

# VALUATION MULTIPLE SERIES INDUSTRY FOCUS - IT 1<sup>ST</sup> EDITION

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# Methodology for Estimating Valuation Multiples

This Report's goal is to explain how the business valuation, financial performance, and corresponding valuation multiples for companies operating in the Information Technology Industry have changed over time.

The market bases its future growth projections & prospects, business valuation, and associated valuation multiples for enterprises on past financial performance.

The Indian Information Technology Industry is a global powerhouse today, and its impact on India has been incomparable. It has contributed immensely in positioning the country as a preferred investment destination amongst global investors and creating huge job opportunities in India, as well as in the USA, Europe and other parts of the world. Indian software product industry is expected to reach INR 8200 billion by 2025. In the last decade, the industry has grown many folds in revenue terms, and relative share to India's GDP is around 7.5 percent in FY2022-23. India is the topmost off-shoring destination for IT companies across the world. Having proven its capabilities in delivering both on-shore and off-shore services to global clients, emerging technologies now offer an entire new gamut of opportunities for top IT firms in India. Indian IT industry offers cost-effectiveness, great quality, high reliability, speedy deliveries and, above all, the use of state-of-the-art technologies globally

Source: Ministry of Electronics and Information Technology

We have identified Information Technology as the key sector, with value creation flowing to and from related sectors, that has a significant influence on the overall Gross Domestic Output of India. Further, we have identified 10 companies ("Representative Companies") that fairly represents the technical dynamics of the IT Industry.

As a part of this research, we have derived cash operating margin (EBITDA Margin) and net profit margin (PAT Margin) for Representative Companies in IT Industry. Along with various other multiples:- Enterprise Value to Sales, Enterprise Value to EBITDA, P/E Ratio, P/B Ratio, etc.

# This Report is providing the information of the Representative Companies, namely:



Established in 1968, TCS is headquartered in Mumbai, India with over 614,000 employees. TCS offers a consulting-led, cognitive powered, integrated portfolio of business, technology and engineering services and solutions with 184 solution centers. Some of its products include 'TCS BFSI Platform', 'TCS ADD', 'TCS HOBBS' etc. TCS serves to various industries like BFSI, Retail and CPG, Life Science and Healthcare, Manufacturing and much more. TCS is globally recognised and earns more than 50% of its revenue from North America, 15% from Continental Europe, 15% from UK and remaining from Asia Pacific.



Established in 1981, Infosys is headquartered in Bangalore, India with over 343,000 employees. Infosys offers a wide range of services including IT services, consulting, digital solutions, business processing outsourcing and industry specific solutions. Some of its products include 'Infosys Equinox', 'Infosys Helix', 'Infosys Finacle' etc. Infosys serves industries like Financial Services, CPG, Communications, Manufacturing, Energy and Utility services, Hi-tech and Life Sciences. Infosys has a strong global presence, 61.8% of its revenue comes from Americas, 25.7% from Europe and about 12% from rest of the world. It has a massive digital share of \$ 11 billion in FY23 which is 62% of its revenue.



Established in 1945, Wipro is headquartered in Bangalore, India with over 250,000 employees across 65 countries. Wipro offers IT services, BPO, Consulting, digital solutions and product engineering. It offers its services to vast range of industry base such as BFSI, Consumer, Health, Technology, Manufacturing and Communications. Wipro is present globally and earns more than 50% of its revenue from Americas, 30% from Europe and remaining from rest of the world. Wipro is known for its global reach, domain expertise, innovation-driven approach and commitment to sustainability.

## HCLTech

Established in 1976, HCL Tech is headquartered in Noida, India with over 220,000 employees. It offers IT services, engineering and R&D services, BPO, digital and analytics and cybersecurity and GRC. HCL caters to industries such as Financial Services, Manufacturing, Life sciences and Health care, Technology, Retail and CPG and Telecommunications, Media, Publishing and Entertainment. It earned 65.4% revenue from Americas, 28.7% from Europe and remaining from rest of the world in FY23.

