Alten, and other local ERD companies, and (2) IT-oriented companies like Capgemini, Atos, Sopra, ACN, CGI, and IBM. In both segments, Indian vendors are gradually gaining market share – overcoming language barriers through acquisitions or hiring local talent.

In France, manufacturing and telecom remain largely averse to outsourcing. Verticals such as retail, TTL, and healthcare are also generally reluctant to offshore, but are partnered with local vendors for outsourcing. BFSI and E&U giants have been fairly open towards outsourcing as well as offshoring.

Indian vendors in France

France	Revenue ($mn)	Key Clients	Acquisitions
TCS	235	AXA, Airbus, Europcar, Orange, GDF Suez, Nielsen	Alti
Infosys	100-150	Leroy-Somer, Accor, CMA CGM Group	N.A.
Wipro	NA	Michelin, Organce, Saint Gobain	N.A.
HCLT	NA	Aegon, Airbus, Alstom, Volvo, Saint Gobain	N.A.

Key clients in France

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced and/or offshored	Societe Generale, BNP Paribas, Credit Agricole, AXA, Aegon	Airbus, Leroy-Somer, Airbus, Alstom, Michelin, Safran	Europcar, Accor, CMA CGM, LeasePlan, Louis Vuitton	Orange	Sanofi	Total SA, Electricite de France, GDF Suez, Veolia Envi-ronnement
Companies that are yet to outsource	Wendel	Valeo, Thales	Christian Dior, Moet, Kering	Vivendi, Eutelast Comm	NA	NA

Source: Companies, PhillipCapital India Research, Various sources

Switzerland – Like a box of chocolates

GDP: US$ 678.8bn
Population: 8.6mn
Indian IT companies with strong presence: Top-4
Main sectors that can outsource: Healthcare, Retail
Trivia: One of the early adopters of the outsourcing model; largely penetrated

With a GDP of US$ 0.7tn, and being a consumer-driven economy, Switzerland is a major market for CPG, retail, banks, and healthcare companies. Its per capita GDP (at US$ 78.8bn) exceeds that of Germany, UK, and France. Among its top spenders, most companies have outsourced as well as offshored. This is a strong market for Indian IT vendors in terms of offshoring. Top-5 Swiss companies that have offshored their IT operations are – Credit Suisse, UBS, Novartis, and Roche.

Switzerland is becoming one of the major markets for Indian IT vendors – both IT and BPO services. The presence of MNCs and a wider acceptance of the English language (as compared to France) have helped them capture market share in Switzerland at rapid rate. Leading companies in almost all segments (UBS, Credit Suisse, LafargeHolcim, Nestle, Novartis, Swisscom) were early adopters of the outsourcing model, and have deployed local/MNC/Indian vendors. E&U and healthcare verticals are the only ones that are relatively underpenetrated through offshoring.

Indian vendors in Switzerland

Switzerland	Revenue ($mn)	Key Clients	Acquisitions
TCS	NA	Credit Suisse, ABB, Swissport, Novartis	Airline Financial Support Services
Infosys	NA	UBS, Alstom, Firmenich, COOP Group, Novartis, Adecco	Lodestone Holding
Wipro	NA	ABB, Zurich Financial, Philip Morris	N.A.
HCLT	NA	Credit Suisse, Novartis	N.A.

Key clients in Switzerland

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced and/or offshored	Credit-Suisse, PostFinance, UBS, Zurich Financial	NA	NA	Swisscom	Novartis	NA
Companies that are yet to outsource	NA	NA	Cie Financiere Richemont, Swatch	NA	Galenica, Actelion	Glencore Xstrata

Source: Companies, PhillipCapital India Research, Various sources

Scandinavian – The northern lights have been lit

(Sweden, Norway, Finland, and Denmark)

GDP: US$ 1,537.3bn
Population: 26.8mn
Indian IT companies with strong presence: TCS, HCL Tech
Main sectors that can outsource: Telecom, Healthcare
Trivia: Extremely rich but conservative region, largely exploited

Scandinavia has a more diversified landscape in terms of verticals, with the major ones being telecom, manufacturing, and E&U. Significant number of the large companies in the region have already outsourced their IT operations. Many have opted for offshoring, too, along with the SMEs in the region. Most of them have opted for a digital transformation of their existing IT infrastructure. The top-5 spenders from this region who have fully outsourced as well as offshored their IT operations are – Ericsson, Telenor, Statoil, DNB, and Volvo.

Scandinavian companies regularly invest on improving/migrating their technology to achieve cost efficiency and business competencies. As a result, a large proportion of these companies have outsourced as well as initiated RFPs for offshoring contracts. Top spenders in IT outsourcing are telecom, banks, manufacturing and E&U companies. Contracts from this region tend to be long-term partnerships with large TCVs.

Most companies in this region started offshoring using IMS to test waters, which meant that Indian vendors like HCL, TCS and Wipro gained an early advantage. They have capitalized this to gain market share in other domains such as application development, BPO, and CRM/ERP.

Indian vendors in Nordics

Scandinavian	Revenue ($mn)	Key Clients	Acquisitions
TCS	NA	Danske Bank, Electrolux, Maersk, Apoteket, Bonnier AB	N.A.
Infosys	NA	Länsförsäkringar, Atlas Copco, Volvo, Dansk Supermarked, Hafslund	N.A.
Wipro	NA	Assa Abloy, Coop Norway, NSB, Telia, Sanoma	DesignIT
HCLT	NA	DNB, Danfoss, Volvo, IKEA, Carlsberg	Volvo IT

Key clients in Nordics

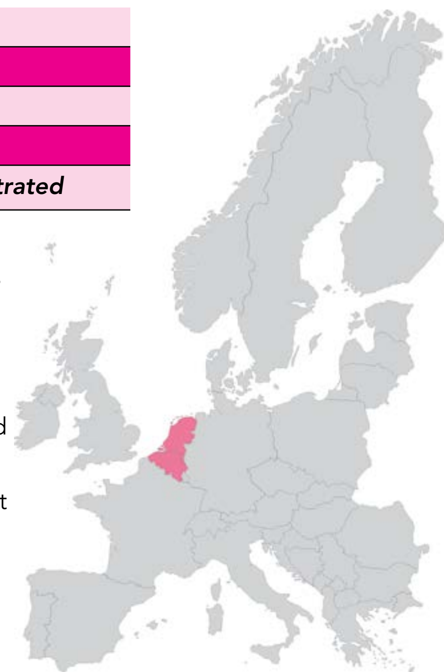
	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced and/or offshored	Danske Bank, Nordea, Länsförsäkringar	ABB, Ericsson, Saab, Atlas Copco, Danfoss, Volvo	Finnair, Maersk, Norwegian Post, Dansk Supermarked, H&M, IKEA	Nokia, TDC, Telia	Apoteket, Novozymes, Novo Nordisk	Fortum, Vattenfall, Statoil, NRGi
Companies that are yet to outsource	NA	NA	NA	Telefonaktiebolaget	Meda	NA

Source: Companies, PhillipCapital India Research, Various sources

Benelux – Small, yet big

(Belgium, Netherlands, and Luxembourg)

GDP: US$ 678.8bn
Population: 8.6mn
Indian IT companies with strong presence: Top-4
Main sectors that can outsource: Healthcare, Retail
Trivia: One of the early adopters of the outsourcing model; largely penetrated



Benelux regions include the richest countries (on per capita GDP) in the Eurozone, with E&U, CPG and technology being the major industries. Large number of the top-spending companies have outsourced their IT operations, while many remain reluctant to offshore. The top-5 spenders from this region who have fully outsourced as well as offshored their IT operations are – Shell, KPN, ArcelorMittal, Belgacom, and ING group.

The region has very few large companies - and most of them are already using offshore services. Among top spenders, majority of telecom and E&U companies have fully outsourced as well as offshored their IT operations. Manufacturing, retail, and CPG have opted for outsourcing, but haven't offshored yet.

Indian vendors in Benelux

	Revenue 2017	Key Clients	Acquisitions
TCS	N.A.	ABN AMRO, Aegon, Albert Heijn, Shell, Randstad,Royal Haskoning DHV	N.A.
Infosys	N.A.	Akzo Nobel, Toyota, TNT, Belgacom-Proximus, Philips	N.A.
Wipro	N.A.	Akzo Nobel, ArcelorMittal, DSM, Shell, DiManEx	N.A.
HCL Tech	N.A.	Aegon, Philips Lighting, CEVA Logistics, LeasePlan	N.A.

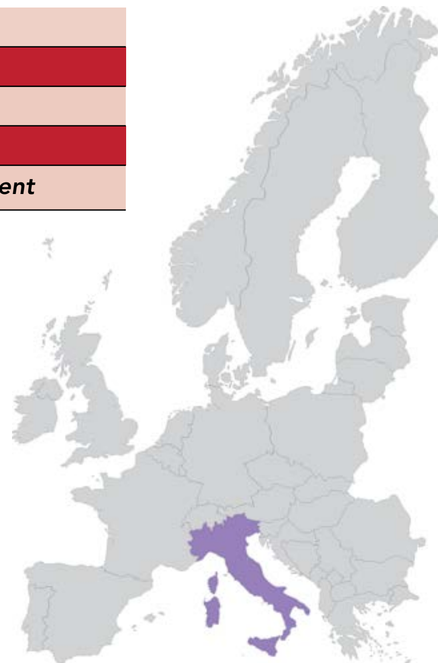
Key clients in Benelux

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have out-sourced and/or offshored	Clearstream, Euroclear, ING	Bekaert, ASML, NXP, Toyota, Philips Lighting, ArcelorMittal	Albert Heijn, Colruyt, KLM, TNT, CEVA Logistics	Belgacom-Prox-imus	NA	Shell
Companies that are yet to outsource	NA	NA	NA	SES	NA	NA

Source: Companies, PhillipCapital India Research, Various sources

Italy – The pizza is not ready yet

GDP: US$ 2,060bn
Population: 59.2mn
Indian IT companies with strong presence: TCS, HCL
Main sectors that can outsource: Manufacturing, BFSI, Telecom
Trivia: Highly underpenetrated market; language barrier is an impediment



Italy has the largest accumulation of utilities and retail in Europe, including public-owned utilities relating to water and other resources. A fair portion of the top spenders in this region have outsourced their mission-critical business processes, but they remain reluctant to offshore. A large portion of the companies are yet to opt for outsourcing. Among the top-12 spenders, none have fully offshored. Indian top-4 vendors have a small presence in manufacturing, retail, and TTL verticals in Italy.

In Italy, a large proportion of SMEs are from the retail vertical – fashion apparels and products. According to industry experts, companies from these verticals are also opting for digital transformation due to a change in their business model from open retail to online retail. This has uncovered a completely new opportunity for Indian vendors, even though the segment is currently dominated by local start-ups.

Among the top spenders from the region, retail, telecom, manufacturing, and healthcare have outsourced their IT operations. On the other hand, many E&U companies (the largest industry) are yet to opt for outsourcing.

Key clients in Italy

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced and/or offshored	UniCredit	Ducati, FCA Group, Ferrari	Luxottica	Telecom Italia	NA	Saipem SpA
Companies that are yet to outsource	Exor	NA	NA	NA	NA	Eni SpA

Source: Companies, PhillipCapital India Research, Various sources

Spain & Portugal / Central & Eastern Europe (CEE)

	Spain	CEE
GDP:	**US$ 1,528.9bn**	**US$ 1,551.1bn**
Population:	**56.7mn**	**82.4mn**
Indian IT companies with strong presence:	**Infosys**	**Infosys, TCS**
Main sectors that can outsource:	**Banks, Telecom**	**BFSI, Telecom, Manufacturing**

Spain & Portugal: With a combined GDP of US$ 1.6tn, Spain and Portugal is a large market for banks and SMEs in Europe. However, the potential IT spend remains very low in the region. Other than banks, very few companies are strategically set for technological changes. Large banks in the region might prefer a change in their legacy systems and would want to shift to a more lucrative IT model – preferably outcome-based contracts. Being pioneers in digital technology services and cloud implementation, there is a greater chance for the Indian vendors to win rebids from these banks. Among the large spenders, only one bank – Banco Santander – has outsourced as well as offshored its IT operations.

Overall, a large proportion of Spanish/Portuguese companies appear reluctant to offshore. Most of the industries (apart from E&U) have either consolidated their IT operations with a large MNC vendor or are in partnership with local vendors. Telecom giants like Telefonica and Portugal Telecom are yet to outsource their networking and IT infrastructure; however, both have outsourced their BPO operations.

CEE: Central and Eastern Europe presents a new opportunity for Indian IT vendors. Within CEE, Austria, Czech Republic, and Hungary form the largest chunk of the GDP. Majority of the companies in these regions have never outsourced, while almost none have offshored their IT operations. The diverse culture as well as language remains a strong impediment for IT outsourcing penetration in these regions. These economically small regions would be the biggest challenge for Indian IT companies.

In fact, the CEE region is also emerging as a competitor for Indian vendors, along with being a potential opportunity. Multiple EU IT vendors (Capgemini, Luxoft, Atos, Sopra) and MNCs (Accenture, ePAM) use CEE as an offshoring destination – competition to Indian cities of Bengaluru and Hyderabad. Employing Eastern European people, available at lower cost than those available in Western Europe, local vendors are able to extract an economic advantage from offshoring. However, availability of talent remains a bottleneck in these regions for it to replace India as an offshoring hub.

Key clients in Spain & Portugal	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced and/or offshored	Banco Santander	NA	NA	Telefonica SA, Portugal Telecom	Grifols	NA

Key clients in CEE	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
Companies that have outsourced/ offshored	Vienna Insurance	NA	NA	NA	Shire, Elan Corp	NA

Source: Companies, PhillipCapital India Research, Various sources

SPECIAL SECTION

Exclusive interaction

with European clients

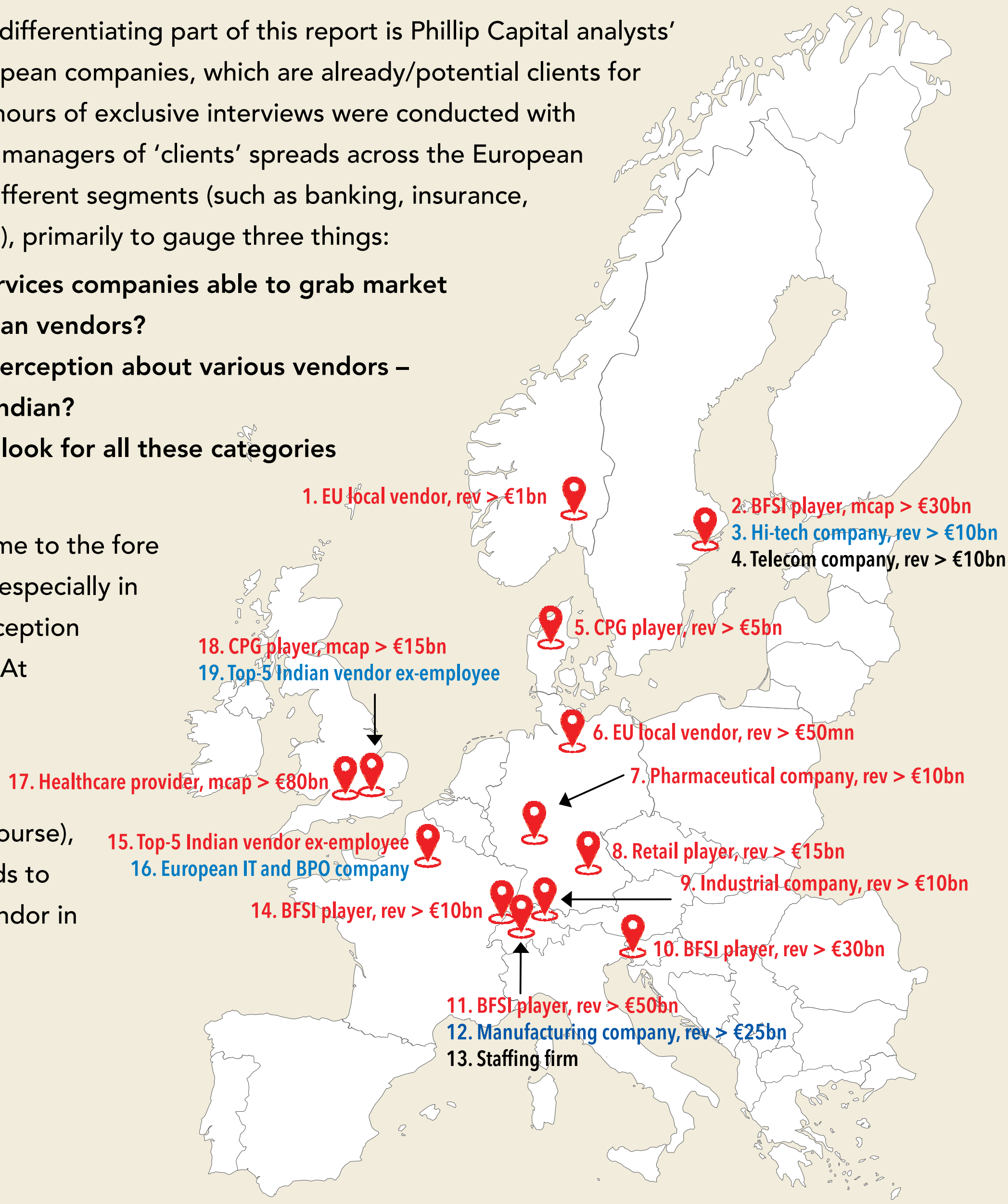
The most important and differentiating part of this report is Phillip Capital analysts' interactions with 20 European companies, which are already/potential clients for IT outsourcing. Over 30 hours of exclusive interviews were conducted with CTOs, CIOs, and vendor managers of 'clients' spreads across the European geography, and across different segments (such as banking, insurance, manufacturing, and retail), primarily to gauge three things:

1) Why were India IT services companies able to grab market share from local European vendors?

