

FIRST LIGHT

RESEARCH

BOB Economics Research | Weekly Wrap

Risk-off drives DXY to 9-month high

IT Services: Q1FY22 Review

Growth surprise reinforces buoyant demand

SUMMARY

India Economics: Weekly Wrap

Slower than anticipated growth in China, lockdown measures to contain spread of Covid-19 and sooner than expected tapering signal from Fed minutes drove DXY index to a 9-month high. Global equities sold-off. Yields were lower. So was oil and other commodity indices. US retail sales and housing starts too were weaker than expected. Indian yields too fell. MPC minutes reveal members likely to continue to be accommodative into Q4FY22. India's Q1FY22 growth will be released this month and will give direction to how soon RBI may move (RBI's estimate is 21.4%).

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IT Services: Q1FY22 Review

- IT companies ex-TCS and HCLT outperformed optimistic growth expectations in Q1FY22
- BFSI vertical continued to shine; sharp uptrend in communications as well
- Healthy deal wins and upbeat guidance reinforce buoyant demand trends though supply has tightened; we stay optimistic on the sector

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

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.26	1bps	3bps	63bps
India 10Y yield (%)	6.23	1bps	4bps	15bps
USD/INR	74.40	(0.2)	0.3	0.6
Brent Crude (US\$/bbl)	65.18	(1.9)	(6.0)	47.0
Dow	35,120	0.6	1.8	25.7
Shanghai	3,427	(1.1)	(3.1)	1.4
Sensex	55,329	(0.5)	6.0	44.0
India FII (US\$ mn)	18-Aug	MTD	CYTD	FYTD
FII-D	33.0	87.0	(3,166.2)	(1,138.9)
FII-E	148.4	1,018.6	7,396.8	70.4

Source: Bank of Baroda Economics Research

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WEEKLY WRAP

23 August 2021

Risk-off drives DXY to 9-month high

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Markets

- **Bonds:** Global 10Y yields closed lower led by rising Covid-19 cases as few countries/ regions went into lockdown measures to control the spread. US 10Y yield fell by 2bps (1.26%) with softer than expected retail sales and housing starts. Crude prices fell by 7.7% (US\$ 65/bbl-lowest since May'21). India's 10Y yield fell a tad by 1bps (6.23%). System liquidity surplus fell to Rs 6.9tn as on 20 Aug 2021 from Rs 7.3tn last week.
- **Currency:** Even with dip in US yields, DXY rose by 1.1% to a 9-month high. Sharp decline in global commodity prices, decelerating growth outlook in China and lockdowns to contain Covid-19 explain US\$ outperformance. Fed minutes indicated tapering to begin this year. AUD fell the most (3.2% lower) as Australian government extended its lockdown. INR depreciated by 0.2% led by global cues despite lower oil prices and FII inflows.
- **Equity:** Global indices ended the week in red as concerns over Fed tapering and spread of delta variant, kept investors on the edge. Nikkei dropped the most (3.4%) followed by Shanghai Comp (2.5%) and FTSE (1.8%). Sensex too ended in red (0.2%) led by sell-off in metal and real estate stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.6mn versus 4.5mn last week. Fresh cases increased in US (1mn versus 0.9mn) and Japan (0.15mn versus 0.11mn) and Germany (43K versus 27k). In India, cases rose by 0.24mn versus 0.26mn. Our weekly economic activity tracker index rose to 97 (100=Feb'20) from 96. Singapore has fully vaccinated 71% of its population, Qatar at 68% and US at 51%. India is at 9.1%.
- **Upcoming key events:** Major events include flash global manufacturing and services PMI, US home sales, and Bank of Korea's rate decision. Additionally Germany's Ifo business index and consumer sentiment index of Germany and US are also due. Domestically, markets will react to RBI's MPC minutes.



Growth surprise reinforces buoyant demand

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Q1 growth surpassed already-optimistic expectations: IT services companies under our coverage saw broad-based QoQ dollar revenue growth in Q1FY22. All companies (except TCS and HCLT) outperformed consensus and our optimistic estimates that were premised on seasonal strength in Q1. Large-cap and mid-cap growth averaged at 4.2% and 7.6% QoQ USD respectively. Wipro (WPRO) performed well with 12.2% QoQ USD growth, driven by inorganic growth of 7.4% from the Capco acquisition. Persistent Systems (PSYS), Mindtree (MTCL) and Coforge also outperformed estimates, led by pickup across verticals, especially BFSI.

Supply pressure intensifies: EBIT margin fell 110-120bps QoQ on average across our coverage due to increased hiring and initiatives to combat attrition. Q1 saw record quarterly hiring, with large-cap players inducting ~53.6k employees and mid-caps ~17k. Most companies plan to ramp up recruitment throughout FY22. Subcontractor costs shot up as companies scrambled for talent amid a demand surge. MTCL/Tech Mahindra's (TECHM) subcontracting costs surged 340bps/210bps QoQ but other large-caps maintained costs in an acceptable range.

Healthy deal wins, upbeat guidance signal buoyant demand: LTM deal TCW was strong for all companies in Q1 (up by average ~30% YoY). TCS (US\$ 8.1bn TCW) and Coforge (US\$ 319mn) had record wins. Infosys (INFO) raised revenue guidance by 200bps to 14-16% YoY CC for FY22. Similarly, Coforge upped guidance to 'at least' 19% YoY CC organic growth vs. 17% earlier. WPRO's 3-4% QoQ CC organic growth guidance for Q2 looks robust on a strong base of Q1. Mid-cap players are racing to take the lead – Mphasis (MPHL) has guided for above-industry direct business growth and L&T Infotech (LTI) aims to be in the top industry quartile.

Maintain positive view: We remain optimistic on the sector's growth prospects on the back of a multiyear technology refresh cycle set in motion by the pandemic. The changing cloud footprint of enterprises is manifesting as a strong growth catalyst (see our report [IT Services: On cloud nine](#)). Prefer TECHM, TCS and INFO among large-caps and LTI and Coforge amongst mid-caps.

Recommendation snapshot

Ticker	Price	Target	Rating
AFFLE IN	3,836	6,200	BUY
COFORGE IN	4,988	5,860	BUY
ECLX IN	2,159	2,880	BUY
HCLT IN	1,163	1,360	BUY
INFO IN	1,739	2,020	BUY
INFOE IN	5,489	6,530	BUY
INMART IN	7,057	7,200	HOLD
JUST IN	953	1,330	BUY
LTI IN	5,053	5,960	BUY
MPHL IN	2,867	3,020	HOLD
MTCL IN	3,501	2,400	SELL
PSYS IN	3,214	3,050	HOLD
TCS IN	3,637	4,270	BUY
TECHM IN	1,416	1,660	BUY
WPRO IN	629	620	HOLD

Price & Target in Rupees | Price as of 23 Aug 2021



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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