## Tech Mahindra

Established in 1986, Tech Mahindra is headquartered in Pune, India with over 260,000 employees. It offers a wide range of services including, infrastructure and cloud service, engineering services, application services, data analytics, network services, testing services, product engineering and many more. It caters to industries like CME, Manufacturing, BFSI, Technology, Retail, Transport & Logistics. It has deep capabilities across geographies, it earns 50% of its revenue from Americas, 24.4% from Europe and remaining from rest of the world.



## Mphasis

The Next Applied

Established in 2000 as a spin-off from the US-based IT services company, Hewlett-Packard. Mphasis is headquartered in Bangalore, India with over 30,000 employees. Mphasis offers services such as application services, infrastructure services, BPO, digital services, risk and compliance solutions, blockchain, AWS and AZURE services, next-gen data, AI and cybersecurity. It provides its services to industries such as BFSI, Insurance, TMT, Logistics & Transportation, Healthcare among others. Mphasis is present globally and earns 80% of its revenue from Americas, 10% from EMEA and remaining from rest of the world.



## Persistent

Established in 1990, Persistent Systems is headquartered in Pune, India with over 22,500 employees. Persistence Systems offers services in product and platform engineering, CX & design-led transformation, data & AI, cloud enabled enterprise modernisation. It caters to industries such as BFSI, Software, Hi-tech & Emerging Industries, Healthcare and Life Sciences. Persistence Systems earns 78% revenue from North & Central America, 10% from Europe, 10% from India and remaining from rest of the world.



Established in 1989, Tata Elxsi is headquartered in Bangalore, India with over 11,000 employees. Tata Elxsi offers services in product and design, application services, media and communication, AI & ML and user experience. It offers products and services through design thinking and application of digital technologies such as IoT, Cloud, Mobility, VR and AI. Some of its products include 'AIVA' and 'AIDMS' in AI, 'TETHER' and 'V2X' in automotive and 'TEDREG' and 'TEcare' in healthcare. Tata Elxsi caters to clients in Transportation, Media & Communication and Healthcare & Medical Devices. It earns 42% revenue from Americas, 34% from Europe, 17% from India and remaining from rest of the world.



Established in 1991 as NIIT Limited's software division, later rebranded as Coforge Limited in July 2020 is headquartered in Noida, India with over 23,000 employees. Coforge offers services in product engineering, intelligent automation, data & integration, CIMS, software engineering, metaverse, cognitive and generative AI, cybersecurity and BPM. It caters various industries such as BFSI, Insurance, Travel, Transport & Hospitality among others. It earns 50% of its revenue from Americas, 39% from EMEA and remaining from rest of the world.



**L&T Technology Services**

Established in 2012, L&T Technology Services is headquartered in Vadodara, India with over 22,000 employees. LTTS offers its services in engineering, design and development, application embedded systems, digital engineering solutions, industrial IoTs, product lifecycle and data management. Some of its products include 'AiCE' 'FUSION', 'ESM' etc. It caters to industries such as Automotive, Healthcare, Medical Devices & Life Sciences, Transportation and Telecom and Hi-tech. LTTS earns 60% of its revenue North America, 17% from Europe, 15% from India and remaining from rest of the world.

# Financial Performance of Representative Companies

## Revenue

Revenue is the money generated from normal business operations, calculated as the average sales price times the number of units sold.