2) What is the current perception about various vendors – global, European, and Indian?

3) How does the future look for all these categories of vendors?

Insightful discoveries came to the fore from these interactions, especially in terms of the clients' perception about these companies. At the end, that is what probably matters the most (apart from delivery capabilities of course), and it almost always leads to the success/failure of vendor in clinching a contract.



Key takeaways from the interactions:

Primary reasons behind the failure of European vendors in expanding their business in the European region over the last decade:

- For EU vendors, offshoring, for a long time, remained more as a vendor, than any integral part of their business strategy.
- They continued to believe that EU companies will give them business, even at a premium, because they were 'locals'. What they didn't anticipate was that if the premium they were asking for was high, business would walk out.
- Even while the key pitch of Indian companies was always offshoring, in the early 2000s EU vendors such as EVRY and Tieto would not even mention the word. Surprisingly, even then, the top management layers of these EU vendors were keen on offshoring. However, the next two layers were biased against it, on fears of job losses, employee union protests, etc.
- Later, EU vendors started offshoring to Eastern Europe, thinking that perhaps clients might prefer Europeans over Indian techies. But even in this, since their implementation strategies weren't great, they did not achieve desired results. EU vendors were using outdated models and were reluctant to change their processes/ systems; in short, they were not up to speed with competitors.
- Misguidedly, and for a long time, these EU vendors tried to avoid the 'negative connotation' of working out of India or competing with Indians because they presumed that such actions would get them labelled 'cheap'.
- Eventually, EU vendors had their 'Nokia/Kodak' moment. While they thought that their local EU business would continue no matter what, they ignored the fact that Indian vendors, hungry for growth and market share, were willing to go that extra mile to capture theirs.
- Many countries in Europe still have the '9 to 5' mentality, and hence present no competition for Indian vendors, who offer 24x7 support.
- Capgemini is like a huge company with kingdoms, and has lot of politics inside – the exact opposite of Indian companies.
- European vendors have now been rendered good for only government contracts. They are not deemed good enough to work for top European companies and do not appear to have the ability to support global companies. They do not have any cutting edge technology, are neither digitally perfect, nor are they strategy consultants. What they do have is a footprint for EU/Nordic/CEE delivery – which is not a long-term sustainable advantage.

Primary reasons behind the success of Indian vendors in expanding their business in the European region over the last decade:

- Just no substitute for the kind of hunger the Indian firms have. Europeans just don't have it.
- Indian vendors are much faster in dealing with issues – their response time is significantly lower than European or even global vendors such as Accenture and IBM. Compared to the multi-layered delivery structure of EU vendors, Indian firms have a flexible flat structure, aimed at only one thing – ensuring high levels of customer satisfaction.
- TCS was specifically mentioned for its effort to provide 24x7 support and even bypassing SLAs (Service Level Agreement) to resolve any issue. One example that was cited – when a large BFSI client had a banking problem, TCS solved the problem, despite it not being the cause of it.
- The systems and processes of Indian vendors are far superior to their EU counterparts; their delivery mechanisms are more efficient.

EU vendors tried to avoid the 'negative connotation' of working out of India or competing with Indians because they presumed that such actions would get them labelled 'cheap'

European IT services vendors have no momentum. We don't see European firms becoming more competitive

Just no substitute for the kind of hunger the Indian firms have. Europeans just don't have it

- Indian vendors are succeeding not just because of their cost advantage, but also their access to talent, which EU vendors are no match against.
- Indian vendors are big – hence scale benefits work in their favour. They also have deep industry experience, which is always a key to selecting vendor. Start-ups can make good presentations. However, only large vendors such as TCS can execute and deliver, integrating the old back-end IT.
- The top Indian players are very strong now and it will be almost impossible to dislodge them. European firms have become niche players.
- Indian vendors are also happy to start small (unlike EU companies). This is what most clients want – to test waters with relatively smaller low-risk project. Additionally, Indian vendors are very agile and fast – they get people on site as soon as clients need them.
- **According to one CTO, the four primary reasons for the success of Indian vendors were: (1) language and time-zone compatibility, (2) decent cost arbitrage, (3) unavailability of good technology people in Europe, and (4) Silicon valley being oversold. On point 4 he believed there isn't much difference in the quality of people in Bangalore and in the Silicon Valley.**
- While dealing with Accenture, clients need to have a very strong legal team by their side because Accenture winds contracts tightly and end up charging clients for anything that is not in the contract. On the other hand, Indian companies value integrity and do as much as possible for clients, even if they have not signed-up for it.

Where do the Indian vendors lack or lag behind?

- Indian vendors are constantly growing, but so are local vendors based out of Eastern Europe.
- Indian vendors lack in terms of innovation (despite their so-called innovation labs) even as they remain miles ahead in traditional services such as ADM and IMS. Issues that were cited include 'serious lack of innovation related to how to change the business' and 'no out-of-the-box thinking'. Indian vendors tend to demonstrate only what they've learnt from other clients, and try to replicate (even force-fit) the same solutions for clients.
- Few clients said that they do not rely on Indian vendors for digital solutions and preferred small boutique vendors from Germany, Switzerland, and France for these services. An example cited here – a leading industrial company chose BCG Digital Ventures as its vendor for digital RFP, despite BCG being highly expensive (EUR 3,000/ day for a junior consultant), because it offered a unique experience.
- The clients seem to select a boutique/niche vendor for ideation/change-the-business – for a small period 12 weeks or so. They then tend to use a traditional company for putting the ideas into production.
- The new challenge for Indian vendors is that the work is no longer labour intensive and the resources required are of very high calibre. For digital solutions, one needs people from good institutes. EU clients prefer people from Russia and Eastern Europe, who they perceive to be better in analytics and data mining.
- European companies' employees tend to question things while Indians treat clients like kings (clients can dictate terms). Indian vendors need to change.
- When Indian companies acquire EU/French companies, they want to change them (culturally) into Indian companies – which does not work. Ideally, Indian companies should get locals to head these acquired companies, as these people would understand both cultures and facilitate a smooth integration.

The top Indian players are very strong now and it will be almost impossible to dislodge them. European firms have become niche players

The new challenge for Indian vendors is that the work is no longer labour intensive and the resources required are of very high calibre

Independent of pricing, TCS is better overall than IBM and we are more satisfied with TCS than with IBM

- Accenture is more realistic in its estimates – It charges higher rates, but its FTE is lower (vs. Indian vendors). Indian vendors build a buffer in FTEs and hence end up at similar levels.

Why has TCS emerged as a strong player in the European region?

- Management and team stability – people who started working 12 years ago on a project are still with the company.
- It never tries to bypass proper channels in order to revive/expand its business (few Indian vendors try to sidestep the CIO to get a contract).
- Two very important deliverables that you can expect from TCS are consistency and certainty.
- It is highly competitive cost-wise.
- It is highly flexible with contracts vs. Accenture/IBM who appear to be helping but always "keep the MSA in their back-pocket – ready to read it out to you, if you ask for anything incremental".
- An example: An industrial firm said that it acquired a company in a completely new geography and wanted to integrate its IT. TCS did not have a presence in that region, but promptly set up a temporary delivery centre and helped integrate the systems quickly.
- It has best of both the worlds – formidable size + an energetic workforce. On the flip side, TCS will only do what you tell it to do; Accenture, on the other hand, will have some strategic view and is generally able to impress the management more.
- TCS focuses on delivery, while others on selling. Other vendors give up margins for marketing, while TCS does that for delivery.
- TCS offers a very compelling proposition – has platform-based approaches, is bold and aggressive, and willing to make significant investments for its clients.
- Its investment in Diligenta is playing out well – it appears ready to take the risk of migrating a large number of policies.
- A company said that it is a small client for TCS, and yet Mr Rajesh Gopinathan (TCS' CEO) has met its CTO twice in the last six months – demonstrating personal commitment. The client was also impressed with the fact that TCS wasn't too pushy about increasing business and was happy maintaining the relationship – assuring the client that it is there for them, whenever needed. This demonstrates the quality of the management team.
- TCS and Cognizant might not have the same vertical industry experience and the look-and-feel as Accenture, but they still get work done at much affordable prices. Accenture can be very unaffordable sometimes.
- **TCS was the first Indian vendor to come to Germany in 1985; others came only after 2000. Gradually, TCS has built a base of 600-700 German resources. Still, almost 80% of TCS' German revenues come from only 10 clients, which are large companies such as DB and Siemens.**
- TCS is very stable, focused on efficiency and delivery – but lacks creativity and vitality.
- *According to one client, TCS benefits from four factors in clinching deals: (1) It makes investments way before the cycle starts by nurturing relationships, (2) it has proactive thought leadership, (3) it runs a disciplined accounts team, and (4) it does not chase illusions, does not let itself get distracted, and maintains focus.*
- TCS offers a depth of intellectual capital that I haven't seen at any other company – except for Accenture
- Independent of pricing, TCS is better overall than IBM and we are more satisfied with TCS than with IBM.

TCS offers a depth of intellectual capital, not seen at any other company – except for Accenture

How does Infosys fare in terms of perception and capabilities?

- The Lodestone acquisition, while giving Infosys access to EU clients, was not properly integrated. After 2015, when the earn-out period for Lodestone ended, almost 500 Lodestone employees left Lodestone, including the founder. The promoter was reportedly frustrated with Infosys' management's excessive focus on costs and only costs.
- Infosys has repeatedly toyed with the idea of growing its consulting division, trying to rise up the strategic ladder. However, the company hasn't been able to do this or even become successful with IP development (with a few exceptions). In its most recent management transition, the company has simplified its strategy and decided to reduce its IP/consulting ambitions.

There appears to be too much turbulence in Infosys and a perceptible change in fundamentals

- There appears to be too much turbulence in Infosys and a perceptible change in fundamentals. The new CEO is a good person, but perhaps not as charismatic and impactful as Mr Nandan Nilekani or Mr Vishal Sikka. The stability of the vendor plays a very important role. Infosys might just have lost the battle in that turbulence.
- On the other hand, TCS' change of CEO – from Mr N. Chandrasekharan to Mr Rajesh Gopinathan – was absolutely seamless – same people, who were servicing earlier remained and continued to speak the same thing as before.
- Earlier, during NRN's term, many people in Europe left Infosys. The departure of Mr. BG Srinivas, specifically, was a big blow to its business.

HCL is doing well in the EU, especially in the IMS domain. Axxon and Volvo acquisitions have performed well for HCL

Cognizant has also been very strong in Europe. It appears capable of balancing the India efficiency and local business forefront

What about other vendors like Cognizant, Wipro, and HCL?

- Cognizant has also been very strong in Europe. It appears capable of balancing the India efficiency and local business forefront, because it has acquired many local companies. It also has a strong digital footprint.
- HCL is doing well in the EU, especially in the IMS domain. Axxon and Volvo acquisitions have performed well for HCL. Even the recent IBM IP of Lotus notes – they appear to be making good money out of it.
- Mr Vineet Nayar has really handled HCL's business well. Mr. C VijayaKumar (the current CEO) appears to be a good leader, though he lacks Mr Vineet's charisma.
- Wipro has not been able to capitalize on the opportunity. It did well in few healthcare accounts in the region initially, but then seems to have lost its way.
- Wipro hasn't been able to define its differentiator – what is Wipro really good at? Is it delivery, or client connect? BPO, application, IMS, or ERD? It has spread itself too thin across the spectrum.
- But Wipro has very high standards of integrity, leading to very high levels of trust with clients. It is known to have zero tolerance for integrity issues; the company will sack employees found in violation immediately.
- The recent acquisition of Appirio by Wipro was a good one. Appirio is in a leadership position, has a unique pricing model, and, for a change, its integration has been handled properly by Wipro's management.
- However, overall, Wipro/HCL tend to oversell and under-deliver.

Wipro has very high standards of integrity, leading to very high levels of trust with clients. It is known to have zero tolerance for integrity issues

- KPIT is very strong in the auto domain, especially on the embedded electronics (software side). It boasts of engineers who are very strong technically and very well appreciated.

ERD domain

- Indian vendors started with digitisation of drawings and testing will gradually move up the value chain. They are now coding algos for embedded systems.
- Indian vendors are strong in IT, but weak in design – they can write an algo, but are weak in system engineering. For system issues, good design capabilities are required. This is why Altran/Alten have been able to maintain market share.
- The problem with Indian vendors is that they want to put Indian people in the front office. This does not work in the EU (especially in Germany/France and more so in ERD domain). It has to be a local who knows the language and who has the patience to explain.

Indian vendors were able to gain market share from Accenture (who was described as carrying the MSA in its back-pocket) and from IBM (who was said to bring a lawyer along to negotiation meetings).

- Overall, Indian companies are still making significant inroads in the domain with their pool of engineers. Schneider Electric, which even Accenture wasn't able to crack, is working with Tata Elxsi.

Language barriers still loom large, especially with smaller companies – the Indian vendors have not been able to tap into them much

What are the challenges that Indian vendors still face that can prevent them from growing further?

- Language barriers still loom large, especially with smaller companies – the Indian vendors have not been able to tap into them much.
- In mid-size and large-size companies, where English is the language, Indian vendors have done remarkably well.
- Also, once the initial barrier is broken, Indian vendors start introducing Indian colleagues into the system, driving up efficiency and delivery.
- GDPR in the UK and Scandinavian countries can be a potential dampener – it limits the personal data that can be put outside the EU region. However, Indian vendors are trying to circumvent this by setting up near-shore centres (e.g., TCS in Budapest).
- Switzerland has a very similar geography as the US. Swiss companies have the same way of sourcing staff, a high share of English-speaking staff, and a similar way of looking at Indian companies (positive).
- At many companies, incumbent local EU vendors have long-standing (15-20-30 years) relationships; and it is difficult to displace them unless they falter substantially.
- There is still a certain hesitancy in the EU (especially in Germany) to work with Indian vendors.
- Some of the pan-European companies have a federated structure, with each country deciding on its own IT vendors. Managements of German/French/Italian units still prefer their own local vendors.
- HR teams of European companies remain the biggest impediment to offshoring; it is hard to convince them (strong business case needed) to fire existing employees.
- Company from a non-first-language English country – servicing a client in another non-first-language English country – is always a big hurdle to cross.
- Most Europeans find India a difficult place to live – this translates into a reluctance to outsource to the country too.
- **An interesting admission from a key client – the challenges with Indian vendors are actually of our own making. Earlier, we used to tell them to just implement the task and NOT ask any questions. Now we want them to ask questions and they are struggling.**
- Indian companies' culture of listening to one's boss or client is becoming a problem for them. Now that cost arbitrage is no longer that relevant, inputs matter. Indian vendors need to find another source of value creation (other than reducing body counts or lowering the rate).

GDPR in the UK and Scandinavian countries can be a potential dampener – it limits the personal data that can be put outside the EU region

Company from a non-first-language English country – servicing a client in another non-first-language English country – is always a big hurdle to cross

Germany and France

- Germany and France are very difficult geographies to conduct business in. They have strict data restrictions and their cultural and language challenges are very different from those in the UK or in Switzerland.
- Managements in Germany/France do not TRUST the results from India-based vendors. They believe that Indian vendors will deliver on time, but the solution delivered won't work. This is why most managements want to work with local vendors.
- German industry is especially scattered across the country; one out of almost every 3/4 villages has a company with more than € 1bn in revenues. There are over 1,400 companies in Germany with more than € 1bn in revenues, making it a very scattered market. Therefore, it is difficult for an offshore vendor to gain economies of scale. Additionally, most German companies have captive IT.

French people tend to have high nationalistic sentiments, and hence are reluctant to enter any contract that sees any job migrating from France to any other country

- This is why only some large German conglomerates such as DB and Deutsche Telecom are the only companies that have outsourced. Even Volkswagen joined the bandwagon only five years ago.
- Germany is also a difficult geography as it has mainly manufacturing companies (which tend to spend only 1-2% of their revenues on IT) as compared to BFSI companies in UK/Switzerland (that spend ~40% of revenues on IT). There is very little investment banking in Germany – most of it is run from London.
- But gradually, other smaller German companies are giving offshoring contracts and considering Indian vendors.
- In the 2006 FIFA World Cup, Germans interacted with different people across the world, which perhaps enhanced their desire to open up. Even so, senior managements of most German organisations do not know how to speak English yet.
- Things are changing though – the new generation is learning English and is more open to globalisation. Vendors are also trying to front local people and training themselves in German.
- Overall, Germans don't like outsourcing – they want to keep everything in-house.
- French people tend to have high nationalistic sentiments, and hence are reluctant to enter any contract that sees any job migrating from France to any other country.
- The French IT outsourcing market has two types of companies:
  - o Engineering/consulting companies that typically grow by 4-5% annually and employ ~120,000 employees. Almost 50% of the market is captured by Altran, Alten, and other local ERD companies.
  - o IT-oriented companies such as Capgemini, Atos, Sopra, ACN, CGI, IBM. This would be € 25-26bn, growing at annual rate of ~3%, employing more than 200k FTEs. It is a highly fragmented market, difficult to penetrate.

Pricing – Accenture is 10-20% more expensive than TCS (significant for a large contract)

Future for Indian vendors in Europe?

