

## RESEARCH

### IT Services

US elections – a potential cyclical risk for Indian IT

## SUMMARY

### IT Services

Our analysis of growth trends over the last 12 years indicates a risk of protracted near-term softness for India's IT services industry in the runup to US presidential elections in Nov'20. Besides inherent immigration rhetoric, we find that slow, delayed decision-making by clients in election years (FY09, FY13, FY17) has translated into cyclical growth moderation for the IT services industry (ranging from 270bps to >10ppt vs. the respective prior financial year). Our study suggests TECHM and WPRO are the most vulnerable among tier-I players.

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

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	570
<a href="#">ONGC</a>	Buy	210
<a href="#">Petronet LNG</a>	Buy	400
<a href="#">Reliance Industries</a>	Buy	1,670
<a href="#">TCS</a>	Add	2,230

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,290
<a href="#">Future Supply</a>	Buy	680
<a href="#">Greenply Industries</a>	Buy	210
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	245

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.72	(10bps)	1bps	(120bps)
India 10Y yield (%)	6.47	(2bps)	2bps	(110bps)
USD/INR	71.67	0	(1.2)	(1.7)
Brent Crude (US\$/bbl)	60.82	(0.2)	(1.4)	(2.0)
Dow	27,503	(1.0)	0.6	9.9
Shanghai	2,885	0.3	(2.5)	8.2
Sensex	40,675	(0.3)	1.3	12.6
India FII (US\$ mn)	2 Dec	MTD	CYTD	FYTD
FII-D	4.1	4.1	4,248.9	3,704.2
FII-E	(201.9)	(201.9)	13,170.5	6,325.3

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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**IT SERVICES**

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**US elections – a potential cyclical risk for Indian IT**

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**US polls and IT services growth adversely correlated:** Over the last 12 years (encompassing three US presidential elections), growth in the Indian IT industry has moderated in every poll year as compared to the respective previous financial year. Even excluding Nov’08 which had the global financial crisis impact, growth in Indian IT services moderated by 860bps and 270bps in the FY13 and FY17 election years respectively. This cyclical growth headwind arises largely due to delays in decision-making by clients in the absence of clarity regarding government spending, taxation and regulation.

**Back-ended acknowledgement by IT leaders:** The poll-related cyclical risk has seldom been flagged in advance by Indian IT companies, nor have managements alluded to potential implications of this event for IT services players. Post-elections, however, several company leaders have acknowledged the event as being one of the causes behind slower discretionary spending by clients (Fig 3).

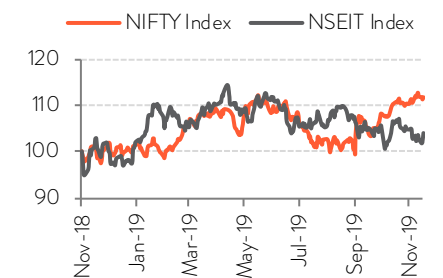
**TECHM and WPRO face highest risk; HCLT the lowest:** While we remain optimistic on the long-term growth prospects of IT services companies, we are cautious on the sector’s near-term outlook. Our scenario analysis shows that Tech Mahindra (TECHM) and Wipro (WPRO) are the most vulnerable in a scenario of sector-wide growth moderation ahead of US elections. HCL Tech (HCLT) faces the least risk. Overall, we prefer TCS and HCLT amongst large-caps; L&T Infotech (LTI) is our sole BUY among mid-caps.

**KEY RECOMMENDATIONS**

Ticker	Price	Target	Rating
TCS	2,079	2,230	ADD
INFO	709	860	ADD
WPRO	240	240	REDUCE
HCLT	1,126	1,260	BUY
TECHM	758	740	REDUCE
LTI	1,672	2,010	BUY
MPHL	869	1,020	ADD
MTCL	747	690	SELL
HEXW*	339	410	ADD
PSYS	686	650	REDUCE
NITEC	1,467	1,600	ADD
ECLX	505	450	REDUCE

Price & Target in Rupees

**NSEIT INDEX PERFORMANCE**



Source: Bloomberg

**FIG 1 – SCENARIO ANALYSIS FOR ELECTION YEAR GROWTH**

FY21E EPS chg (%)	(S1) Revenue growth flat EBIT margin flat	(S2) Revenue growth down 100bps EBIT margin down 30bps	(S3) Revenue growth down 200bps EBIT margin down 50bps
TCS	(3.0)	(4.9)	(6.4)
INFO	(5.5)	(7.5)	(9.0)
WPRO	(5.5)	(7.7)	(9.5)
HCLT	2.8	0.4	(1.5)
TECHM	(9.6)	(12.0)	(13.9)

Source: BOBCAPS Research | Note: S1, S2 and S3 refer to our three scenario



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### 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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