## EBITDA Margin

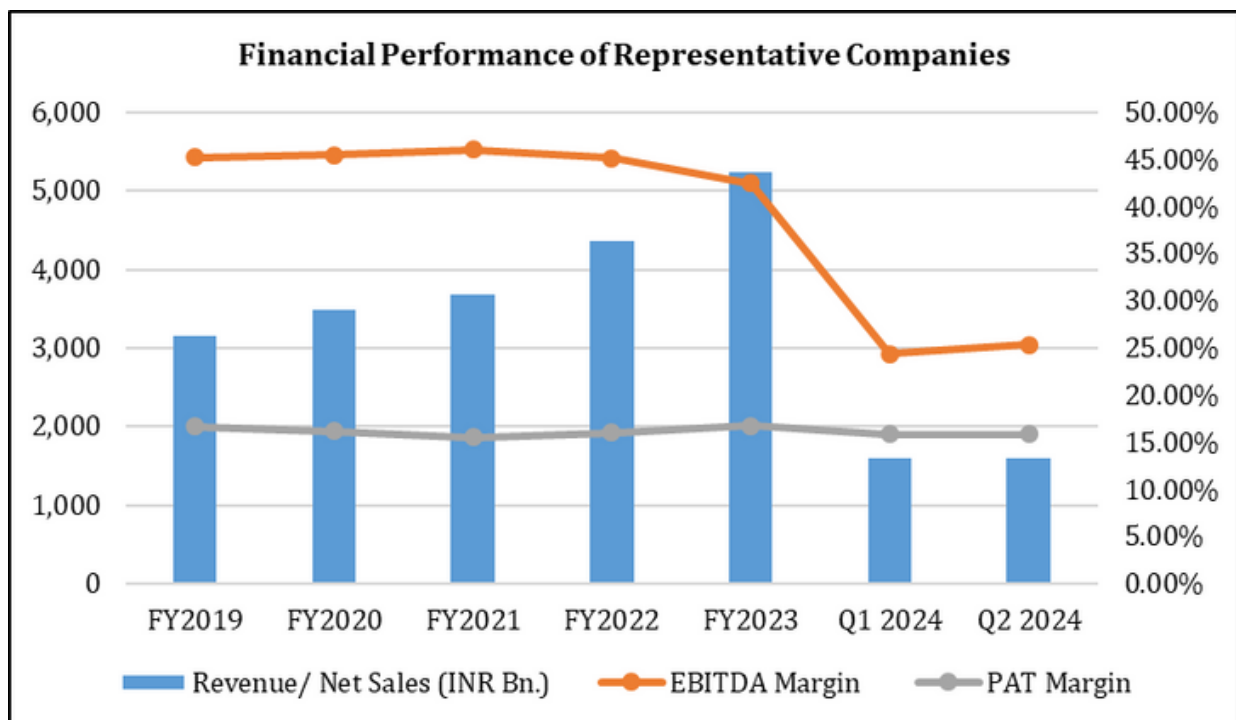
EBITDA margin is a profitability ratio that measures how much earnings a company is generating before interest, taxes, depreciation and amortization, as a percentage of revenue.

EBITDA Margin = EBITDA/Revenue. It is also referred to as 'Cash Operating margin'.

## PAT Margin

Profit After Tax refers to the amount that remains after a company has paid off all of its operating and non operating expenses, interest and taxes.

EPAT Margin = PAT/Revenue.

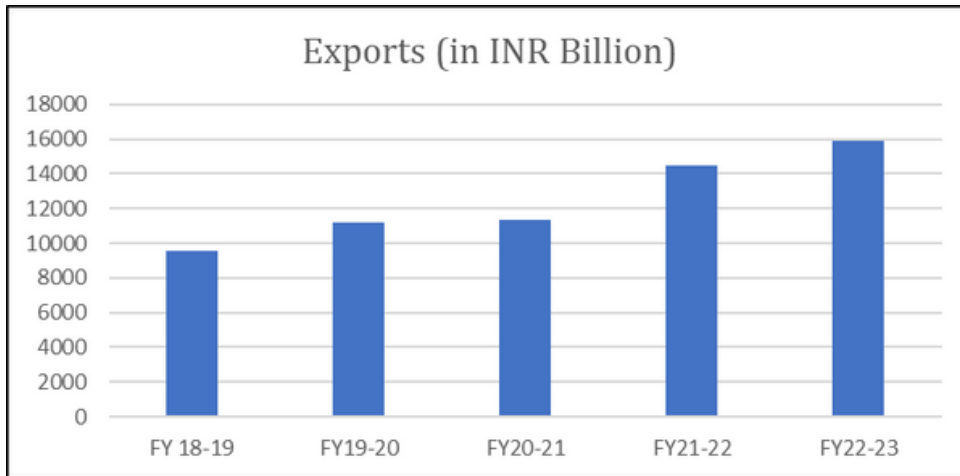


The IT Industry has grown at a steady rate over the last 5 years with revenue growth at a CAGR of 13.06% from FY19 to FY23.

