

## RESEARCH

### IT Services | Q4FY21 Preview

Ending the year on a robust note

## SUMMARY

### IT Services: Q4FY21 Preview

We expect a resilient Q4FY21 marked by healthy QoQ dollar revenue growth (2.5-5.3%) for most of our IT coverage, aided by modest cross-currency tailwinds (~60bps). TCS and LTI are likely to outperform. EBIT margins are expected to decline ~90bps QoQ on average due to sector-wide wage hikes. We await commentary on (1) FY22/FY23 demand outlook, (2) BFSI growth momentum, (3) acquisition-related updates, (4) large deal wins in Q4, and (5) margin trajectory. Remain positive on TCS, HCLT, TECHM, LTI, Coforge.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">TCS</a>	Buy	3,710
<a href="#">Tech Mahindra</a>	Buy	1,130

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">Transport Corp</a>	Buy	330

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.70	(2bps)	13bps	103bps
India 10Y yield (%)	6.12	(4bps)	(11bps)	(18bps)
USD/INR	73.30	(0.3)	(0.4)	3.8
Brent Crude (US\$/bbl)	62.15	(4.2)	(10.4)	88.0
Dow	33,527	1.1	6.4	47.8
Shanghai	3,484	0.5	(0.5)	26.1
Sensex	49,159	(1.7)	(2.5)	78.2
India FII (US\$ mn)	31 Mar	MTD	CYTD	FY21
FII-D	224.4	(543.1)	(2,027.3)	(6,120.9)
FII-E	(230.4)	2,332.5	7,326.3	37,302.1

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## Ending the year on a robust note

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**Midcaps outperform:** Nifty IT's Q4FY21 return of 6% is on par with that of the Nifty 50. TCS, Infosys (INFO), L&T Infotech (LTI) and Mphasis (MPHL) narrowly beat the sectoral index while Mindtree (MTCL), Persistent (PSYS) and eClerx (ECLX) outperformed with >25% returns, recovering from the Q3 mid-cap sluggish performance. This performance can also be partly attributed to Accenture's stellar Q2FY21 print (Y/E Aug), especially in the outsourcing segment (see our 19 March report: [Accenture posts stellar Q2, raises guidance](#)).

**Moderate revenue growth:** Barring Wipro (WPRO) and MTCL, most companies are expected to end FY21 with flattish-to-low single digit full-year growth despite a sharp decline in Q1FY21. The cloud-driven multiyear technology upcycle has aided a V-shaped recovery across the sector and we expect LTI to post the highest FY21 growth of 9-10%. For Q4, we project a modest average uptick of 4% USD sans eClerx (ECLX) where we bake in an exceptional 30% increase due to revenue coming from Personiv acquisition.

Among large-caps, TCS is likely to outperform at 5.2% QoQ USD, alongside 5.3% growth from LTI and Coforge among mid-caps. Growth will be aided by cross-currency tailwinds of ~60bps and driven by the BFSI, hi-tech and healthcare verticals for majority. Manufacturing is expected to see continued improvement but energy & utilities, retail and travel could be lukewarm.

**Impact on margins:** Despite headwinds of currency appreciation, wage hikes, normalised utilisation and increased hiring, we estimate a limited 90bps impact on EBIT margin on average due to structural advantages from topline growth, increased offshoring, and lower travel, branding and subcontracting costs. We expect topline-led margin expansion for TCS (won TCV~US\$1.3- 2.6bn in BFSI), ECLX (Personiv acquisition) and Coforge.

## KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
TCS IN	3,239	3,710	BUY
INFO IN	1,410	1,500	ADD
WPRO IN	425	450	ADD
HCLT IN	1,034	1,150	BUY
TECHM IN	998	1,130	BUY
LTI IN	4,270	4,740	BUY
MPHL IN	1,755	1,550	REDUCE
MTCL IN	2,088	1,850	ADD
PSYS IN	1,959	1,260	SELL
COFORGE IN	3,037	2,800	BUY
ECLX IN	1,121	950	REDUCE

Price &amp; Target in Rupees | Price as of 5 Apr 2021



## 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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