- There is still significant room for Indian vendors to grow. No saturation yet, especially in Nordic countries, Germany, and France.
- Offshoring penetration in the whole of Europe currently is not be more than 10% and can easily rise to 30%, which represents a 3x opportunity.
- Many EU clients are already sold on the idea of offshoring and employing Indian vendors and don't need any further persuasion. For other clients, especially those yet to test waters, Indian vendors just need to put a better value proposition on the table.
- Indian vendors are ahead of the game when it comes to technologies such as analytics, integration of mathematics, coding, and use-cases. Indian people are perceived to be better at maths and data analysis, but a

The perception about India and Indian vendors needs to change. People still believe Indian vendors have engineers working out of mud huts. More people should visit Bangalore and Hyderabad, and see the grand scale and competence level of Indians

Offshoring penetration in the whole of Europe currently is not be more than 10% and can easily rise to 30%, which represents a 3x opportunity.

The Indians are beyond the cost proposition (that is considered a given). They now compete (and need to compete) on strategic inputs and partnership-based models.

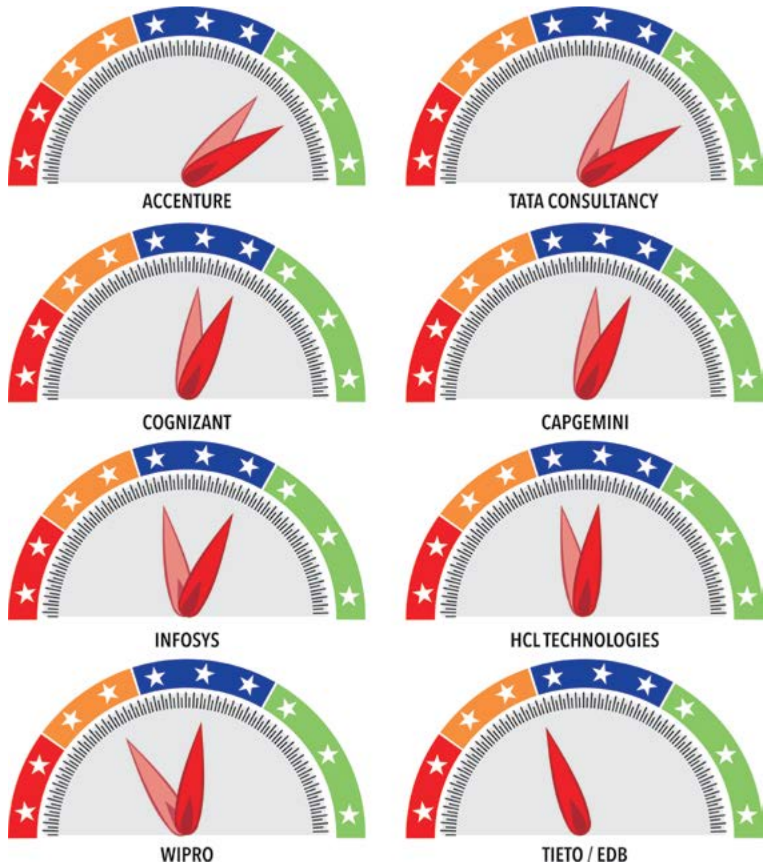
bit weak in use-cases and domain expertise.

- They are beyond the cost proposition (that is considered a given). They now compete (and need to compete) on strategic inputs and partnership-based models.
- They would do well to utilise some cash on their balance sheets to make acquisitions in Europe in order to break cultural and language barriers. The most important aspect, however, remains integration – where their track record isn't very impressive.
- Indian vendors have moved up the value curve; they are now competitive in digital, strategic, and automation fields.

Rating/tiering of vendors

- Accenture, TCS are the preferred vendors – they have by far, the deepest, broadest and best capabilities.
- Capgemini had been a preferred vendor, but is now significantly behind Indian vendors.
- Infosys/Wipro – Are considered weaker among the Indian vendors. Infosys' recent management problems have hurt the company
- HCL Tech has a lot of credibility in the IMS space, but is considedered weaker in ADM space.
- Cognizant is generally perceived well in Europe.

The ratings below are a consolidation of ratings, given by various clients we spoke to, on various performance parameteres like perception, capabilities and delivery. The ratings are individual opinions of the people who gave them, and are boound to vary, from person to person.



TCS – Cynosure of all eyes - leaving no stone unturned

TATA
TATA CONSULTANCY SERVICES

TCS has had a remarkable run in Europe over the last decade. From US$ 1.5bn in revenue from the region in 2008, the company now generates over US$ 5bn. Over the last few years, the company has not only cemented its place as a leader in the region, but has also established a reputation of being a highly professional and customer friendly vendor – ready to help the client in whatever manner it can. Its capabilities in the region are considered at par with Accenture and other global vendors, and most clients are either working with or want to work with TCS as their vendor.

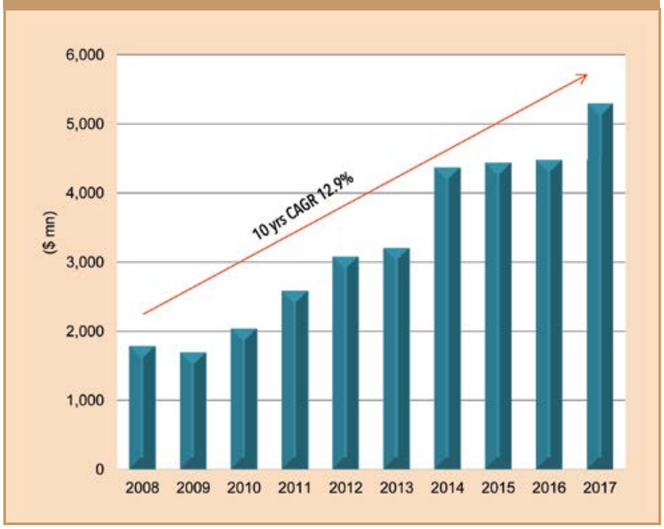
TCS started its European business with operations in the UK by initially securing government contracts. It then gradually expanded to private clients. Its strong capabilities in the BFSI space helped it spread its footprint into Switzerland and Scandinavia, and its manufacturing prowess helped it in France and Germany. Notably, TCS expanded its operations in Europe almost completely organically – making just one small acquisitions (Alti, France, 2013, € 126mn revenues) along the way.

A very interesting detail that surfaced from interactions with various clients in the European region was how TCS had 'graduated' from a low-cost offshore vendor to one perceived as being able to be a 'strategic partner'. A decade ago, most clients would classify IBM and Accenture as tier-1 vendors and TCS/Infosys/Wipro/Capgemini at tier-2. Today, almost ALL clients put TCS and Accenture at par as tier-1, which is a remarkable elevation in TCS' perception.

Every single client lauded TCS for its professionalism and customer connect, and the manner in which it is always ready to travel that extra mile to help its clients. Conversely, the perception about Accenture and IBM is that they 'walk with their MSAs in their back pocket', jumping to charge clients for anything outside the MSA's scope. Infosys/Capgemini and other European vendors remain distant third choices for almost all clients for outsourcing.

Going forward, TCS is likely to further strengthen its position in the European region based on its all-round capabilities, digital prowess, and superior customer perception. Some of the large deals that it recently won (Marks & Spencer, Lloyd, Prudential) are testimony to its growing influence in the region.

TCS Europe revenue



TCS has not made any acquisitions since Alti in 2013

Acquired company	Country	Consideration	Segment/Vertical	Revenue	Time
Alti	France	€ 72mn	Enterprise Solutions, Analytics	€ 126mn	Apr 2013
Unisys Insurance Services	UK	NA	BPO	£ 42mn	Jan 2013

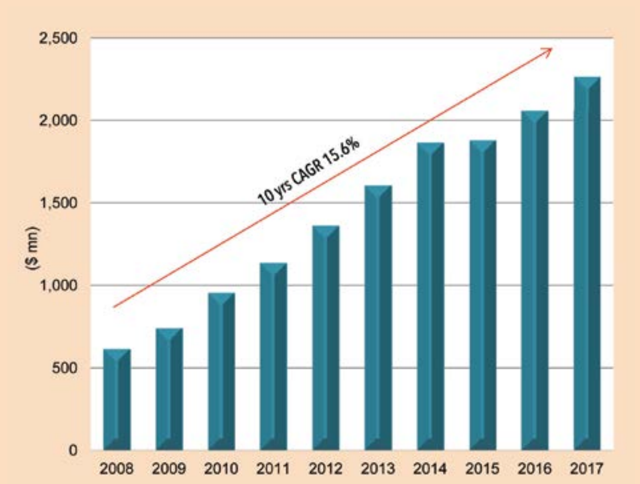
Source: Companies, PhillipCapital India Research

HCL Tech – Using IMS to open the doors, and getting through them

HCL Tech in Europe, surprisingly, has exceeded everybody's expectations and performed much better than ALL other Indian peers (including TCS). Over the last decade, its revenues from Europe have quadrupled from € 600mn to € 2.3bn – a CAGR of 15.6%. In comparison, TCS' CAGR was 13%, while Infosys/Wipro clocked 8.7%/6.8%. All along, it captured market share from local European vendors such as Capgemini and Atos, and global behemoths such as IBM.

HCLT's growth in Europe was driven by its expertise in IMS. The company cleverly used this relatively 'low-end' offering to get a foot in the door with the 'reluctant to outsource' clients in this region. Just like TCS, it first established its presence in the UK, and then expanded into Scandinavia and other European countries.

HCLT Europe revenue



A key reason for HCLT's strong growth in Europe (and US) over the last decade was its capture of market share in the IMS business, especially from IBM. A large number of IMS contracts came up for renewal between 2005 and 2015 across Europe. Most clients were not satisfied with the services provided by the incumbent (especially IBM); they thought they were being charged excessively for a relatively low-end job. While reluctant to the idea of outsourcing, European companies were relatively comfortable testing waters with outsourcing this 'low-end low-risk' work of infrastructure management. HCLT grabbed the opportunity with both hands, and expanded its clientele through this route. Upselling ADM and other outsourcing services still remained a mountain too steep for it to climb.

However, going forward, HCLT appears to be in a slightly precarious situation in Europe. Its expansion, driven by its IMS prowess, is now under threat with cloud services providing an even cheaper and more efficient alternative to IMS contracts. Moreover, since it was never able to establish any formidable presence in the ADM or enterprise application space, the future looks uncertain for the company. While it continues to do well in the ERD space, and is currently the third largest ERD vendor in the world (behind European counterparts Altran and Alten), its ERD expertise is unlikely to help it to salvage or expand its standing in the regular outsourcing domains of ADM/Enterprise/IMS.

HCLT has made multiple acquisitions in Europe

Acquired company	Country	Consideration	Segment/Vertical	Revenue	Time
Axon Group Ltd	UK	£ 441mn	SAP	$ 378mn	Dec 2008
Volvo External IT business	Sweden	SEK 1130mn	Automotive	$ 175mn	Feb 2016
Point to Point	UK	$ 11mn	Desktop and Application Virtualis-ation space	£ 8.5mn	Jan 2016
H&D International	Germany	£ 30mn	IT Infrastructure and ER&D	£ 74mn	Jun 2018

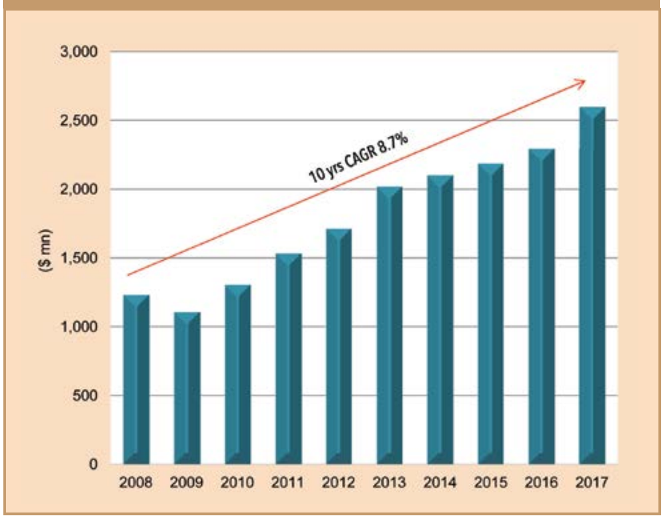
Source: Companies, PhillipCapital India Research

Infosys – Management stability surfacing as a key concern

Infosys, too, has had a commendable run in Europe over the last decade. From less than US$ 1.2bn revenue from the region in 2008, the company now generates US$ 2.6bn from the region – a CAGR of 8.7%, second only to TCS and HCLT in the region. It has been able to successfully leverage the brand equity it created from starting as almost a garage enterprise by four engineers to its current form as a professional multi-billion-dollar multi-national company.

Infosys established its presence in the European region based on its success with US-based clients. Its first few clients in the EU were primarily multinational companies with English speaking management. It built up from there, entering UK, Switzerland, Germany, and Scandinavian countries. It has been particularly successful in manufacturing and retail segments, delivering enterprise application and ADM solutions.

Infosys Europe revenue



However, interactions with multiple clients showed serious concerns among existing and potential clients about the stability of Infosys' management. Over the last four years, the top management has witnessed high level of instability – with the company getting its fourth CEO in four years. Over this period, it has lost scores of senior management people and its attrition level remains alarmingly high at 22%. Most companies seemed impressed with what Infosys has achieved in Europe, and its delivery capabilities, but remain concerned about the top-management's stability and fear that this would negatively affect delivery.

Also, while most investors/analysts tend to compare Infosys with TCS, putting them on similar terms, we noticed that NONE of the clients reciprocate this feeling. ALL clients preferred TCS (along with Accenture) while Infosys came in a distant second (or third, in some cases). In early 2000s, Infosys appeared to be within catching distance of TCS, with the gap between the two – both in terms of size and perception – continuously narrowing. However, the turmoil of the last half decade has widened the gap, perhaps more than it ever was.

Infosys has been making strategic acquisitions in Europe

Acquired company	Country	Consideration	Segment/Vertical	Revenue	Time
Lodestone Holding AG	Switzerland	$ 350mn	Consultancy	$ 210mn	Sep 2012
Brilliant Basics	UK	£ 8mn	Digital Consultancy	NA	Aug 2017
Fluido	Nordics	€ 65mn	Salesforce	NA	Sep 2018

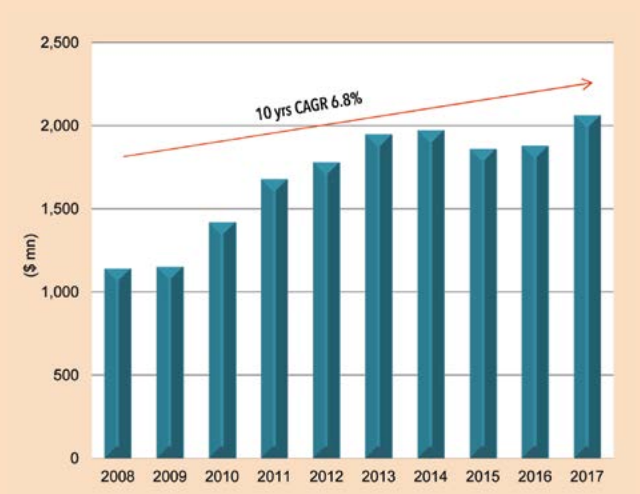
Source: Companies, PhillipCapital India Research

Wipro – Will the string of pearls strategy payoff - again ?

Wipro has had a phenomenal run in Europe over the last decade, although on a smaller base, even after accounting for its lacklustre performance in the last five years. From US$ 1bn revenue from the region in 2008, the company now generates US$ 2bn – a CAGR of 6.8%. However, over the last five years, it has struggled, clocking a CAGR of only 3.2%, which is in line with its toil in other geographies.

Wipro followed a rather unconventional route for its Europe expansion – the inorganic one. Through 2008-17, the company acquired three companies in the region – an offshoot of the 'string of pearls' strategy. This strategy helped the company break the language and cultural barriers in Germany and Scandinavian countries.

Wipro Europe revenue



However, in terms of capabilities, most clients consider Wipro relatively behind other Indian and local European vendors. Multiple clients currently working with Wipro were not satisfied with the level of delivery and capabilities. Those not currently working with Wipro did not show any proclivity towards working with it.

Most clients pointed to Wipro's overall relatively weaker delivery capabilities. However, its capabilities in the ERD space were considered to be at par with the best, and in this domain, clients remained quite content with its performance.

Going forward, Wipro might struggle to maintain its growth momentum in Europe. Its perception – about having weak delivery capabilities – is likely to inhibit its growth, aiding other vendors to grab larger market share. Even its recent acquisition of Celent hasn't played out well for the company due to integration issues.