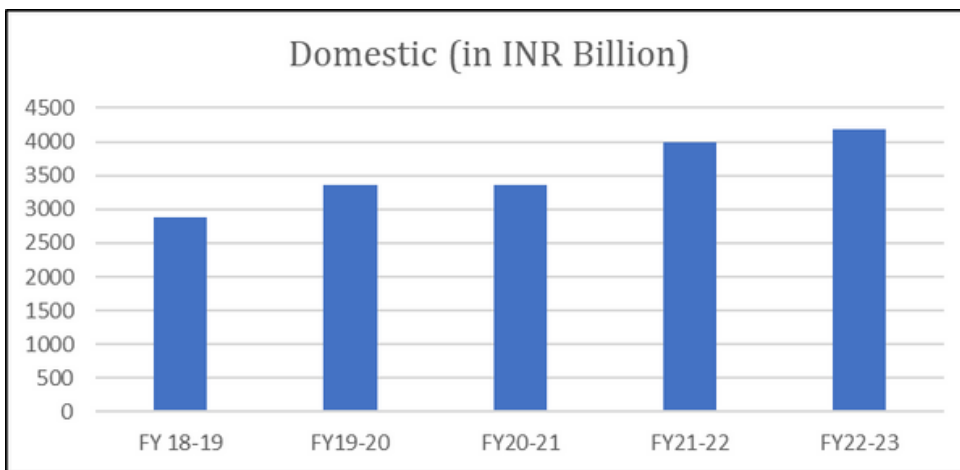
- The revenue numbers have been growing steadily from INR 3158 billion to INR 3674 billion in FY19 and FY 21 respectively. Further it increases to INR 5162 billion in FY23.
- The EBITDA margins fall from 45.20% to 45.43% in FY19 and FY20 respectively. After which it has grown marginally to 46.06% in FY21 post which it falls to 45.12% and 41.64% in FY22 and FY23 respectively.
- The PAT margins have been decreasing constantly from 16.66% to 15.5% in FY19 and FY21 respectively. Margins rise to 16.04% in FY22 then falls again to lowest levels in last 5 years and registers numbers of 14.23%.
- EBITDA margins increased marginally by 1% QoQ while PAT margin remained constant over the same period.
- Margins are seen falling in FY23 due to weak macro environment, IT companies cater to US and Europe which saw recessionary pressure and high interest rates.
- Indian IT companies derive more than 30% revenue from BFSI sector which was hit hard by banking collapse in FY23.



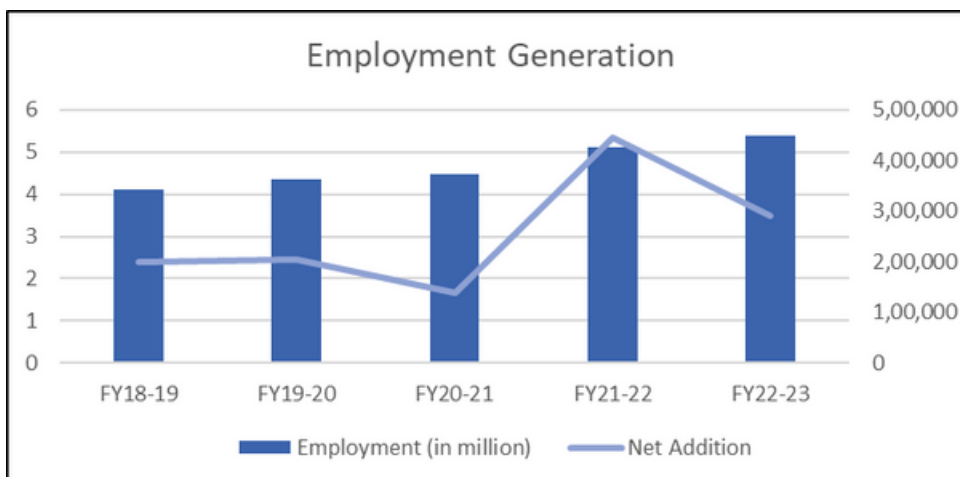
# Growth trend of IT Industry during the past 5 years



Exports are constantly rising from INR 9,573 billion to INR 11,334 billion in FY19 and FY21 respectively, further it rises to INR 15,908 billion in FY23.



