

RESEARCH

IT SERVICES

Outlook cloudy; stay selective in FY24

BOB ECONOMICS RESEARCH | MONSOON UPDATE

How has Monsoon and Kharif fared in the past?

SUMMARY

IT SERVICES

- Decline in aggregate Q4FY23 revenue across verticals and regions suggests the cracks are beginning to emerge
- Southbound demand trajectory is unlikely to reverse in H1FY24; any expectation of sharp recovery in H2 would be optimistic
- We remain selective and recommend INFO and PSYS as top picks in the sector

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INDIA ECONOMICS: MONSOON UPDATE

The onset of South West monsoon was delayed this year by more than a week against expectation (1st Jun). This might result in delay in rainfall in some of the Southern states as has been seen in the past. While there is an expectation of normal rainfall, there is an upside risk of El Nino conditions forming which poses significant risk. However, severity of El Nino has to be taken in to account based on past years data. The result of normal and spatially distributed rainfall would be evident on sowing of Kharif crops as well on their prices in the coming months.

[Click here for the full report.](#)

Daily macro indicators

Ticker	16-Jun	19-Jun	Chg (%)
US 10Y yield (%)	3.72	3.76	4bps
India 10Y yield (%)	7.04	7.06	2bps
USD/INR	81.94	81.94	0.0
Brent Crude (US\$/bbl)	75.7	76.6	1.2
Dow	34,408	34,299	(0.3)
Hang Seng	20,040	19,913	(0.6)
Sensex	63,385	63,168	(0.3)
India FII (US\$ mn)	15-Jun	16-Jun	Chg (\$ mn)
FII-D	(51.3)	133.8	185.2
FII-E	399.3	22.1	(377.2)

Source: Bank of Baroda Economics Research



IT SERVICES

20 June 2023

Outlook cloudy; stay selective in FY24

- **Decline in aggregate Q4FY23 revenue across verticals and regions suggests the cracks are beginning to emerge**
- **Southbound demand trajectory is unlikely to reverse in H1FY24; any expectation of sharp recovery in H2 would be optimistic**
- **We remain selective and recommend INFO and PSYS as top picks in the sector**

Saptarshi Mukherjee
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Cautious demand climate...: Indian IT companies are seeing clients cut discretionary spending amid a difficult macroeconomic climate. Though bookings have been supported by cost takeout and efficiency deals, revenue growth is being constrained by project deferrals, cancellations and delayed ramp-ups. In a key negative, sentiments in the Americas (60% of aggregate revenue) are worse than those in Europe at the moment. Technology companies have, therefore, turned more cautious on pricing. Among verticals, IT firms highlighted weakness in communication, BFSI and manufacturing.

...with no near-term triggers: We note that deferred project starts, stalled contracts and cancellations appear to persist predominantly in the key areas of apps, digital transformation and engineering, with a lower impact on legacy or managed services. In addition, increased competition for a smaller pie could trigger falling win-rates and pricing, besides eroding deal terms. Paused projects have limited visibility of restarting in the current environment, and we see no immediate catalyst for demand liftoff in the near term.

Headcount data underscores the flagging growth: Most IT services players under our coverage reported a sequential decline in headcount in Q4FY23, which echoes the decline seen during Covid in CY20. A softer pricing outlook and slowing headcount indicate sharp moderation in FY24, which is reflected in the underwhelming revenue growth guidance from INFO (4-7% CC), HCLT (6-8% CC) and WPRO (-3% to -1% CC).

Soft H1 could throw FY24 performance: We anticipate a soft H1FY24 which would make it much harder for companies to match their yearly guidance as that would necessitate considerable deal wins/project ramp-ups in the second half. We, thus, believe it would be difficult for Indian IT companies to deliver the higher end of consensus dollar growth expectations of 7% in FY24.

INFO, PSYS better placed: We expect most IT services firms to miss current expectations but believe that INFO (BUY, TP Rs 1,760) and PSYS (BUY, TP Rs 5,330) are better placed to meet the midpoint of growth targets.

Recommendation snapshot

Ticker	Price	Target	Rating
AFFLE IN	1,024	1,110	BUY
COFORGE IN	4,563	4,830	BUY
HCLT IN	1,138	1,240	BUY
INFO IN	1,294	1,760	BUY
MPHL IN	1,873	2,541	BUY
PSYS IN	4,943	5,330	BUY
TCS IN	3,210	3,580	HOLD
TECHM IN	1,094	1,130	HOLD
WPRO IN	380	420	HOLD

Price & Target in Rupees | Price as of 19 Jun 2023



MONSOON UPDATE

20 June 2023

How has Monsoon and Kharif fared in the past?

The onset of South West monsoon was delayed this year by more than a week against expectation (1st Jun). This might result in delay in rainfall in some of the Southern states as has been seen in the past. While there is an expectation of normal rainfall, there is an upside risk of El Nino conditions forming which poses significant risk. However, severity of El Nino has to be taken in to account based on past years data. The result of normal and spatially distributed rainfall would be evident on sowing of Kharif crops as well on their prices in the coming months.

Jahnvi Prabhakar
Economist

Kharif sowing season begins in Jun-Sep and interlaces with the South-West Monsoon. Kharif crops are harvested in the months of Oct-Dec and accounts for roughly 50% of the foodgrains production in the year. With the recent turn of events led by climate change, likelihood of a normal monsoon and the spatial distribution of the rainfall has become quite challenging with frequent fluctuations being evident. Notably, higher and lower production of foodgrains have some relation to the excessive or deficient monsoon in the respective year.

Table 1: Monsoon over the years

Years	% of LPA	Type of Monsoon	El Nino/ LA Nina	Agriculture GVA (%)	Crops GVA (%)
2014-15	88	Deficient	El Nino	(0.2)	(3.7)
2015-16	86	Deficient	El Nino	0.6	(2.9)
2016-17	97	Normal	La Nina	6.8	5.3
2017-18	95	Below Normal	La Nina	6.6	5.4
2018-19	91	Below Normal	El Nino	2.1	(2.4)
2019-20	110	Excess	-	6.2	5.7
2020-21	109	Excess	La Nina	4.1	2.8
2021-22	99	Normal	La Nina	3.5	1.7
2022-23	104	Normal	La Nina	3.3	-

Source: CEIC, Bank of Baroda Research

Table 1 showcases the distribution of rainfall over the years. In the last 2-years, the country has seen a normal rainfall after receiving excess rainfall consecutively in the previous 2-years. Additionally, the world has witnessed the formation of La Nina conditions in the last 3-years. However, this year, there are higher chances of the EL Nino conditions forming which might adversely affect rainfall bringing to the fore drought like conditions and even patchy monsoon. This in turn might have some effect on sowing of Kharif crops and on overall output. Despite all these challenges, IMD expects a normal monsoon this year at 96% of LPA. On the other hand, SKYMET, a private forecaster has projected a below normal monsoon of this year at 94% of LPA. The range for normal monsoon is between 96-104% of LPA.



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

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Note: Recommendation structure changed with effect from 21 June 2021

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