Wipro has made multiple acquisitions in Europe

Acquired company	Country	Consideration	Segment/Vertical	Revenue	Time
NewLogic Technologies AG	Austria	€ 56mn	Semiconductor design	€ 54mn	Jan 2013
ATCO I-Tek Inc	Canada	€ 195mn	O&G	€ 112mn	Jul 2014
DesignIT	Denmark	€ 85mn	Design	€ 27mn	Jul 2015
Cellent	Germany	€ 73mn	Consulting	€ 87mn	Dec 2015

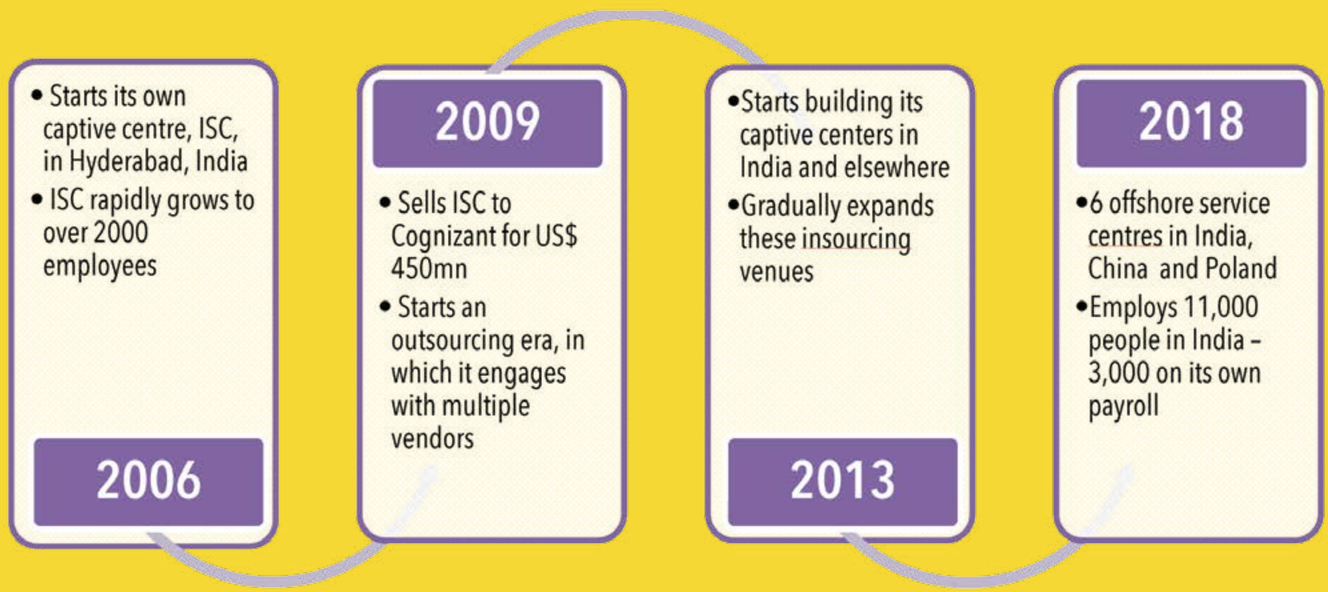
Source: Companies, PhillipCapital India Research

UBS remains a key BFSI client for almost all IT vendors across the world. It has been, by far, one of the largest and most diversified clients for the outsourcing industry. It has had a long and interesting history of outsourcing.

UBS CASE STUDY

- UBS started its own captive, ISC (Indian Service Centre), in Hyderabad in 2006 – which rapidly grew to 2000 employees, providing services which were not yet commercially available in the market then.
- Later, as a shift in strategy to "BUY" rather than "BUILD" it sold the ISC to Cognizant in 2009, for US$ 450mn.
- The sale marked the start of the next stage in the development of the UBS offshoring and outsourcing strategy – where it engaged it various vendors across the world.
- Today, UBS, has multiple IT outsourcing vendors on its rolls – Accenture, Cognizant, Infosys, Wipro, HCL Tech, Luxoft and ePAM.
- In 2013, it quietly began building up its own capacity in India and elsewhere. Today, 11,000 people work for UBS in India – with 8,000 employed through external providers, and 3000 on its own payrolls.

The flip-flop of UBS' outsourcing strategy



UBS is a key client for multiple vendors

Source: Companies, PhillipCapital India Research, Various sources

Current scenario

UBS remains a key account for many vendors. For Wipro and Luxoft, it is one of their top clients – while it contributes a substantial share of revenues for Cognizant and ePAM. Accenture and Infosys too, derive decent share of their BFSI revenues from UBS.

- **Luxoft:** UBS contributes ~18% of revenues for Luxoft – though the revenue has been coming down over the past 10 quarters, as a result of UBS focussing on more insourcing.
- **ePAM:** UBS contributes ~10% of revenues for ePAM, which has declined from over 13% in 2016. Last year, UBS extended a $300mn contract with ePAM.
- **Wipro:** UBS contributes less than 3% of revenues for Wipro, and is one of its top accounts. It has been largely stable (with slight growth) over the last 10 quarters.

Insourcing – an opportunity and a threat

In October 2018, UBS reported a 7% jump in its staff count to 63,684 people, from 59,470 a year ago. This was a results of it expanding its captive centres in Mumbai/Pune, which UBS wants to use as global insourcing hubs.

UBS aims to keep 60% of its IT services in-house – as compared to almost 70% currently outsourced to third-party vendors. The company has witnessed this U-turn in its outsourcing strategy, on two counts:

- Expanding its captive centers is one of its largest levers for cost reduction - a strategic pillar of its corporate transformation plan.
- The management believes that the typical business processes outsourced ten years ago like data inputting can be digitized or automated. With the speed of digitization picking up, classic IT services providers (like Wipro, Cognizant etc) are struggling to keep up with this speed.

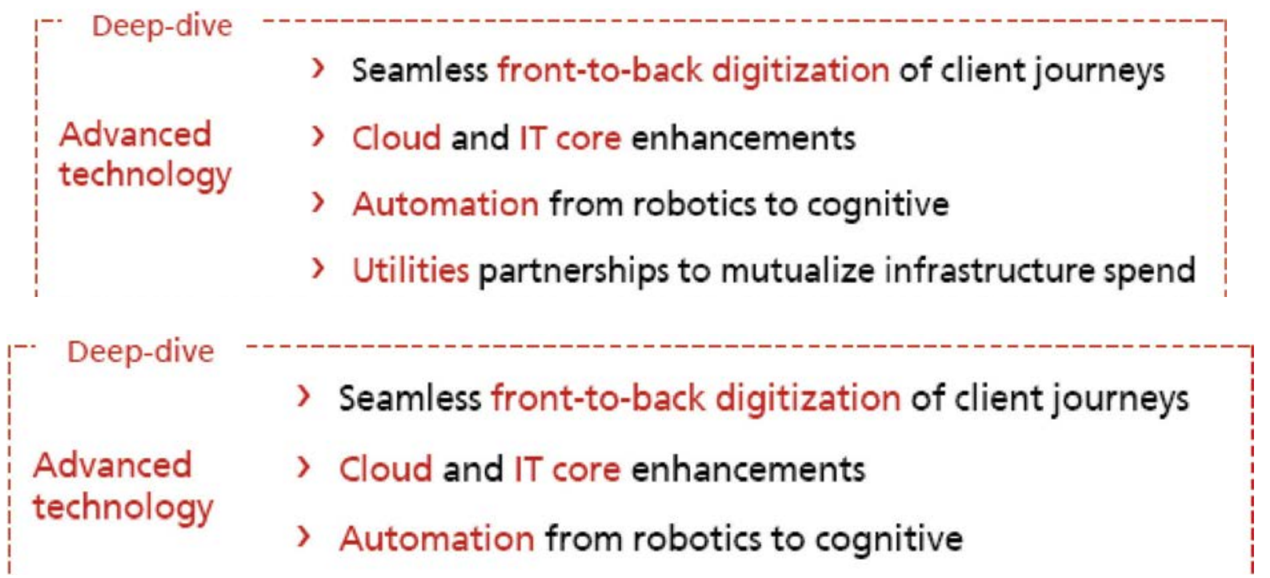
For UBS, at €8.9bn, the 'Corporate Center–Services' make up roughly one third of its overall Group costs. Over the next three years, the management aims to reduce these costs by€800mn – as stated in their Oct-18 call with investors. Key points about their outsourcing strategy over the next three years:

- Today, more than 30% of UBS's staff is offshored. And it intends to continue to shift further activities from high-cost to low-cost locations, using its own offshore and nearshore

UBS is focussing on increasing its internal IT staff, at the expense of external vendors

Source: UBS

The UBS strategy to cut costs, via insourcing



Source: UBS

shared services centers.

- With the opening of a second site in Pune this year, it now operates 6 offshore service centers in India, China and Poland; and 2 nearshore centers in Switzerland and the US.
- For its outsourced services, it continues to consolidate third party vendor locations from 35 as of last year to only 9 by 2020. This will both reduce costs and will improve risk management.
- It is internalizing selected activities currently performed by external providers to enable higher productivity, lower costs, and to build critical in-house knowledge. Over the last 12 months it has increased internal staff by 4,000. The majority were hired into its offshore centers in India. This increase was more than offset by a reduction in external headcount, leading to an overall decline of roughly 1,000.
- It intends to further reduce the external headcount, through automation of processes – specifically in Operations and IT.
- It has reduced vendors by 45% since 2013 and aims to push this above 50% over the next two years. In addition, it has recently implemented new measures to further tighten its internal demand management. *"To say it in very simple terms: We will buy less, cheaper and smarter."*
- Automation is expected to be a key driver for cost efficiency. It already has 700 robots in production, and intends to increase it to ~1,000 by year-end.

While UBS insourcing strategy intends to cuts vendor revenues, it represents a strategic bet on India. The company and its management realize India's tactical significance, with the huge pool of engineers, mathematicians, statisticians, physicists, and other highly-qualified science and technology graduates. As a result, India's importance as a delivery / innovation center, for UBS, is definitely increasing.

Indian vendors need to move up the value curve here, and try to capture the revenue pie, currently taken-up by Luxoft (US$ 155mn) and ePAM (US$ 135mn) – both of them being higher priced than Indian vendors.

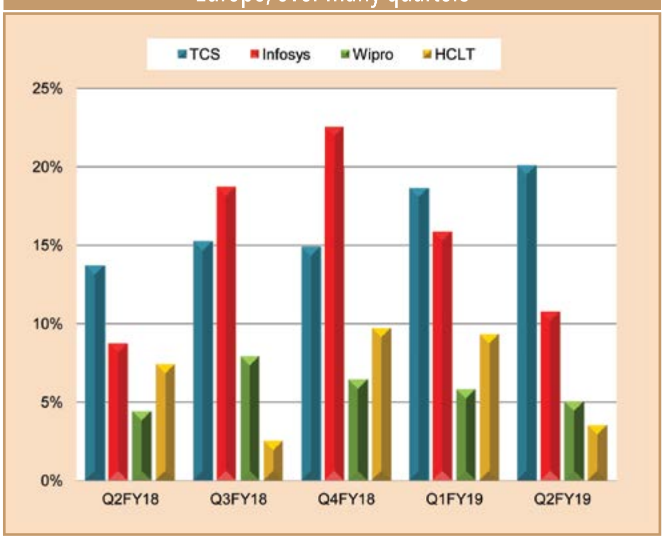
However, if other banks start copying UBS's strategy, it can be a threat to Indian IT services vendors. Bulk of the IT business will move into captives – the remaining (higher value work) will shift to vendors with capability to deliver this higher value work.

The leapfrog continues

Europe represents a mammoth opportunity for the IT vendors, especially the Indians. Large numbers of companies, especially in Continental Europe (EU excl UK) are yet to outsource/offshore their IT operations. Conversations with multiple clients (takeaways in the special section) highlight that most firms are opening up to the idea of offshoring their IT (if not already doing so). The value proposition of the Indian vendors had moved up significantly from the 'cheapest option' to the 'best value for money' option. TCS has even managed to transcend to the top, and is now considered an 'invaluable strategic partner'.

The growth rate of the Indian vendors over the last few quarters is a testimony to their new level of acceptance and how much market share they have captured. The average growth rate of the top-5 Indian IT firms in Europe has been 11.8%, significantly above the 3.4% average growth clocked by the top-5 EU vendors. This growth momentum is likely to continue in both the near and distant future, driven primarily by what TCS' management mentioned in one of its calls – 'leapfrogging' by European clients.

Indian vendors have reported strong CC yoy growth in Europe, over many quarters



Source: Companies, PhillipCapital India Research

TCS' CEO, Mr. Rajesh Gopinathan, on being asked about the growth in Europe in Q2FY19 conference call said: "The more interesting and more dramatic thing that is going on is this aspect of leapfrogging (in European growth) – because they are at an early stage in the technology investment cycle"

EU clients 'leapfrogging' the technology landscape

Many mid-sized European firms still run on decade-old legacy systems. They never participated in the outsourcing wave, and were too reluctant or financially hard-pressed to carry-out IT modernization on their own. This has resulted in them being left with legacy systems, when the world was already moving onto next-generation digital platforms.

Contrary to most expectations, many of these EU firms have decided to leapfrog the technology landscape, and upgrade directly from their legacy systems to the new-age digital platforms. This translates into good news for the Indian vendors, as they still have expertise and employ huge resources in legacy systems. At the same time, they have also proven their expertise in the new-age digital platforms, and hence have a perfect combination of both legacy and new-age capabilities, to help these clients migrate. Most of the local European vendors are either strong in legacy systems or new-age technology – but very few are strong in both.

Indian vendors 'acquiring' their way up the ladder

The opportunity is mammoth. The foundation to capture is strong. However, Indian vendors cannot hope to grab this opportunity, just sitting on the laurels of their historic success. They will have to constantly make efforts to break the language and cultural barriers across relatively underpenetrated regions like Germany, France, Spain, and CEE.

For Indian vendors, the primary obstacle that lies ahead is how they are perceived. Despite over two decades of strong growth and superior performance, Indian vendors are still viewed as the 'cheaper alternative'. As underscored in exclusive interactions with clients across Europe (read the special section for more insights), Indian vendors are still thought to 'seriously lack innovation related to how to change the business' and are seen as having 'no out-of-the-box thinking'.

While ostensibly this might appear to be a cultural problem (Indians are considered to be better at 'taking orders' than 'deciding on their own'), an interesting admission from a client threw more light on the issue and showed its many layers: "Challenges with Indian vendors are actually of our own making. Earlier, we used to tell them to just implement the task and NOT ask any questions. Now we want them to ask questions, and they are struggling.".

Indian vendors are trying to rectify negative perceptions through the inorganic route. While they made many acquisitions in the last decade (Alti, Lodestone, Axxon, Volvo), recent acquisitions by some Indian vendors seem promising. TCS acquired a design company W12 Studios recently. Before this Infosys acquired Wong Doody in the US and Brilliant Basics in UK. Wipro acquired DesignIt in 2015. Indian vendors are not acquiring software companies anymore and are in fact snapping up design firms in a bid to change the way they think and propose solutions to clients.

But, as was the case before, for any acquisition to prove fruitful, successful integration remains the key. The hope is that Indian companies would have learnt from their past mistakes!.

Continental Europe – the next destination

Offshore-based firms have had the greatest success in the UK market, but now a rapidly growing share of continental European customers are also adopting the Global Delivery Model.

"Challenges with Indian vendors are actually of our own making. Earlier, we used to tell them to just implement the task and NOT ask any questions. Now we want them to ask questions, and they are struggling"

Indians have been making some interesting acquisitions in Europe

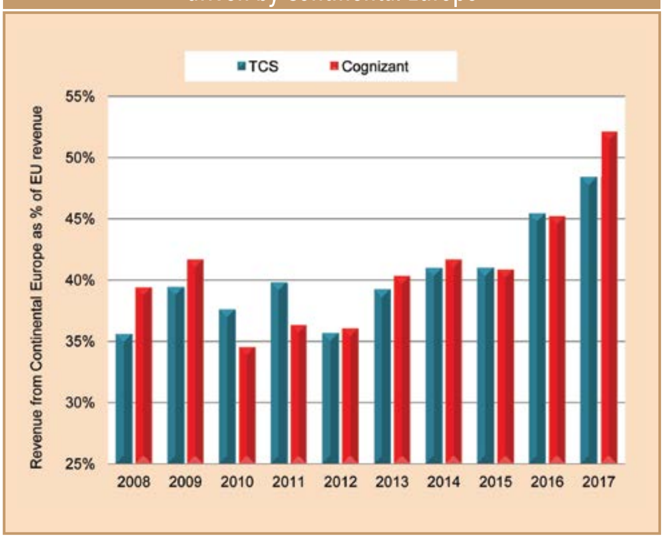
Acquirer	Acquired company	Country	When
TCS	W12 Studios	UK	Nov 2018
Infosys	Wongdoody	US	Apr 2018
Infosys	Brilliant Basics	UK	Aug 2017
Wipro	DesignIT	Denmark	Jul 2015

Source: Companies, PhillipCapital India Research

Over the past 10 years. the growth in continental European revenues has exceed that from the UK, for most Indian vendors. At Cognizant, Continental European revenues exceeded those from the UK for the first time in 2017 and the gap has continued to widen: Today, Continental Europe accounts for 55% of its European revenues. Similarly at TCS, revenues from Continental Europe now represent about 48% of its total European revenues, up from slightly less than 30% in FY07. Other vendors, while official data is unavailable for them, would have followed the same trend.

Based on our interviews with decision makers across Continental Europe, demand for services based on the global delivery model is strong and growing. Given the relatively lower levels of penetration by the Indian vendors, it would not be incorrect to say that Continental Europe will form the core of the growth in European operation for the Indian vendors, over the next decade.

TCS and Cognizant's growth in Europe has been driven by Continental Europe



Source: Companies, PhillipCapital India Research

US$ 40bn opportunity – Tip of the iceberg

There have been various estimates of the potential outsourcing opportunity from the European region by various research firms. Most of these numbers impart an important bird's eye view - but they fail to provide the necessary details, which could help in identifying the potential beneficiaries. Hence, GV decided to conduct a primary research, to quantify the opportunity, and to identify the pockets that represent the maximum potential.

An analysis of 143 companies in the EU region – across 20 countries and 6 verticals – revealed that 22 of these companies (16% of the total) have never outsourced their IT operations. Of the remaining 121 companies, 60 (42% of the total) have outsourced, but not offshored their IT operations and development work. Put together, 82 companies (58% of the total) have not outsourced/offshored their IT operations – presenting a HUGE opportunity for Indian IT vendors.

Quantifying the opportunity, total capex outlay for the 143 companies stands at US$ 438bn for CY18, out of which, conservatively, IT capex should be US$ 85bn. Of this, IT capex for the "never outsourced" category is expected to be US$ 11bn and for the "never offshored" companies at US$ 28bn. Thus, these companies present a ~US$ 40bn opportunity for Indian IT vendors.