Domestic Revenue is increasing at a steady pace from INR 2,885 billion to INR 3,353 billion in FY19 and FY21 respectively, further it rises to INR 4,182 billion in FY23.



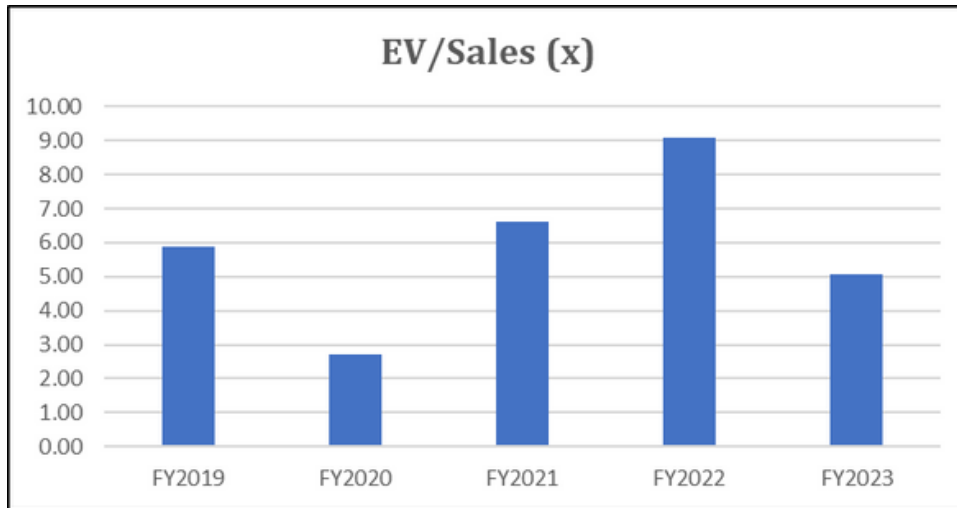
Employment has increased steadily over the last 5 years however, net additions have declined in the previous financial year.



# Multiples: IT/ITES

## EV/Sales

Enterprise value-to-sales (EV/sales) is financial valuation measure that compares the enterprise value (EV) of a company to its annual sales. The EV/sales multiple gives a quantifiable metric of how to value a company based on its sales while taking account of both the company's equity and debt.

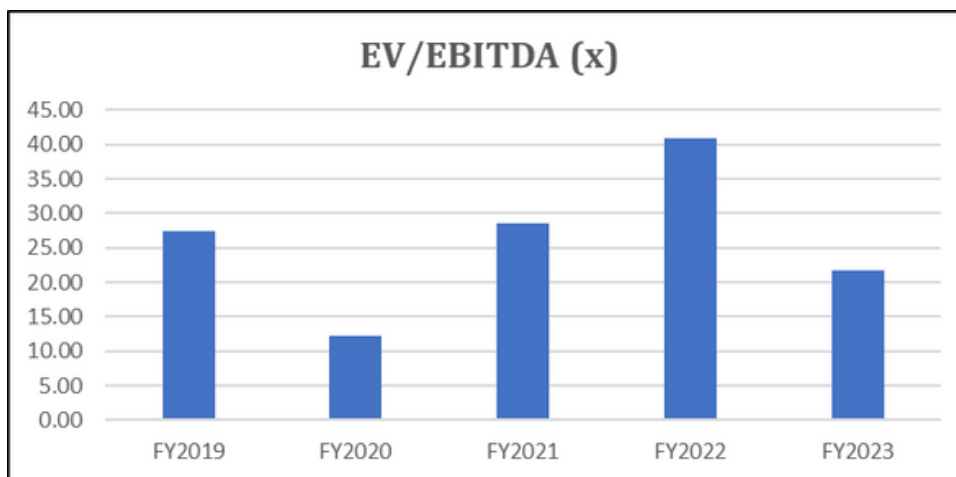


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	5.88	2.72	6.61	9.1	5.08

EV/Sales falls sharply from 5.88x to 2.72x in FY19 and FY20 respectively, which then starts to recover swiftly to 6.61x in FY21, further surpassing FY21 levels to register highest level of 9.1x in FY22 after which it decreases to 5.08x in FY23.

