

FIRST LIGHT

RESEARCH

[Sector Report] IT Services

On cloud nine

BOB Economics Research | Weekly Wrap

MPC and FOMC minutes hold the key

SUMMARY

[Sector Report] IT Services

- Pandemic-fuelled cloud adoption to raise enterprise cloud spending at 28% CAGR to US\$ 2.4tn by 2026, per Gartner
- Rapidly changing cloud footprint of enterprises represents multiyear growth catalyst for IT services industry
- Alliances with cloud providers no longer enough; 'specialist' partnerships set cloud capabilities of Indian IT apart – prefer TCS

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India Economics: Weekly Wrap

US 10 year yield fell by 6bps on the back of drop in US consumer confidence. DXY fell by 0.3% as markets move their projections of Fed taper. Equity markets continue to make new highs in the US even as China's economy is slowing down. Indian 10 year yield was marginally higher even as inflation eased. MPC minutes to be released this week will give a peek into what members are thinking after a 5:1 vote on accommodative stance. In our view, RBI is likely to change its monetary policy stance during Q4FY22 with repo rate hike in early FY23.

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.27	(1bps)	(3bps)	58bps
India 10Y yield (%)	6.24	1bps	3bps	29bps
USD/INR	74.25	0.0	0.4	0.9
Brent Crude (US\$/bbl)	69.51	(1.5)	(5.5)	53.2
Dow	35,625	0.3	2.7	27.9
Shanghai	3,517	0.0	(0.6)	2.3
Sensex	55,583	0.3	4.6	46.1
India FII (US\$ mn)	12-Aug	MTD	CYTD	FYTD
FII-D	(43.2)	(32.7)	(3,285.9)	(1,258.6)
FII-E	39.0	626.2	7,004.3	(322.0)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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IT SERVICES

17 August 2021

On cloud nine

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- **Rapidly changing cloud footprint of enterprises represents multiyear growth catalyst for IT services industry**
- **Alliances with cloud providers no longer enough; 'specialist' partnerships set cloud capabilities of Indian IT apart – prefer TCS**

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Pandemic accelerated the cloud rush: Cloud computing isn't new. It has long promised lower costs, greater elasticity, faster innovation and improved access to third-party tools and services. However, transition complexities and data risk concerns led to a measured cloud adoption journey for large enterprises in the past. Covid-19 was a gamechanger, forcing a reevaluation of the pace of transition as the scalability, flexibility and accessibility of public cloud platforms turned them into a business imperative. Over the past year and a half of the pandemic, cloud has thus become central to enterprise technology strategies.

Secular growth ahead: Given the increased strategic relevance, Gartner predicts cloud budgets will exceed 45% of all enterprise IT spending, up from less than 17% in 2021, resulting in US\$ 2.4tn of cloud spend by 2026 (28% CAGR). Thus, the fast-changing cloud footprint of enterprises is manifesting as a multiyear growth catalyst for the IT services industry.

Expert partnerships set Indian IT apart: Indian IT players are swiftly moving to scale up cloud capabilities via the setup of dedicated hyperscaler-specific business units and new alliances to expand the partnership ecosystem. However, mere alliances no longer serve to differentiate capabilities. Instead, expert certifications conferred by key hyperscalers such as AWS, Azure and Google Cloud – collectively ~70% of the global public cloud market – hold the key as these validate a service partner's deep technical expertise and proven customer success.

Prefer TCS: Based on our detailed study of the hyperscaler-specific capabilities of Indian IT players, we find that TCS ranks first across the board in terms of awarded expertise levels, with 12 certifications from AWS (vs. 4 on average for peers), 4 (vs. <2) from Azure and 47 (vs. 6) from Google Cloud. We remain optimistic on growth prospects for India's IT services industry given the multiyear technology refresh cycle set in motion by the pandemic. Our cloud-skill mapping strengthens our conviction on top pick TCS (BUY, TP Rs 4,270 vs. Rs 3,890 earlier).

Recommendation snapshot

Ticker	Price	Target	Rating
COFORGE IN	4,869	5,860	BUY
HCLT IN	1,143	1,360	BUY
INFO IN	1,742	2,020	BUY
LTI IN	4,959	5,960	BUY
MTCL IN	3,017	2,400	SELL
MPHL IN	2,842	3,020	HOLD
PSYS IN	3,212	3,050	HOLD
TCS IN	3,553	4,270	BUY
TECHM IN	1,414	1,660	BUY
WPRO IN	635	620	HOLD

Price & Target in Rupees | Price as of 17 Aug 2021



WEEKLY WRAP

17 August 2021

MPC and FOMC minutes hold the key

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Markets

- **Bonds:** US 10Y yield fell the most by 6bps (1.27%) led by sharper than expected decline in US consumer sentiment index. China's 10Y yield rose by 3bps (2.89%) as PPI rose more than expected. Crude prices inched up by 0.7% (US\$ 70/bbl) amidst reports of no immediate increase in output by OPEC+. India's 10Y yield rose by 2bps (6.24%). System liquidity surplus rose to Rs 7.3tn as on 13 Aug 2021 from Rs 7tn last week.
- **Currency:** Except INR and GBP, other global currencies closed higher this week. DXY fell by 0.3% as US University of Michigan consumer sentiment index fell to a 10-year low in Aug'21. JPY rose the most by 1% supported by better than expected GDP data. INR closed flat as oil prices edged up marginally. FII inflows were muted at US\$ 70mn.
- **Equity:** Barring Nikkei, global indices ended higher. Sensex, Dow and Dax rose the most. Markets rose on the hope that Fed may remain accommodative for longer than what was earlier expected on the back of falling US consumer confidence and lower core inflation. Sensex rose by 2.2% led by metal and tech stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.5mn, same as last week. Fresh cases increased in US (0.9mn versus 0.8mn) and Japan (0.1mn versus 99k). In India, cases rose at a slower pace of 0.26mn versus 0.27mn. Our weekly economic activity tracker index rose to 96 (100=Feb'20) from 93. Singapore has fully vaccinated 71% of its population, Qatar at 65% and US at 50%. India is at 8.8%.
- **Upcoming key events:** Major events include US retail sales, industrial production, FOMC minutes, along with Q2 GDP print of Eurozone and Thailand. Rate decisions of Central Banks of Indonesia and New Zealand are also due. Domestic markets will react to latest CPI, WPI and MPC minutes.



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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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