Methodology – a note from PhillipCapital's IT analyst Vibhor Singhal:

"We took a total of 143 companies as our sample space — arrived at, by selecting top 10-12 companies by capex spread across nine regions in Europe (UK, Germany, France, Switzerland, Nordics, Benelux, Spain, Italy, and CEE) and across six verticals (BFSI, manufacturing, retail & CPG, telecom, healthcare, and energy & utilities). For each of those companies, the parameter considered was whether they have outsourced their IT operations, and if yes, whether they had offshored as well. This information was collated, by sifting through the annual reports, presentations, and newsflow about these companies. The same was then cross-verified by vendors and independent consultants.

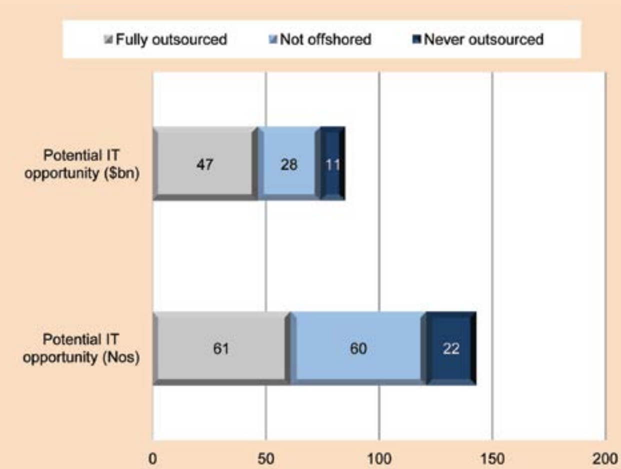
Classifying these companies into ones that had 'not outsourced their IT operations' and ones that 'had outsourced, but not offshored' a list of potential outsourcers from the region emerged from amongst the top-150 spenders.

However, these numbers are meaningless without a dollar sign before them. So for each company, we took note of the vertical (BFSI, manufacturing, retail & CPG, telecom, healthcare, energy & utilities) it belonged to. Then we deduced (from companies belonging to the same sector and who HAD outsourced their IT operations) their IT capex as a percentage of total capex (for BFSI, we chose IT capex as % of revenues). Since these represent sectoral characteristics, they were fairly similar across the companies that belonged to the same sector. Using that number as the benchmark yielded the possible IT capex by non-outsourced and non-offshored companies – IF they were to outsource.

This provided the total potential outsourcing opportunity from the geography (but) represented by only the top-143 companies. The total opportunity would be much higher if one was to include other smaller listed/unlisted companies.

Importantly, since the total opportunity was derived by summing up the potential opportunity from each company belonging to a specific sector and geography, it was also possible to break-up the total opportunity into various sectors (BFSI, manufacturing, retail & CPG, telecom, healthcare, energy & utilities) and regions (UK, Germany, France, Switzerland, Nordics, Benelux, Spain, Italy and CEE) – and estimate which of those represented the biggest opportunity."

Huge opportunity awaits Indian IT vendors



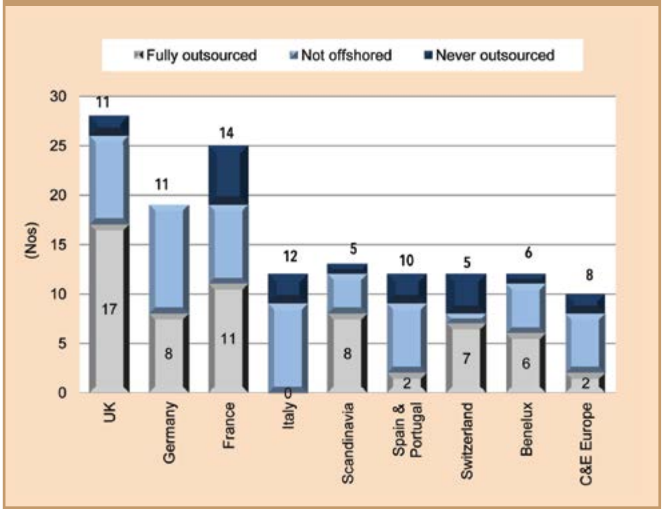
Source: PhillipCapital India Research

Germany and France present the biggest opportunity;

Italy, CEE and Spain are massively underpenetrated Italy and CEE (Central & Eastern Europe) remain the most underpenetrated countries, with hardly 1/2 of the companies having outsourced/offshored their IT operations (10-12 top companies analysed in each region). Amongst bigger economies, Germany, France, and Benelux have 58%, 56% and 50% companies falling in the same bracket (never outsourced/offshored). As expected, UK, Switzerland, and Scandinavia remain the most penetrated.

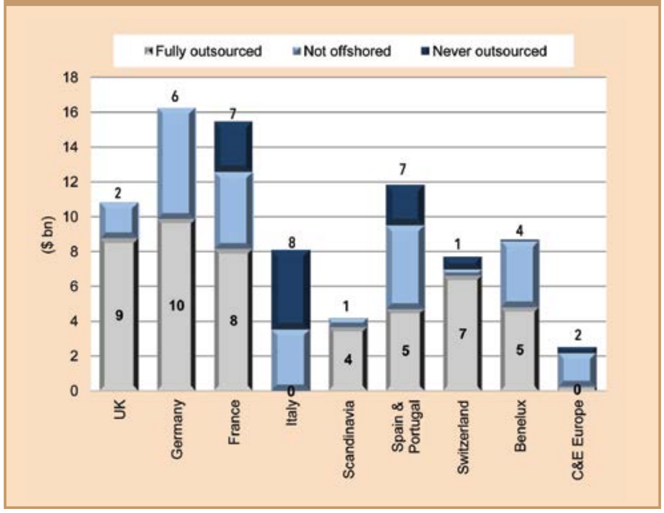
Financially, Germany and France represent the largest IT opportunity at US$ 6bn and US$ 7bn respectively; Italy and Spain represent a potential of US$ 8bn and US$ 7bn respectively – but might be more difficult to penetrate. UK – though largely penetrated – still presents a significant opportunity of US$ 2bn.

Potential IT opportunity in each country



Source: PhillipCapital India Research

Potential IT opportunity in each country

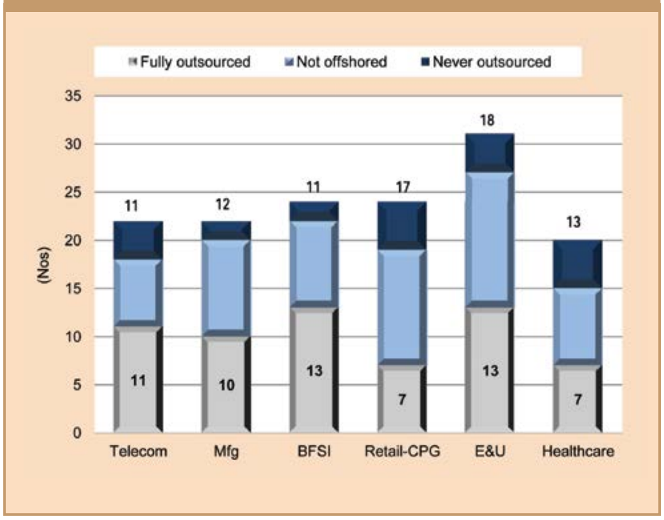


Retail-CPG; BFSI still offers huge potential

Among verticals, Retail-CPG (consumer packaged goods) and healthcare are the most underpenetrated, with 71% and 65% of companies having never outsourced/offshored their IT operations. BFSI remains the most penetrated, with over 50% companies having already offshored their IT operations. Telecom, Manufacturing and E&U also represent a sizeable opportunity.

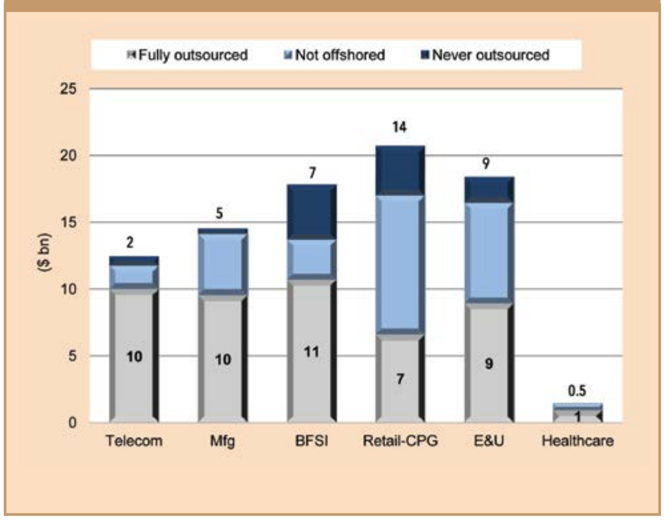
Financially, retail-CPG represents a mammoth US$ 14bn opportunity, followed by US$ 9.5bn in E&U. Although BFSI is already well penetrated, it still represents a large opportunity of US$ 7bn; conversely, while healthcare is still very much underpenetrated, it represents a small US$ 0.5bn opportunity for offshoring.

Potential IT opportunity in each vertical



Source: PhillipCapital India Research

Potential IT opportunity in each vertical



EU Top 15 vendors' European Revenue

€ mn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR
Capgemini	6,921	6,651	6,833	7,610	8,160	8,023	8,353	8,579	8,777	7,859	1.4%
Atos Origin	5,107	4,446	5,413	5,452	6,822	7,150	7,512	7,160	6,676	6,775	3.2%
Sopra	1,130	1,094	964	1,050	1,217	1,349	3,370	3,584	3,741	3,845	14.6%
Altran	1,544	1,262	1,191	1,276	1,309	1,468	1,611	1,757	1,691	1,827	1.9%
Tieto	1,448	1,351	1,391	1,388	1,410	1,284	1,259	1,362	1,399	1,436	-0.1%
EDB	901	772	1,010	1,602	1,653	1,589	1,469	1,363	1,231	1,257	3.8%
Alten	624	593	633	716	758	751	762	795	830	914	4.3%
Aubay	161	147	165	186	190	211	243	274	326	354	9.1%
Ordina	697	542	428	424	401	377	367	348	344	345	-7.5%
GFT	231	206	230	255	205	219	298	271	299	299	2.9%
KnowIT	159	159	212	240	258	253	243	247	261	293	7.0%
Acando	10	17	19	20	21	19	23	24	25	27	11.7%
HiQ	144	121	138	166	185	168	165	169	179	192	3.2%
Bouvet	69	67	89	115	138	143	136	138	143	172	10.7%
ICT	98	79	85	80	78	80	63	72	90	105	0.8%
Total	**19,244**	**17,508**	**18,800**	**20,580**	**22,805**	**23,084**	**25,874**	**26,143**	**26,012**	**25,700**	**3.3%**

Source: Companies, PhillipCapital India Research

EU Top 15 vendors' EBIT Margin (overall margins)

EBIT Margin %	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capgemini	8.5%	7.1%	6.7%	7.4%	8.1%	8.5%	9.2%	10.6%	11.5%	11.7%
Atos Origin	4.7%	5.7%	5.0%	6.2%	6.6%	7.5%	7.8%	8.6%	9.1%	10.2%
Sopra	8.8%	5.8%	8.9%	8.8%	9.0%	8.5%	6.9%	6.8%	8.0%	8.6%
Altran	4.7%	2.2%	5.6%	10.6%	8.6%	8.7%	7.5%	8.0%	10.5%	10.8%
Tieto	6.0%	4.4%	4.2%	5.4%	3.5%	5.3%	4.0%	8.6%	9.4%	9.0%
EDB	6.6%	6.1%	-1.8%	4.9%	3.4%	0.9%	-5.1%	-12.2%	7.6%	2.7%
Alten	10.3%	3.9%	9.6%	8.9%	10.0%	9.6%	8.6%	9.6%	9.0%	8.9%
Aubay	7.6%	5.4%	6.9%	8.1%	7.3%	7.5%	7.6%	8.9%	9.2%	9.5%
Ordina	-11.1%	1.5%	-2.9%	0.7%	-3.2%	-17.0%	1.3%	-0.3%	2.8%	2.0%
GFT	2.6%	3.4%	4.7%	4.1%	5.2%	6.6%	7.4%	9.2%	8.2%	4.7%
KnowIT	10.9%	10.0%	8.6%	9.3%	6.0%	4.7%	4.8%	6.1%	8.3%	10.1%
Acando	9.4%	4.6%	6.1%	7.0%	7.4%	4.6%	2.3%	7.9%	9.5%	9.9%
HiQ	16.4%	13.8%	14.1%	14.2%	13.1%	10.6%	10.7%	12.1%	12.5%	12.0%
Bouvet	12.3%	9.7%	9.1%	9.8%	7.6%	8.5%	7.0%	8.1%	8.0%	9.0%
ICT	9.5%	2.7%	6.9%	5.0%	-5.7%	1.5%	4.9%	7.4%	8.2%	8.0%
Total	**6.5%**	**5.8%**	**5.6%**	**7.0%**	**6.9%**	**7.2%**	**7.2%**	**8.1%**	**9.8%**	**10.0%**

Source: Companies, PhillipCapital India Research

India Top 15 vendors' European Revenue

€ mn	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	CAGR
TCS	1,209	1,209	1,532	1,850	2,390	2,898	3,287	3,993	4,041	4,685	16.2%
Infosys	835	793	981	1,099	1,331	1,517	1,579	1,967	2,070	2,296	11.9%
Cognizant	368	434	644	788	930	1,189	1,418	1,809	1,938	2,122	21.5%
Wipro	775	824	1,067	1,204	1,383	1,464	1,483	1,674	1,695	1,824	10.0%
HCLT	416	530	718	813	1,056	1,208	1,401	1,690	1,857	1,999	19.1%
TechM	167	205	255	274	691	740	849	1,055	1,150	1,258	25.1%
LTI	NA	NA	NA	NA	NA	113	109	138	159	180	NA
MindTree	36	38	48	76	100	104	111	161	152	161	18.0%
Cyient	52	63	71	76	70	83	90	94	107	133	11.1%
NIIT Tech	72	59	71	89	112	106	105	127	123	126	6.4%
KPIT	42	33	34	41	41	47	57	78	73	98	9.8%
Mphasis	122	150	144	110	105	41	89	84	83	80	-4.5%
Hexaware	40	42	46	62	77	79	46	58	56	61	4.9%
Zensar	22	24	26	26	27	27	32	41	48	59	11.4%
LTTS	NA	NA	NA	NA	NA	NA	NA	35	34	56	NA
TOTAL	**4,156**	**4,404**	**5,636**	**6,507**	**8,314**	**9,617**	**10,654**	**13,004**	**13,587**	**15,139**	**15.4%**

Source: Companies, PhillipCapital India Research

India Top 15 vendors' EBIT Margin (overall margins)

EBIT Margin %	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
TCS	23.7%	26.5%	27.8%	27.6%	27.0%	29.1%	26.9%	26.5%	25.7%	24.8%
Infosys	29.7%	30.6%	29.5%	29.0%	25.8%	24.0%	25.9%	25.0%	24.7%	24.3%
Cognizant	18.3%	18.9%	18.8%	18.6%	18.5%	19.0%	18.4%	17.3%	17.0%	16.8%
Wipro	16.7%	16.9%	19.1%	18.6%	18.8%	18.7%	20.6%	20.3%	18.9%	17.1%
HCLT	16.9%	15.8%	13.4%	16.0%	19.7%	24.1%	22.3%	20.1%	20.3%	19.8%
TechM	26.3%	21.6%	16.7%	14.0%	18.7%	19.4%	15.7%	13.3%	11.0%	11.8%
LTI	NA	NA	NA	NA	NA	NA	13.4%	14.6%	16.2%	15.0%
MindTree	22.1%	13.9%	7.2%	11.7%	17.9%	17.5%	17.1%	14.0%	9.7%	10.4%
Cyient	14.8%	17.3%	11.1%	14.2%	14.8%	15.3%	12.1%	10.6%	10.8%	11.3%
NIIT Tech	13.7%	16.7%	16.7%	14.8%	13.5%	12.6%	10.7%	13.0%	12.7%	12.5%
KPIT	17.6%	18.0%	10.9%	11.5%	12.9%	13.7%	8.0%	11.3%	8.0%	8.0%
Mphasis					15.3%	15.0%	13.3%	13.5%	14.6%	15.1%
Hexaware	9.4%	16.1%	4.8%	12.2%	19.1%	20.7%	16.8%	15.6%	14.7%	15.0%
Zensar								21.4%	20.4%	20.0%
LTTS	NA	NA	NA	NA	NA	NA	13.4%	15.0%	16.1%	13.0%
Total	**22.5%**	**22.9%**	**22.8%**	**22.7%**	**22.8%**	**24.0%**	**22.9%**	**22.1%**	**21.3%**	**20.5%**