## EV/EBITDA

EV/EBITDA multiple is used to project the Enterprise Value (EV) of a company in terms of the EBITDA.

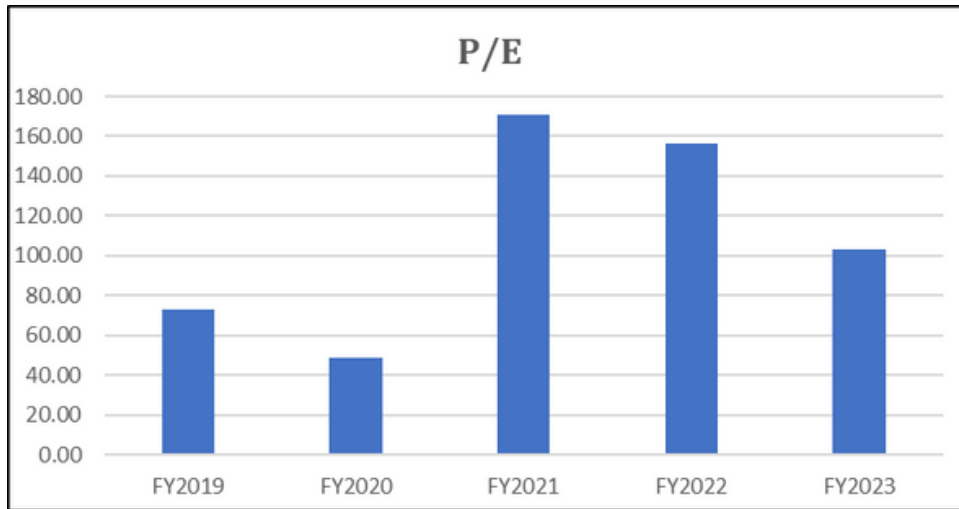


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	27.39	12.16	28.61	40.92	21.7

EV/EBITDA falls sharply from 27.39x to 12.16x in FY19 and FY20 respectively, further it increases significantly to 28.61 and 40.92x in FY21 and FY22 respectively, after which it falls to 21.7x in FY23.

## P/E

Price to earnings ratio measures the company's current share price relative to its earnings per share. P/E ratios are used to determine the relative value of a company's shares.

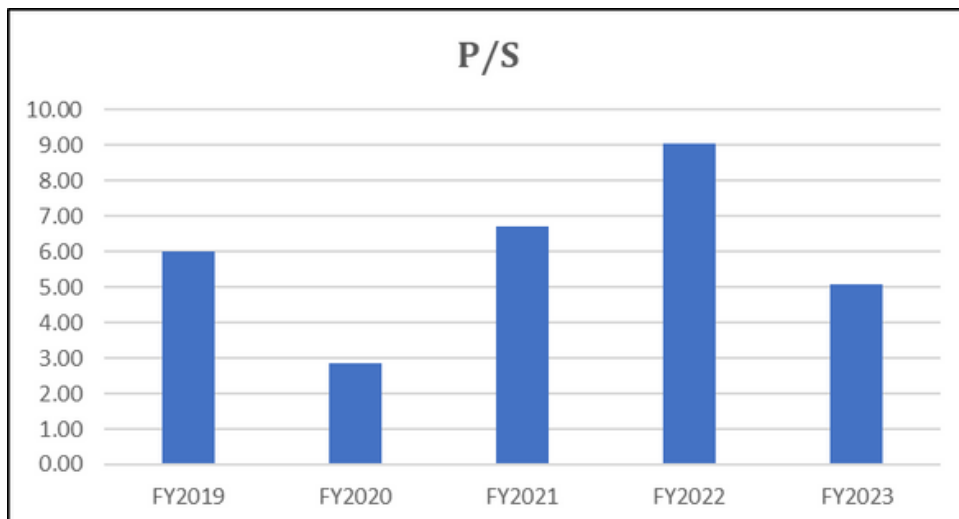


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	73.27	48.79	170.66	156.16	103.45

P/E begins to fall from 73.27x to 48.79x in FY19 to FY20 respectively. Further it starts to recover and surpass FY19 levels by many folds and reaches 170.66x in FY22 which is the highest recorded P/E in last 5 years but falls sharply to 103.45x in FY23.

