

# FIRST LIGHT

27 November 2020

## RESEARCH

### IT Services

Pickup in digital and blockchain-led deals

## SUMMARY

### IT Services

Most key deal wins and partnerships in Q3FY21 so far have been in the blockchain and digital transformation space. TECHM and TCS have been especially active in announcing new partnerships. TCS's major acquisitions have focused on BFSI which would ensure continued traction for the company in this vertical. Increased acquisition and deal win activity in Europe and Australia reflect efforts to diversify away from the US. We remain positive on TCS, HCLT and TECHM among large-caps and LTI and Coforge in mid-caps.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	900
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	330
<a href="#">TCS</a>	Buy	3,180
<a href="#">Tech Mahindra</a>	Buy	980

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Greenply Industries</a>	Buy	150
<a href="#">Laurus Labs</a>	Buy	410
<a href="#">Transport Corp</a>	Buy	300
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.88	0bps	4bps	(88bps)
India 10Y yield (%)	5.89	0bps	4bps	(59bps)
USD/INR	73.92	0.1	(0.4)	(3.6)
Brent Crude (US\$/bbl)	48.61	1.6	16.4	(24.1)
Dow	29,872	(0.6)	5.4	6.1
Shanghai	3,362	(1.2)	2.6	15.8
Sensex	43,828	(1.6)	7.7	6.8
India FII (US\$ mn)	24 Nov	MTD	CYTD	FYTD
FII-D	(102.1)	(82.9)	(14,312.6)	(4,553.1)
FII-E	747.0	8,096.0	14,642.5	21,245.4

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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### Pickup in digital and blockchain-led deals

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**TECHM enterprise activity gaining traction:** Besides the communication vertical (5G), Tech Mahindra (TECHM) has also striven to expand its enterprise business through various acquisitions and partnerships. In Q3FY21 YTD, it has announced partnerships with RUAG, BurstIQ, Appvance, Sumitomo Corp and Subex, centered around strengthening capabilities in digital transformation and blockchain. In terms of large deal wins, it has announced a Rs 4bn HAL contract (ERP modernisation). We have been positive on TECHM since Q1FY21 (see [Deep Dive 2: Upgrade TECHM](#)) and reiterate BUY with a Sep'21 TP of Rs 980 (higher than street average), on a target P/E of 15.7x.

**TCS building BFSI capabilities:** With its acquisition of Pramerica Technology Services (in Ireland) and Postbank Services (in Germany), TCS has added ~3,000 employees in Europe. Besides a wider market footprint, this also expands its capabilities in BFSI where demand has risen for digital services post pandemic (see [Deep Dive 3: Swift BFSI recovery ahead](#)). Further, TCS is developing new capabilities in capital markets with its SAP technology-based investment insights solution. In insurance, it is partnering with B3i to launch blockchain solutions. TCS's Q2FY21 BFSI growth at 8.6% QoQ was one of the best among large-caps. Recent acquisitions will help maintain growth momentum in the vertical.

**Pickup in acquisitions around Europe:** More deals and acquisitions are taking place in Europe, especially in the financial services sector. TCS's acquisition of Postbank Services and Pramerica Ireland, Wipro's (WPRO) accelerated M&A in Europe, and HCL Tech (HCLT) and Mindtree's (MTCL) new deal wins are some examples. The pickup in activity can be attributed to Europe being one of the worst Covid-19 hit geographies, resulting in a struggling financial sector and enterprises that are now looking to cut costs. European banks are also investing a lot more in technology due to fiercer competition from fintech players.

### RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,701	3,180	BUY
INFO IN	1,116	1,210	ADD
WPRO IN	350	290	SELL
HCLT IN	824	980	BUY
TECHM IN	862	980	BUY
LTI IN	3,108	3,590	BUY
MPHL IN	1,326	1,410	REDUCE
MTCL IN	1,376	1,540	ADD
PSYS IN	1,206	840	SELL
COFORGE IN	2,424	2,690	BUY
ECLX IN	716	600	SELL

Price &amp; Target in Rupees



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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