Source: Companies, PhillipCapital India Research

Acquisitions made by EU Companies in Europe over the last decade

Acquirer	Acquired Company	Country	Segment	Revenue	When
Tieto	Canvisa Consulting	Sweden	BFSI Consulting	€ 8mn	May 2013
	Smilehouse	Finland	Multichannel Commerce	€ 10mn	Dec 2015
	Imano	Sweden	Consulting	€ 7.1mn	Nov 2015
	Software Innovation	Nordics	Content Management	€ 41mn	Aug 2015
	Avega	Sweden	Consulting	€ 47mn	Oct 2017
	Emric	Nordics	Credit Processing	€ 19.5mn	Sep 2016
EVRY	Miratech	Ukraine	IT Services	$5mn	July 2007
	CEKAB	Sweden	Card Processing	€ 25mn	Feb 2007
Acando	Transformator Design	Sweden	Design Studio	NA	Aug 2017
	Daytona	Sweden	Design Studio	NA	Aug 2017
	Abeo	Norway	Healthcare	NOK 100mn	Sep 2007
	March IT A/S	Denmark	SAP Consulting	MDKK 53mn	Oct 2009
Capgemini	Getronics PinkRoccade Business	Netherlands	IT Services	€ 300mn	Jul 2008
	Vizuri	UK	Testing	NA	Oct 2008
	Empire and Sophia	Eastern €pe	Consulting and Data Warehouse	€ 10mn	Nov 2008
	IBX	Sweden	Consulting	€ 33mn	Feb 2010
	Plaisir Informatique	France	Data migration for BFSI	NA	Jun 2010
	CS Consulting GmbH	Germany	Consulting for BFSI	€ 47.4mn	Dec 2010
	Artesys	France	IMS	€ 25mn	Apr 2011
	Avantis	France	Content Management	€ 13mn	Apr 2011
	Prosodie	France	Front office transaction solutions	€ 172nm	Jul 2011
	AIVE Group	Italy	IT Services	€ 56mn	Jul 2011
	iGate	US	IT Services	$1.3bn	Apr 2015
Atos	Bull	France	Cloud, Cybersecurity, Big Data	€ 1.3bn	Oct 2017
	Siemens' IT Business	France	IT Services	NA	Jul 2011
Sopra	Delta Informatique	France	Retail Banking	€ 33.5mn	Oct 2011
	Callataÿ & Wouters	Belgium	Banking Software	€ 72.5mn	Feb 2012
	Steria	France	IT Services	€ 722mn	Apr 2014
	Subsidiary of Tieto	UK	IT Services	€ 22mn	Mar 2012
	HR Access	France	HR Solutions Developer	NA	Apr 2013
	COR&FJA Banking Solutions GmbH	Germany	Banking Solutions Developer	€ 23.3mn	Feb 2014
Altran	IndustrieHansa	Germany	Engg and Consulting Group	€ 155mn	Dec 2012
	Nspyre	Dutch	R&D	€ 64mn	Feb 2015
	Tessella	UK	Analytics and Data Science	€ 30mn	Dec 2015
	Swell	Czech Republic	Automotive R&D	NA	Oct 2016
	Benteler Engineering	Germany	R&D	NA	Oct 2016
GFT	Asymo AG	Switzerland	IT Consulting	€ 16mn	Jun 2011
	Sempla	Italy	IT Consulting	€ 44mn	May 2013
	Adesis Netlife S.L.	Spain	IT Consulting	€ 13mn	Jul 2015
Aubay	Cast-Info	Iberia	IT Services	€ 27mn	Jun 2015
	Undisclosed	Italy	IT Consulting	€ 30mn	Sep 2017
Alten	Enea Consulting	Sweden	IT Consulting	€ 25mn	Jan 2012
	Consultem	Canada	IT Consulting & Staffing	NA	Mar 2014

Source: Companies, PhillipCapital India Research

Key companies that have outsourced in Europe *(from the top-150 comapnies)*

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
UK	RBS, Barclays, Aviva, Lloyds Banking, Prudential	NA	International Consolidated Airlines, M&S	Vodafone, BT	GSK, AstraZeneca, Elan Corp	BP, Rio Tinto, Anglo American, National Grid
Germany	NA	Volkswagen, Daimler, BMW, Siemens	NA	Deutsche Telekom, Telefonica Deutschland	NA	RWE
France	Societe Generale, BNP Paribas	Michelin, Alstom, Safran, EADS	LVMH	Orange	NA	Electricite de France, GDF Suez, Veolia Environnement
Switzerland	Credit-Suisse, UBS	NA	Nestle	NA	Novartis	NA
Scandinavia	DNB ASA	Volvo	Hennes & Mauritz	Telenor ASA, Telefonaktiebolaget LM Ericsson	Novo Nordisk	Statoil, Vestas
Benelux	ING Groep	NA	Koninklijke Vopak	Belgacom, Koninklijke KPN NV	NA	Royal Dutch, ArcelorMittal
Italy	NA	NA	NA	NA	NA	NA
Spain & Portugal	Banco Santander	NA	NA	Telefonica SA	NA	NA
CEE	NA	NA	NA	NA	NA	NA

Key companies that are yet to outsource in Europe *(from the top-150 comapnies)*

	BFSI	Manufacturing	Retail, Transport	Telecom	Healthcare	E&U
UK	NA	BAE Systems, CNH Industrial	Firstgroup, Kingfisher, easyJet, Ryanair Holdings	NA	Hikma Pharmaceuticals, BTG	BHP, BG, Centrica
Germany	Allianz SE	Continental AG, MAN SE	Deutsche Lufthansa, Deutsche Post, Adidas, Henkel	NA	Merck, Celesio, Stada Arzneimittel	E.ON
France	Credit Agricole, AXA, Wendel	Peugeot, Renault, Valeo, Thales	Christian Dior, L'Oreal, Kering	Vivendi, Eutelast Comm	Sanofi	Total SA
Switzerland	NA	NA	Cie Financiere, Swatch	Swisscom	Galenica, Actelion	Glencore Xstrata
Scandinavia	NA	Scania	NA	Tele2 AB	Orion, Meda	NA
Benelux	KBC Groep	NA	Unilever, Delhaize Group SA	TeliaSonera, SES	UCB	Heineken NV
Italy	Exor, UniCredit	Fiat, Finmeccanica	Luxottica	Telecom Italia, Mediaset SpA	NA	Saipem SpA, Eni SpA, Enel SpA, Snam SpA, Terna Rete Elettrica Nazionale SpA
Spain & Portugal	Banco Bilbao Vizcaya Argentaria SA, Banco Espirito Santo SA	NA	Inditex	Portugal Telecom	Grifols	Repsol, Iberdrola SA, Endesa SA, Gas Natural SDG SA, Galp Energia SGPS SA
CEE	Vienna Insurance, Erste Group Bank AG, Komercni Banka AS	Andritz AG	NA	Telekom Austria, Hellenic Telecommunications, OPAP SA	Shire	OME AG, CEZ AS, Voestalpine AG

On the growth path with focus on quality

In an extensive interview with Mr. Kaushik Banerjee, President & CEO Asset Finance, Magma Fincorp Ltd, he talks about the current liquidity challenge, demand environment, and future strategy. MGMA is a non-deposit taking NBFC, registered with RBI as an asset-finance company. It began operations in 1989 and currently operates through more than 300 branches spread across 22 states.

INTERVIEW BY	PRADEEP AGRAWAL

Q. Most NBFCs faced liquidity tightness in the last two months after the IL&FS default. How was Magma's experience and did this tightness have any impact on your business?

A: Magma has been a predominantly bank-funded NBFC; our exposure to the debt capital market (in terms of commercial paper) was very low. We planned in such a way that we had adequate line of credit available. Our funnel, in terms of potential lines of credit, is fairly high. While there has been reprising by banks and MFs, funds have been available for us. The message to our team is to continue to lend – focus on meeting budgeted targets is as intense now as it was earlier. However, the launch of the credit engine in October has resulted in higher level of credit rejections, which means now the pressure is on the team to generate more leads to maintain the budgeted targets, as the rejection levels have increased in some products.

Mr. Kaushik Banerjee,
President & CEO Asset Finance, Magma Fincorp

Q. In the last three years, your balance sheet has seen about 20% contraction. How do you see AUM growth shaping out in FY19/20?

A. We maintain our AUM growth guidance for FY19 at 15%. While our disbursement growth was higher at 34%, our AUM growth was lower at 6% in Q2, which means we still have an overhang of the past. Once this is over, we will see continued improvement in AUM growth; we see CAGR of 20-25% over a 5-7 years period. Downside risk to the guidance is change in customer sentiment. Twin impact of higher interest rate and higher fuel prices may dent growth. Also, a prolonged tight liquidity scenario may result in some business flowing to private banks from NBFCs in the medium term, especially from housing finance companies.

Q. How is the demand environment for Magma's various segments? Which segments are key focus areas for you?

A. SME is showing strong traction and it is a high RoA business for us that has stood the test of time in spite of demonetisation and other challenges; it will continue to see good growth. In the ABF business, for a long time, more than 60% of the overall asset book was cars and tractors. My focus has always been to broad-base our product mix so that no single product has an impact on the overall performance. Accordingly, we are reducing our exposure to cars and tractors, and are focusing on used assets and CVs.

Used vehicles include used cars, CVs, tractors, and CEs. Today, close to 40% of our disbursement comes from these assets (at an aggregate level) and they have a weighted yield of around 18%. This segment has a controlled delinquency percentage and therefore traditionally has been the highest ROTA product in our portfolio. Because it is a composition of various assets, you do not carry the risk of a single asset.

Another focus product is LCVs and SCVs, which has grown from 0% to 7%. The reason why we focus on used assets and CVs is these assets are core NBFC assets; also, the rate of interest for these assets is higher.

At the ‘product level’, used assets and CVs are focus products, but at the aggregate level, our focus is on pushing A and B category assets (A and B category signifies least delinquent assets).

Q. You have branches across regions. However, at 300, your number of branches is significantly lower than your competitors – Mahindra Finance, Cholamandalam, and Shriram Transport. What is your branch-expansion strategy?

A: The market’s view is that opening physical branches has a direct correlation to business volume. Our view is contrarian. Let me explain – today, technology has made such advances. We have fin-tech companies and online lending companies that have no physical branches. We plan to have about 400 branches, which are necessary to be physically present in all critical markets in the country. However, I would rather invest in manpower across markets and equip people to become mobile branches. With the leaps in technology, physical branches will become increasingly irrelevant. Today, my challenge is opex. So I replace heavy investments in branches with investment in people. In the long run, if we can deliver through 400 branches (with the help of technology) what others deliver through 800, we should be in a position to leapfrog over competition in term of opex to assets.

Q. The entire senior management team has been revamped in the last few years. What is the level of freedom enjoyed by the team, and how much is the promoter involvement?

A. In asset finance and housing, there have been fairly dramatic changes. I can safely say that these changes – such as branch grading, product grading, bringing in a credit engine, focusing on product quality and changing the product mix – were the decisions of the respective CEOs. This is a good indicator about the degree of freedom or empowerment that Magma’s CEOs have in term of the direction. There is a review mechanism with the MD, which is very detailed and a very comprehensive. Strategic discussions happen. The MD himself has a couple of pet projects such as ‘customers’ delight’ and ‘people initiatives’. However, he is not involved in the day-to-day operations.

Q. What proportions of branches are in C and D categories? Which product segments are seeing higher NPAs, and why?

A. Around 14% of our branches are in C category, largely due to high delinquency in the tractor portfolio, and there are no branches in D category. Most of the NPAs in this segment are legacy. This is the only product where we have six-monthly bullet payments as against monthly EMIs in other products. So this is the challenge – due to bullet payments, even a genuine customer, with a small portion of dues pending, would be classified under D. Once these branches start adjusting the product mix (basically tractor becomes a less dominant product and used assets and CVs become dominant products) they will also move to A and B category from C and D.

Q. How do you see the asset quality trends going forward in ABF (asset-backed finance)? What do you think is a sustainable level of GNPA?

A: While the current GNPA in the ABF segment would be slightly more than 9%, we expect it to come down to 4.0-4.5% over the next 2-3 years. With 55% provisioning, we see net NPAs at close to 2%. During the peak delinquency period for Magma, tractor contribution to our portfolio was 28% whereas contribution to gross delinquency was 38%. With the tractor portfolio falling to 14%, the contribution to overall delinquency will be far more limited; and with given triggers in place such as branch grading and ‘credit decisioning platform’, we are certain that we will see a very strong traction for our overall portfolio.

Q. What is the current credit cost for vehicle finance and what is the guidance for FY19/20?

A. We have already seen about 70bps improvement in net credit cost. We expect it to improve further by 60bps to 1.5-1.6% over the next two years.

Q. How do you see NIMs behaving in FY19/20? Do you intend to pass on the entire increase in the cost of funds to customers?

A: In the last two months, we have raised lending rates by 50-100bps across product segments – which is in line with the industry. As the ABF book is fixed-rate, there will be some impact on margins, as we cannot re-price our past book. However, margin pressure for us will be more muted than other organizations (that have been lending at very low rates), as we historically had very healthy NIMs.

Q. What is the current RoA for vehicle finance and what is the guidance for FY19/20?

A. We are currently making 1% RoA in ABF. Ideal RoA should be between 1.7-2.0%. We expect around 70-100bps improvement in credit cost over the next 2-3 years, led by around 60bps correction in NCL (net credit loss) and 40bps improvement in opex ratio.

Q. Almost 80% of your branches are in rural and semi-urban areas. How are the activity levels in these regions?

A. Normally, Diwali season sees good traction in demand, but it has not panned out this time. Diwali sales came as a shock to OEMs and dealers who had stocked up significantly in anticipation of good demand; in fact, there was significant correction in sales on a yoy basis. There is some tightness in the market in terms of cash-flow. That’s probably because of the interim period between crop harvesting and inflow of funds. Right now, we have been very watchful, and our focus is largely on ensuring collection efficiency – which is far superior to last year. With election in some states, cash flow should improve.

Indian Economy – Trend Indicators

Monthly Economic Indicators

Growth Rates (%)	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18
IIP	3.8	1.8	8.5	7.1	7.4	7.1	4.6	4.8	3.2	7.0	-	4.7	4.5	
PMI	51.2	50.3	52.6	54.7	52.4	52.1	51.0	51.6	51.2	53.1	52.3	51.7	52.2	53.1
Core sector	4.7	5.0	6.9	3.8	6.1	5.4	4.5	4.6	4.3	6.7	6.6	4.7	4.3	
WPI	2.6	3.6	3.9	3.6	3.0	2.7	2.7	3.6	4.8	5.8	5.1	4.6	5.1	5.3
CPI	3.3	3.6	4.9	5.2	5.1	4.4	4.3	4.6	4.9	5.0	4.2	3.7	3.8	3.3
Money Supply	6.0	6.5	7.3	10.2	10.8	10.5	9.9	10.6	10.4	10.1	10.1	10.0	10.0	10.0
Deposit	8.1	8.7	5.4	3.2	4.3	5.3	6.1	8.1	7.5	7.4	7.7	8.0	7.8	8.4
Credit	6.5	6.8	8.7	9.8	10.4	10.4	10.5	12.1	12.4	12.4	12.2	12.7	12.6	14.0
Exports	25.7	-1.1	30.9	12.4	9.1	4.5	-0.4	5.2	20.2	17.6	14.3	16.9	-2.2	17.9
Imports	18.1	7.6	21.2	21.1	26.1	10.4	7.9	4.6	14.9	21.3	28.8	25.4	10.5	17.6
Trade deficit (USD Bn)	-1.0	25.9	6.3	41.1	64.6	25.8	31.2	3.6	5.6	28.1	57.4	49.4	48.9	22.2
Net FDI (USD Bn)	1.1	1.6	-1.3	4.3	1.9	4.0	1.8	4.8	3.9	1.2	-	1.9		
FII (USD Bn)	-1.5	3.1	2.7	-0.4	3.5	-2.4	1.2	-3.0	-4.1	-2.0	-	0.1		
ECB (USD Bn)	3.5	4.4	3.0	1.3	0.5	3.1	5.1	3.9	1.3	2.7	-	4.8	1.7	
Dollar-Rupee	65.3	64.7	64.5	63.9	63.6	64.4	65.0	65.7	67.6	67.8	68.7	69.6	72.3	73.6
FOREX Reserves (USD Bn)	399.7	398.8	400.7	409.4	417.8	420.6	424.4	420.4	412.8	406.1	404.2	400.1	400.5	392.1
NRI Deposits (USD Bn)	118.0	119.2	120.9	123.3	124.4	124.3	126.2	124.6	123.5	123.4	-	123.0	121.9	

Quarterly Economic Indicators

Balance of Payment (USD Bn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Exports	66.6	67.4	68.8	77.4	73.1	76.1	77.5	82.2	83.4
Imports	90.5	93.1	102.0	107.1	115.1	108.5	121.6	123.8	129.1
Trade deficit	-23.8	-25.6	-33.3	-29.7	-41.9	-32.5	-44.0	-41.6	-45.7
Net Invisibles	23.5	22.2	25.3	26.3	27.0	25.5	30.3	28.6	29.9
CAD	-0.3	-3.4	-8.0	-3.5	-15.0	-7.0	-13.7	-13.1	-15.8
CAD (% of GDP)	0.1	0.6	1.4	0.6	2.5	1.1	2.0	1.9	2.4
Capital Account	7.1	12.8	6.1	10.4	26.9	16.9	22.5	25.0	5.3
BoP	7.0	8.5	-1.2	7.3	11.4	9.5	9.4	13.2	-11.3

GDP and its Components (YoY, %)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Agriculture & allied activities	2.5	4.1	6.9	5.2	2.3	2.7	4.1	4.5	5.3
Industry	9.0	6.5	7.2	5.5	1.5	7.0	6.8	8.0	10.8
Mining & Quarrying	-0.9	-1.3	1.9	6.4	-0.7	7.1	-0.1	2.7	0.1
Manufacturing	10.7	7.7	8.2	5.3	1.2	6.9	8.1	9.1	13.5
Electricity, Gas & Water Supply	10.3	5.1	7.4	6.1	7.0	7.7	6.1	7.7	7.3
Services	8.2	7.4	6.4	5.7	7.8	6.6	7.6	8.2	7.5
Construction	3.1	4.3	3.4	-3.7	2.0	2.8	6.8	11.5	8.7
Trade, Hotel, Transport and Communications	8.9	7.7	8.3	6.5	11.1	9.3	9.0	6.8	6.7
Finance, Insurance, Real Estate & Business Services	9.4	7.0	3.3	2.2	6.4	6.4	6.7	5.0	6.5
Community, Social & Personal Services	8.6	9.5	10.3	17.0	9.5	5.6	7.2	13.3	9.9
GDP at FC	7.6	6.8	6.7	5.6	5.6	6.2	6.7	7.6	8.0