## P/S

P/S ratio shows a company's market capitalization divided by the company's sales for the previous 12 months. It is a measure of the value investors are receiving from a company's stock by indicating how much equity is required to generate \$1 of revenue.

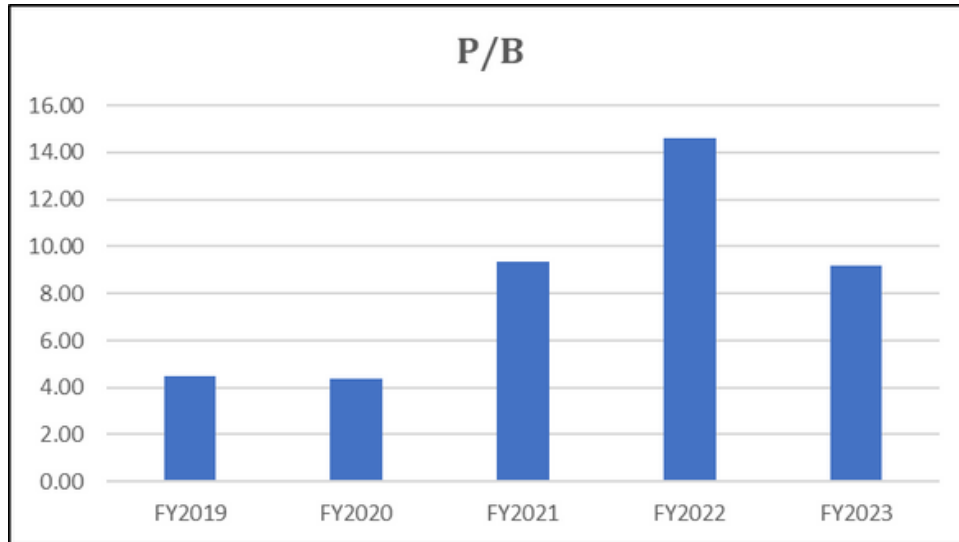


Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	6	2.84	6.7	9.02	5.07

P/S falls sharply from 6x to 2.84x in FY19 and FY20 respectively, further it shows a positive trend and registers its highest P/S(x) at 9.02x in FY22 respectively, after which it decreases to 5.07x in FY23.

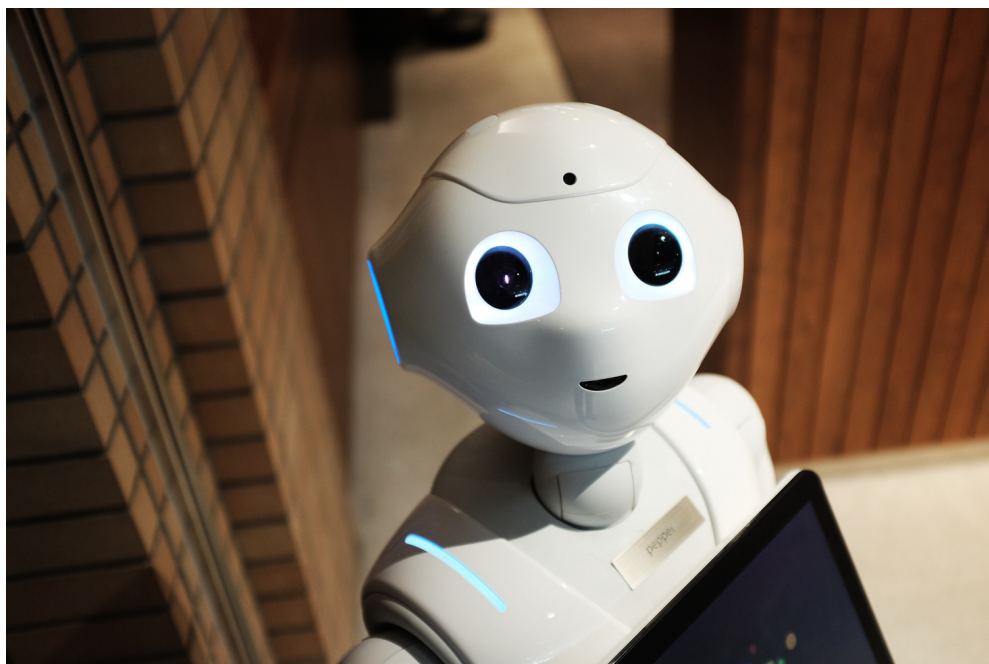
**P/B**

Price to book ratio compares a firm's market capitalization to its book value and is usually used to locate undervalued companies. This multiple is calculated by dividing the company's current stock price per share by its book value per share.



Particulars	FY2019	FY2020	FY2021	FY2022	FY2023
EV/Sales (x)	4.48	4.37	9.36	14.62	9.16

P/B shows a marginal falls from 4.48x to 4.37x in FY19 and FY20 respectively, further it rises many folds to 14.62x in FY22 but fails to hold the levels and decreases to 9.16x in FY23.



# About RNM Capital Advisors

RNM Capital Advisors (“RNM”), erstwhile known as RNM & Associates, is an associate firm of RN Marwah & Co. LLP, Chartered Accountants.

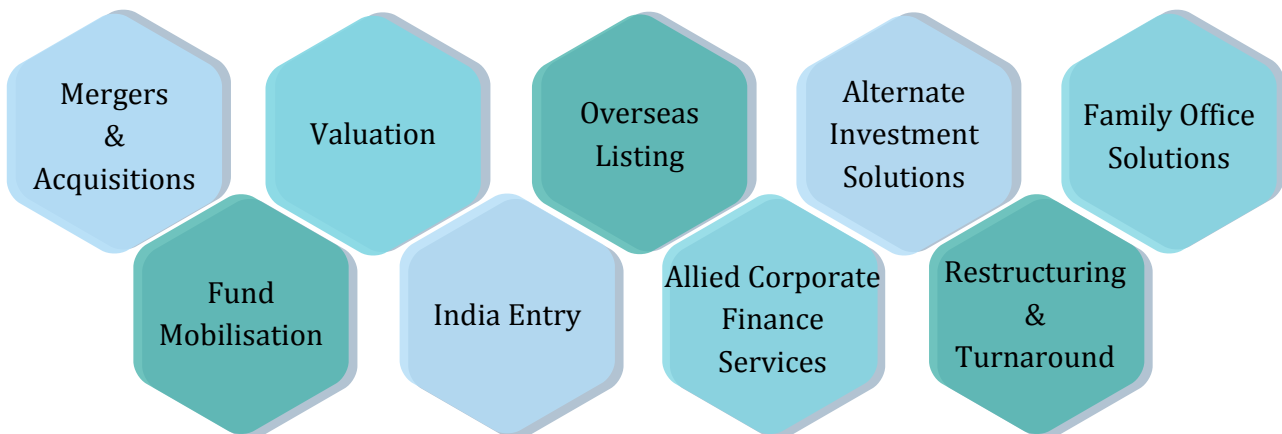
Established in year 2009, RNM is a mid-market focused boutique investment banking firm with head office in Janpath, Connaught Place, New Delhi. RNM Capital also operates from its branch office in Bangalore and Gurugram.

RNM provides advisory services to its leading clients across sectors and geographies in area of mergers & acquisitions, joint ventures/ collaborations, fund mobilization, restructuring & turnaround, valuations, due diligence, India entry, other allied corporate finance matters, family office solutions and alternate investment solutions. RNM boasts strong direct access to Promoters of Indian Corporates across sectors.

RNM Capital is strongly placed for execution of complex cross border deals across sectors as supported by its membership of GENEVA CAPITAL GROUP (GCG) as well as other international M&A networks' access to member firms of GENEVA GROUP INTERNATIONAL (GGI).

RNM's has strong relationship with most of the active PE/VC Funds, Banks, NBFCs and Financial Institutions and experience of closing multiple fund raise assignments under most challenging situations.

## Our Services



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