Annual Economic Indicators and Forecasts

Indicators	Units	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Real GDP/GVA growth	%	8.6	8.9	6.7	6	5.6	7.1	7.9	6.6	6.5-6.7	7-7.5
Agriculture	%	0.8	8.6	5	1.5	4.2	-0.2	0.7	4.9	2	3
Industry	%	10.2	8.3	6.7	5	4.5	6.5	10.2	7	4.9	5.8
Services	%	10	9.2	7.1	6.1	8.2	9.4	9.1	6.9	8.6	8.8
Real GDP	₹ Bn	45161	49185	52475	85992	90844	97190	104905	111854	119349	127942
Real GDP	US$ Bn	953	1079	1096	1694	1581	1589	1603	1667	1843	1984
Nominal GDP	₹ Bn	64778	77841	87360	99466	112366	124451	136820	151837	167173	186230
Nominal GDP	US$ Bn	1367	1707	1824	1828	1859	2035	2090	2264	2582	2887
WPI (Average)	%	3.8	9.6	8.7	7.4	6	2	-2.5	3.7	3	3.5-4
CPI (Average)		12.4	10.4	8.3	10.2	9.5	6.4	4.9	4.5	3.4	3.7-4.2
Money Supply	%	19.2	16.2	15.8	13.6	13.5	12	10.3	7.3	9.5	10
CRR	%	5.75	6	4.75	4	4	4	4	4	4	4
Repo rate	%	5	6.75	8.5	7.5	8	7.5	6.75	6.25	6	6
Reverse repo rate	%	3.5	5.75	7.5	6.5	7	6.5	5.75	5.75	5.75	5.75
Bank Deposit growth	%	17.2	15.9	13.5	14.2	14.6	12.1	9.7	11.2	8	11
Bank Credit growth	%	16.9	21.5	17	14.1	13.5	12.5	10.7	4.7	9	10
Centre Fiscal Deficit	₹ Bn	4140	3736	5160	5209	5245	5107	5328	5343	5684	5959
Centre Fiscal Deficit	% of GDP	6.4	4.8	5.7	5.2	4.6	4.1	3.9	3.5	3.4	3.2
State Fiscal Deficit	% of GDP	2.9	2.1	1.9	2	2.2	2.6	3.6	3	3.5	3.2
Consolidated Fiscal Deficit	% of GDP	9.3	6.9	7.6	6.9	7.1	6.6	7.5	6.5	6.9	6.4
Exports	US$ Bn	182.4	251.1	309.8	306.6	318.6	316.7	266.4	280.1	299.7	305.7
YoY Growth	%	-3.5	37.6	23.4	-1	3.9	-0.6	-15.9	5.2	7	2
Imports	US$ Bn	300.6	381.1	499.5	502.2	466.2	460.9	396.4	392.6	459.3	470.8
YoY Growth	%	-2.5	26.7	31.1	0.5	-7.2	-1.1	-14	-1	17	2.5
Trade Balance	US$ Bn	-118.2	-129.9	-189.8	-195.6	-147.6	-144.2	-130.1	-112.4	-159.6	-165.1
Net Invisibles	US$ Bn	80	84.6	111.6	107.5	115.2	116.2	107.9	97.1	108.3	116.2
Current Account Deficit	US$ Bn	-38.2	-45.3	-78.2	-88.2	-32.4	-27.9	-22.2	-15.3	-51.2	-48.8
CAD (% of GDP)	%	-2.8	-2.6	-4.2	-4.7	-1.7	-1.4	-1.1	-0.7	-2	1.5-2
Capital Account Balance	US$ Bn	51.6	62	67.8	89.3	48.8	90	41.1	36.5	64.9	82
Dollar-Rupee (Average)		47.4	45.6	47.9	54.4	60.5	61.2	65.5	67	64.8	64.5

Source: RBI, CSO, CGA, Ministry of Agriculture, Ministry of commerce, Bloomberg, PhillipCapital India Research

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Mahindra & Mahindra	Automobiles	937	1,144	539,684	610,549	80,413	94,024	45,489	54,149	38	46	8.6	19.0	24.5	20.6	3.3	3.0	0.0	0.0	13.6	14.5	12.5	13.5
Escorts	Automobiles	773	110	57,294	62,899	7,018	8,161	4,704	5,469	39	46	33.8	16.3	19.6	16.9	3.1	2.6	-0.3	-0.9	15.7	15.5	15.8	15.9
Tata Motors	Automobiles	276	821	3,125,033	3,335,842	351,017	472,026	58,758	119,527	18	37	-19.1	103.4	15.1	7.4	1.3	1.2	2.2	1.8	8.8	15.6	3.1	6.0
Bharat Forge	Automobiles	667	300	99,672	111,613	21,503	25,195	11,758	14,337	25	31	38.4	21.9	26.4	21.7	6.6	5.5	0.9	0.6	24.8	25.2	19.7	21.0
Bajaj Auto	Automobiles	2,869	779	299,639	347,319	51,068	57,707	43,597	49,090	151	170	6.3	12.6	19.0	16.9	3.8	3.3	-0.1	-0.1	20.1	19.7	20.3	20.1
Hero MotoCorp	Automobiles	3,278	651	342,014	392,192	53,107	61,903	36,353	41,266	182	207	-1.0	13.5	18.0	15.9	4.8	4.2	0.1	-0.0	26.9	26.2	26.9	26.6
Apollo Tyres	Automobiles	241	164	174,529	196,239	21,335	26,097	9,175	12,256	16	21	26.7	33.6	15.0	11.3	1.3	1.2	1.7	1.4	8.7	10.5	6.3	7.7
Mahindra CIE	Automobiles	299	96	66,676	71,194	7,709	8,084	3,470	3,774	9	10	-5.0	8.8	32.6	30.0	2.9	2.9	1.3	1.3	9.0	9.5	8.3	9.1
Ceat	Automobiles	1,392	57	71,118	81,223	8,795	10,568	4,590	5,500	113	135	71.7	19.8	12.3	10.3	1.9	1.7	1.9	2.3	15.5	16.1	13.1	11.9
Ramkrishna Forgings	Automobiles	624	22	17,085	20,243	3,691	4,419	1,548	2,001	48	61	63.7	29.2	13.1	10.2	2.2	1.8	1.5	1.3	17.1	18.2	17.2	17.3
Maruti Suzuki	Automobiles	8,639	2,775	871,682	988,167	129,782	155,251	84,225	106,272	279	352	9.1	26.2	31.0	24.6	5.5	4.8	0.0	-0.2	17.9	19.4	17.2	19.2
Ashok Leyland	Automobiles	130	348	277,692	308,982	31,449	36,619	19,075	22,839	7	8	21.1	19.7	19.9	16.6	4.3	3.4	0.3	-0.2	21.4	20.7	22.0	21.5
BHEL	Capital Goods	78	272	316,597	374,180	24,961	35,333	14,321	19,215	4	6	222.1	34.2	18.9	14.1	0.8	0.8	-2.2	-1.2	4.4	5.8	3.8	4.9
Larsen & Toubro	Capital Goods	1,337	1,805	1,381,876	1,583,230	179,137	197,182	86,775	92,608	65	69	24.8	6.5	20.7	19.4	3.4	3.0	6.3	6.1	16.4	15.6	6.9	6.7
VA Tech Wabag	Capital Goods	385	20	30,885	37,316	2,648	3,604	1,212	1,826	22	33	-11.9	50.7	17.3	11.5	1.7	1.5	1.2	0.2	9.9	13.3	6.9	9.4
CG Power & Industrial S	Capital Goods	55	39	69,266	82,063	6,131	8,196	1,636	3,031	3	5	231.0	85.3	21.2	11.4	1.4	1.3	2.2	1.6	6.4	11.0	6.3	9.1
GE T&D	Capital Goods	276	72	45,500	44,435	4,091	4,340	2,354	2,685	9	10	-3.3	14.1	30.1	26.4	5.2	4.5	-1.5	-2.1	17.3	17.1	21.6	20.9
Voltas	Capital Goods	583	190	75,214	87,202	7,840	9,490	5,988	7,132	18	22	8.1	19.1	32.2	27.1	4.4	4.0	-0.2	-0.5	13.8	14.6	14.5	15.5
Bharat Electronics	Capital Goods	91	289	118,111	133,929	23,790	27,354	15,461	17,584	6	7	5.1	13.7	14.3	12.6	2.5	2.3	-0.9	-0.7	17.7	18.0	16.0	16.4
Engineers India	Capital Goods	126	86	24,509	32,944	3,917	4,973	3,637	4,396	6	7	6.7	20.9	21.9	18.1	3.4	3.2	-7.8	-6.2	15.6	17.5	18.2	20.8
KEC International	Capital Goods	291	84	117,933	136,874	12,090	13,767	5,355	5,980	21	23	13.3	11.7	14.0	12.5	3.0	2.5	2.4	2.3	21.7	20.1	14.4	12.4
Cummins India	Capital Goods	744	194	56,963	64,109	9,180	10,112	7,867	8,580	28	31	11.0	9.1	26.2	24.0	4.8	4.5	-0.6	-0.7	18.4	18.7	17.3	18.0
Siemens	Capital Goods	977	361	126,399	126,099	12,309	12,719	8,391	9,035	24	25	21.7	7.7	41.5	38.5	4.2	3.4	-2.9	-4.5	10.1	8.8	9.8	33.0
ABB India	Capital Goods	1,374	256	108,383	116,357	9,397	10,884	5,460	6,372	26	30	31.7	16.7	53.3	45.7	7.2	6.4	-1.1	-1.4	13.5	14.0	12.8	13.7
Thermax	Capital Goods	980	137	54,849	69,746	5,000	6,651	3,316	4,365	28	37	42.8	31.6	35.2	26.8	3.9	3.5	0.2	-0.1	11.2	13.2	10.6	12.5
Cochin Shipyard	Capital Goods	424	322	29,431	27,875	5,776	4,880	4,709	3,864	36	29	20.3	-17.9	11.8	14.4	1.7	1.6	-4.9	-4.3	14.1	10.9	12.8	10.2

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	**Sector**	**₹**	**₹ bn**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**	**FY19E**	**FY20E**
Hindustan Aeronautics	Capital Goods	930	171	182,158	202,808	25,081	27,685	15,225	19,079	46	57	-26.5	25.3	20.4	16.3	2.4	2.3	-5.8	-5.7	12.0	13.9	7.8	9.2
Bharat Dynamics	Capital Goods	352	69	45,178	36,630	7,470	5,824	5,443	4,686	30	26	-7.0	-13.9	11.9	13.8	2.8	2.5	-1.9	-3.4	23.6	18.0	19.6	15.4
India Cement	Cement	120	36	56,402	62,467	6,789	8,661	497	1,805	2	6	-25.2	263.1	74.3	20.5	0.7	0.7	4.7	3.9	1.0	3.5	2.7	4.0
JK Lakshmi Cement	Cement	325	38	37,739	41,810	5,387	7,558	1,062	2,870	9	24	102.3	170.3	36.1	13.3	2.5	2.2	3.7	2.1	7.0	16.5	7.6	11.7
JK Cement	Cement	802	53	48,918	51,024	8,089	8,492	2,691	2,335	38	33	-11.1	-13.2	20.8	24.0	2.7	2.5	3.2	4.4	12.7	10.5	8.3	7.2
Sanghi Cement	Cement	80	24	11,210	13,050	2,507	3,227	483	597	2	2	-25.0	23.4	41.4	33.5	1.2	1.2	5.5	4.6	3.0	3.5	4.8	4.7
Star Cement	Cement	107	48	18,402	20,748	5,098	5,459	3,068	3,220	7	8	16.3	5.0	14.6	13.9	2.5	2.1	1.1	1.2	17.1	15.2	14.9	13.5
Mangalam Cement	Cement	244	7	10,765	11,339	1,027	1,423	222	482	8	18	95.0	117.3	29.4	13.5	1.2	1.1	3.0	1.7	4.0	8.1	5.5	7.8
Dalmia Bharat	Cement	2,582	239	92,979	101,813	23,856	25,127	5,849	6,711	66	75	9.2	14.7	39.3	34.3	3.5	3.2	1.9	2.2	8.9	9.3	7.6	6.5
Ambuja Cement	Cement	220	449	267,822	283,283	42,805	49,261	17,375	20,725	9	10	41.4	19.3	25.1	21.0	2.1	2.0	-1.3	-1.1	8.3	9.4	8.4	9.7
Ultratech Cement	Cement	4,155	1,148	390,413	497,438	73,031	95,461	29,101	43,593	106	151	13.2	42.5	39.2	27.5	3.9	3.1	1.6	1.6	10.1	11.4	7.9	9.5
HeidelbergCement	Cement	165	36	21,394	22,447	3,943	4,302	1,857	2,206	8	10	39.4	18.8	20.1	16.9	3.0	2.6	-0.1	-0.8	15.1	15.2	11.4	11.9
ACC	Cement	1,529	287	147,483	158,128	19,659	24,035	12,118	14,545	64	77	30.8	20.0	23.7	19.8	2.9	2.8	-1.5	-1.1	12.4	14.1	10.6	12.9
Shree Cement	Cement	17,265	606	119,963	147,398	28,024	33,991	13,117	15,581	377	447	-5.2	18.8	45.9	38.6	6.0	5.3	-0.8	-1.0	13.1	13.7	11.6	12.6
ICICI Bank	Banks	333	1,960	256	306	223	262	87	135	14	21	28.1	54.7	24.6	15.9	1.9	1.8	8.8	7.5	8.1	11.7	1.0	1.4
State Bank of India	Banks	285	2,667	865,140	1,008,337	594,257	692,955	69,410	303,369	8	33	-206.0	323.5	36.6	8.6	1.3	1.1	0.0	0.0	3.5	14.0	0.2	0.9
Bank of Baroda	Banks	147	395	182,743	222,890	133,603	169,687	24,663	82,427	8	28	-191.2	234.2	17.5	5.2	0.9	0.8	0.0	0.0	5.6	16.1	0.3	1.0
Punjab National Bank	Banks	83	243	167,584	211,645	96,986	118,933	-11,529	27,533	-3	8	-92.3	-338.8	-24.2	10.1	0.6	0.6	0.0	0.0	-2.9	6.5	-0.2	0.3
Canara Bank	Banks	265	213	138,482	169,710	96,973	117,022	-11,060	-3,069	-12	-3	-38.4	-72.3	-22.5	-81.0	0.6	0.7	0.0	0.0	-3.0	-0.8	-0.2	-0.0
HDFC Limited	Banks	1,884	3,339	133,590	153,879	162,341	163,131	90,437	103,709	62	61	-14.3	-2.6	30.3	31.1	4.4	4.1	0.0	0.0	13.4	13.6	2.2	2.2
AXIS Bank	Banks	652	1,475	215,460	258,215	179,754	213,628	35,226	92,340	13	35	-12.6	160.8	48.6	18.6	2.5	2.3	0.0	0.0	5.4	13.0	0.5	1.2
Indian Bank	Banks	320	175	74,915	89,708	55,390	67,486	12,679	28,311	26	59	0.7	123.3	12.1	5.4	0.9	0.8	0.0	0.0	7.8	15.8	0.5	0.9
HDFC Bank	Banks	2,041	5,526	467,627	567,826	381,497	463,872	209,779	252,696	78	93	15.1	20.5	26.3	21.9	3.8	3.3	0.0	0.0	16.6	16.2	1.9	1.9
Indusind Bank	Banks	1,829	1,210	93,670	117,349	82,604	102,087	45,412	56,456	76	94	25.9	24.3	24.2	19.4	4.0	3.4	0.0	0.0	17.6	18.7	1.9	1.9
DCB Bank	Banks	168	50	11,776	14,972	6,338	8,648	3,034	4,165	10	12	23.7	25.9	17.0	13.5	1.6	1.4	0.0	0.0	10.2	11.5	0.9	1.0
Union Bank	Banks	82	103	108,547	124,228	76,712	88,209	-5,826	12,423	-3	7	-92.8	-313.2	-25.1	11.8	0.5	0.5	0.0	0.0	-2.3	4.5	-0.1	0.2

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Oriental Bank of Co	Banks	76	52	48,359	57,178	40,944	47,279	-2,482	5,452	-3	6	-96.9	-319.6	-26.5	12.1	0.5	0.5	0.0	0.0	-2.1	3.9	-0.1	0.2
Kotak Mahindra Bank	Banks	1,223	2,496	113,145	142,486	88,783	113,721	50,518	66,508	27	35	23.2	31.7	46.1	35.1	5.5	4.8	0.0	0.0	12.7	14.6	1.7	1.9
Britannia	FMCG	6,094	767	110,585	124,596	17,925	21,014	11,532	12,983	96	108	14.8	12.6	63.5	56.4	17.4	14.5	-0.2	-0.5	27.5	25.6	30.3	28.7
Jubilant Foodworks	FMCG	1,391	191	35,708	41,123	6,030	7,672	3,197	4,216	24	32	54.9	31.9	57.4	43.5	14.0	11.1	-0.6	-1.0	24.4	25.4	26.8	28.1
ITC	FMCG	307	3,716	441,878	485,353	173,818	193,139	120,045	133,156	10	11	11.0	10.9	31.3	28.2	6.9	6.4	-0.2	-0.3	22.0	22.8	21.9	22.8
Hindustan Unilever	FMCG	1,610	3,810	339,260	390,450	72,760	85,178	52,990	61,361	25	28	44.9	15.8	65.6	56.7	49.2	43.3	-0.4	-0.5	74.9	76.4	65.5	68.0
Colgate	FMCG	1,127	305	45,971	50,504	12,867	14,239	7,705	8,540	28	31	12.5	10.8	39.8	35.9	20.3	21.2	-0.4	-0.3	51.0	59.0	46.8	55.6
Glaxo Smithkline Con	FMCG	7,205	286	40,970	45,852	8,834	11,248	7,001	8,968	166	213	6.6	28.1	43.3	33.8	8.7	7.7	-4.0	-3.6	20.1	22.7	20.0	23.0
Titan Company	FMCG	858	812	187,944	222,178	21,305	26,807	14,521	18,358	16	21	15.7	26.4	52.4	41.5	12.2	10.1	-0.6	-0.9	23.3	24.4	26.4	27.8
Asian Paints	FMCG	1,293	1,354	194,454	222,789	35,692	42,888	21,940	26,680	23	28	11.4	21.6	56.5	46.5	13.3	11.9	0.1	-0.0	23.5	25.5	22.6	24.7
Godrej Consumer Prod	FMCG	1,298	905	109,334	121,084	22,017	24,799	15,159	17,466	15	17	4.2	15.2	87.5	75.9	19.5	18.2	0.6	0.4	22.3	23.9	17.1	18.2
Emami	FMCG	558	258	28,004	31,378	7,791	8,789	3,450	4,255	8	9	12.3	23.3	73.4	59.5	11.8	11.6	-0.1	-0.4	16.1	19.5	16.8	19.4
Agro Tech Foods	FMCG	645	16	8,709	9,562	703	800	347	404	14	17	9.6	16.6	45.3	38.9	4.3	3.9	-0.7	-1.0	9.4	10.0	9.8	10.5
Marico Industries	FMCG	344	453	75,189	84,100	12,946	15,342	9,411	11,181	7	9	15.5	18.8	47.2	39.8	15.8	14.0	0.1	-0.1	33.5	35.2	34.7	36.9
Dabur India	FMCG	450	771	87,538	98,860	18,063	20,703	14,757	17,023	8	10	7.5	15.4	53.8	46.7	14.5	12.3	0.5	0.0	26.9	26.4	24.9	27.1
Bajaj Corp	FMCG	421	61	8,670	9,452	2,608	2,834	2,142	2,033	15	14	1.5	-5.1	29.0	30.5	12.6	12.3	0.0	0.0	43.3	40.4	42.4	39.8
Parag Milk Foods	FMCG	293	26	22,366	26,335	2,395	2,999	1,168	1,581	14	19	48.7	35.3	21.1	15.6	3.0	2.5	0.7	0.3	14.1	16.2	18.1	20.0
Nestle	FMCG	10,330	996	112,792	126,945	27,730	31,700	16,594	19,383	172	201	35.4	16.8	60.0	51.4	26.2	23.2	-0.8	-1.0	43.6	45.2	28.5	29.6
Thangamayil	FMCG	379	6	15,937	19,151	725	969	312	444	23	32	36.3	42.4	16.7	11.7	2.7	2.3	2.0	1.7	16.1	19.3	23.5	27.5
Sadbhav Engineering	Infrastructure	270	49	39,958	47,949	4,595	5,514	2,748	2,555	16	15	24.5	-7.0	16.8	18.1	2.2	1.9	2.9	2.4	12.9	10.8	9.9	8.8
KNR Construction	Infrastructure	208	33	20,012	26,016	3,702	4,293	2,092	1,881	15	13	-23.1	-10.1	14.0	15.6	2.1	1.9	0.6	0.6	16.6	12.9	15.1	11.9
IRB Infrastructure	Infrastructure	172	69	69,265	71,725	33,393	29,094	8,818	5,631	25	16	11.2	-36.1	6.9	10.7	0.9	0.9	4.2	5.3	13.7	8.2	4.8	3.8
Ahluwalia Contracts	Infrastructure	299	21	19,759	23,711	2,618	3,142	1,515	1,852	23	28	31.3	22.2	13.2	10.8	2.6	2.1	-0.4	-0.4	21.8	21.5	22.1	21.8
PNC Infratech	Infrastructure	149	40	27,849	37,596	4,038	5,376	2,440	2,538	10	10	-2.8	4.0	15.6	15.0	1.9	1.7	1.3	1.5	12.7	11.8	12.1	11.0
Adani Ports & SEZ	Infrastructure	372	829	112,389	126,480	73,751	84,840	45,107	49,167	22	24	9.0	9.0	17.1	15.7	3.2	2.7	2.3	1.8	18.7	17.2	9.7	11.9
NCC	Infrastructure	92	55	115,658	138,789	13,011	15,267	5,630	6,661	9	11	55.8	18.3	9.8	8.3	1.2	1.0	1.5	1.4	11.9	12.5	13.2	13.6

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
ITD Cementation	Infrastructure	134	23	33,026	n.a.	3,633	n.a.	1,423	n.a.	8		-2.4		16.2		1.9		1.5		11.6		11.8	-
Ashoka Buildcon	Infrastructure	136	41	32,072	41,694	4,169	5,212	2,581	2,529	9	9	8.9	-2.0	14.8	15.1	1.7	1.5	1.1	1.4	11.2	9.9	12.4	10.9
Tata Consultancy	IT Services	2,081	7,578	1,453,554		398,821	451,312	309,293	346,343	82	92	21.9	12.0	25.2	22.5	9.2	7.4	0.0	-0.1	36.3	32.9	34.6	35.2
Infosys Technologies	IT Services	731	2,977	819,541	911,492	214,604	241,069	164,759	183,030	38	42	12.3	11.1	19.3	17.4	4.9	4.3	-1.5	-1.6	25.5	25.0	25.2	26.4
Wipro	IT Services	325	1,259	570,529	613,718	119,394	129,910	89,507	99,368	20	22	6.3	11.0	16.3	14.7	2.7	2.3	0.4	0.2	16.2	15.8	15.7	15.4
HCL Technologies	IT Services	1,089	1,343	592,332	659,799	139,539	156,417	98,613	106,961	73	79	15.0	8.5	15.0	13.8	3.6	3.0	0.2	0.1	24.0	22.0	23.4	21.6
Tech Mahindra	IT Services	766	649	341,217	368,645	59,868	63,272	39,556	41,204	45	47	3.5	4.1	17.1	16.4	3.4	3.1	-0.2	-0.4	20.0	18.5	14.7	14.3
L&T Infotech	IT Services	1,919	296	91,020	105,107	16,970	19,403	13,838	16,169	81	95	19.2	16.8	23.7	20.2	7.5	6.0	-0.3	-0.5	31.8	29.6	30.9	30.2
L&T Technology Serv	IT Services	1,724	146	49,156	57,493	8,644	10,358	7,091	7,984	70	79	40.0	12.6	24.7	22.0	8.1	6.4	0.1	-0.0	32.7	29.0	31.8	29.5
Mindtree	IT Services	1,147	157	68,009	77,605	10,438	12,181	7,269	8,330	44	51	27.5	14.6	25.9	22.6	5.8	4.9	-0.4	-0.7	22.4	21.8	24.3	23.5
Cyient Limited	IT Services	801	78	47,287	54,837	6,871	8,146	5,054	6,209	45	55	17.8	22.9	17.8	14.5	3.3	2.8	-1.3	-1.5	18.5	19.4	18.3	19.1
Persistent Systems	IT Services	885	67	34,109	37,351	5,806	6,351	3,670	4,159	46	52	13.6	13.3	19.3	17.0	3.0	2.7	-0.2	-0.4	15.6	15.7	15.2	15.6
NIIT Technologies	IT Services	1,403	79	36,169	41,785	6,353	7,390	4,136	4,754	68	78	47.6	14.9	20.8	18.1	4.3	3.7	-1.2	-1.6	20.9	20.3	20.9	20.8
Intellect Design Arena	IT Services	256	26	14,165	16,996	1,292	1,683	1,141	1,023	9	8	133.8	-10.4	29.4	32.8	3.7	3.3	1.1	1.5	-	-	7.9	9.5
Majesco	IT Services	555	15	9,629	11,278	673	999	518	679	18	24	-2,653.9	31.2	30.2	23.0	2.6	2.3	-1.0	-1.1	8.5	10.0	8.0	8.4
Praj Inds.	Logistics	93	15	10,794	13,303	886	1,658	602	1,168	3	7	100.1	93.9	27.8	14.3	2.2	2.0	-1.3	-1.2	8.0	14.0	8.0	14.3
Pennar Inds.	Logistics	45	6	20,698	23,096	1,742	2,203	623	840	5	7	8.5	34.9	8.8	6.5	0.9	0.8	1.5	1.3	9.7	11.9	12.7	14.6
Indo Count Industries	Logistics	76	17	20,304	22,768	2,395	3,005	1,163	1,456	6	7	-7.1	25.1	12.9	10.3	1.4	1.3	1.5	1.5	11.2	12.5	10.7	12.1
KDDL	Logistics	473	5	5,709	6,741	527	675	166	228	15	21	-3.7	38.0	30.9	22.4	3.6	3.3	3.0	2.7	11.7	14.6	8.3	10.0
Gateway Distriparks	Logistics	180	19	4,297	4,595	830	938	1,015	1,179	9	11	22.1	16.2	19.3	16.6	1.9	1.9	1.2	0.9	9.9	11.4	9.9	11.3
Container Corp Of India	Logistics	659	313	66,658	81,640	14,790	18,617	12,200	15,512	25	32	16.3	27.1	26.3	20.7	3.2	3.0	-1.5	-1.4	12.1	14.4	12.1	14.5
Navkar	Logistics	109	20	4,731	6,125	1,485	1,990	585	984	4	7	-42.0	68.2	28.1	16.7	0.9	0.9	2.7	1.7	3.2	5.1	3.7	5.0
Allcargo Logistics	Logistics	117	31	67,405	74,358	4,462	5,346	2,154	2,856	9	12	20.9	32.6	13.4	10.1	1.4	1.3	0.5	0.2	10.3	12.5	9.8	11.9
VRL Logistics	Midcap	306	31	21,203	23,774	2,366	3,057	940	1,256	10	14	1.5	33.6	29.5	22.0	4.3	3.8	0.8	0.7	14.7	17.4	12.0	14.0
VGuard Industries	Midcap	200	90	26,496	30,405	2,362	2,975	1,704	2,152	4	5	28.0	26.3	50.0	39.6	10.0	8.4	-0.1	-0.2	20.0	21.2	20.7	22.1
Bajaj Electricals	Midcap	533	62	67,398	77,716	4,392	6,092	2,299	3,235	23	32	33.0	40.7	23.5	16.7	5.3	4.2	2.6	2.1	22.8	25.2	15.2	16.7
Finolex Cables	Midcap	551	94	n.a.	n.a.	-26,639	-29,690	-27,503	-30,799	-180	-201	-867.8	12.0	-3.1	-2.7	3.4	3.0	0.0	0.1	-110.8	-109.5	-114.3	-113.4

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (₹ mn)		EBIDTA (₹ mn)		PAT (₹ mn)		EPS (₹)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	₹	₹ bn	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	
Havells India	Midcap	641	400	100,219	114,610	16,582	19,881	12,313	14,469	20	23	22.1	17.5	32.6	27.7	9.5	8.4	-0.2	-0.2	29.3	30.2	27.9	29.3
Indiabulls Housing Fin	NBFC	1,161	586	53,594	63,661	63,889	74,924	42,676	52,362	100	123	18.9	22.7	11.6	9.5	3.4	2.8	0.0	0.0	30.3	32.4	3.0	3.1
Muthoot Finance	NBFC	453	165	44,850	49,935	30,347	33,911	18,668	20,858	47	52	8.5	11.7	9.7	8.7	2.0	1.7	0.0	0.0	22.1	21.0	5.4	5.5
Shriram City Union Fin	NBFC	1,954	128	37,000	40,510	23,443	25,483	8,999	9,585	136	145	35.4	6.5	14.3	13.4	2.1	1.8	0.0	0.0	15.3	14.5	2.9	2.8
Cholamandalam Inves	NBFC	1,390	224	36,815	44,543	21,704	25,845	11,047	13,104	71	80	13.4	13.2	19.7	17.4	3.6	2.6	0.0	0.0	19.7	17.7	2.5	2.5
Shriram Transport Fina	NBFC	1,192	325	74,407	83,540	58,499	65,026	22,676	27,043	100	119	53.7	19.3	11.9	10.0	1.9	1.6	0.0	0.0	16.7	17.1	2.4	2.5
LIC Housing Finance	NBFC	484	272	38,520	44,281	33,649	38,672	21,941	24,931	43	49	10.3	13.6	11.1	9.8	1.6	1.4	0.0	0.0	15.6	15.2	1.2	1.3
Repco Home Finance	NBFC	537	38	4,647	5,178	4,036	4,461	2,263	2,561	36	41	8.9	13.2	14.9	13.1	2.2	1.9	0.0	0.0	15.8	15.5	2.2	2.2
Dewan Housing Fina	NBFC	632	196	21,225	23,924	18,188	20,488	10,849	12,118	35	39	-7.4	11.7	18.3	16.4	2.0	1.8	0.0	0.0	11.7	11.8	1.1	1.2
Mahindra & Mahindra F	NBFC	447	312	45,153	51,332	30,778	34,922	13,535	16,084	22	26	59.3	18.8	20.3	17.1	2.6	2.3	0.0	0.0	13.6	14.3	2.3	2.4
Manappuram Finance	NBFC	91	95	23,080	26,452	12,737	14,981	7,997	9,410	9	11	14.2	17.7	9.6	8.2	1.7	1.5	0.0	0.0	19.3	19.4	4.9	4.9
Magma Fincorp	NBFC	138	40	13,261	14,466	7,229	7,952	3,343	3,801	12	14	27.7	13.7	11.1	9.8	1.4	1.2	0.0	0.0	13.3	13.2	2.4	2.5
Ipca Laboratories	Pharma	771	97	36,299	42,411	6,786	8,187	4,299	5,381	34	43	79.9	25.2	22.5	17.9	3.1	2.7	0.3	-0.2	13.9	14.8	11.7	13.1
Aurobindo Pharma	Pharma	796	365	189,052	216,697	39,512	47,673	24,087	29,690	41	51	-1.1	23.3	19.2	15.6	3.3	2.8	0.8	0.3	17.2	17.7	17.5	18.7
Divi's Laboratories	Pharma	1,279	320	46,815	55,270	17,321	20,450	12,066	14,198	45	53	42.1	17.7	28.1	23.9	5.0	4.3	-0.0	-0.1	17.7	17.9	-	-
Cadila Healthcare	Pharma	420	386	122,342	136,026	26,981	30,971	17,422	20,278	17	20	-1.5	16.4	24.7	21.2	4.1	3.4	1.1	0.6	15.9	15.5	11.3	12.0
Sun Pharma	Pharma	638	105	304,948	352,607	71,190	88,400	44,636	59,037	19	25	2.9	32.3	15.8	25.9	0.0	3.2	1.5	-0.6	10.6	12.3	8.8	10.4
Cipla	Pharma	668	516	16,488	18,687	4,204	5,045	1,548	2,031	19	25	5.2	31.2	34.6	26.4	3.4	3.1	0.5	0.1	17.4	19.2	-	-
Lupin	Pharma	944	401	161,691	181,374	28,092	35,197	10,798	15,881	24	35	-20.1	47.1	39.5	26.9	3.0	2.8	2.1	1.5	7.5	10.2	-	-
Glenmark Pharma	Pharma	687	169	96,271	107,869	17,990	21,327	8,445	10,865	30	39	8.8	28.7	22.9	17.8	3.0	2.6	1.7	1.3	13.3	14.7	9.6	11.0
Dr Reddy's Labs.	Pharma	2,564	378	154,350	174,370	30,870	37,664	16,187	21,627	95	127	59.9	33.6	27.0	20.2	3.2	2.8	1.3	0.8	11.7	13.8	7.2	8.9
Biocon	Pharma	638	351	54,227	70,124	12,589	19,028	6,703	11,400	11	19	131.7	70.1	57.1	33.6	6.7	5.6	0.9	0.3	11.2	16.2	11.1	16.1
SRF	Specailty Che	1,953	100	72,923	82,582	13,491	16,351	6,473	8,216	113	143	55.8	26.9	17.3	13.6	2.7	2.3	2.2	1.7	15.7	16.9	10.0	11.0
Meghmani Organics	Specailty Che	85	24	20,700	24,955	4,492	5,690	2,121	2,705	8	11	23.0	27.5	10.2	8.0	1.9	1.5	1.3	0.7	18.2	19.0	14.8	15.5
Camlin Fine Sciences	Specailty Che	65	11	8,561	12,182	805	2,010	82	935	1	8	-126.9	1,044.7	95.6	8.4	2.1	1.7	5.5	1.8	3.9	22.3	-	-
Aarti Industries	Specailty Che	1,331	103	48,399	56,591	9,196	10,809	4,694	5,846	58	72	41.0	24.5	23.1	18.5	5.3	4.2	2.3	2.1	23.8	23.1	-	-
Vinati Organics	Specailty Che	1,330	51	10,075	14,538	3,566	4,803	2,392	3,181	47	62	76.2	33.0	28.6	21.5	6.7	5.1	1.1	0.6	23.6	23.9	-	-
Atul	Specailty Che	3,160	87	40,437	44,621	7,400	8,300	4,519	5,067	152	171	60.7	12.1	20.8	18.5	3.5	3.0	-0.5	-1.0	16.8	16.1	-	-

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