

RESEARCH
IT Services

Q1FY22 preview – expect a strong start to FY22E

SUMMARY
IT Services

- We expect robust Q1FY22 marked by QoQ dollar revenue growth of 1.5% to 11.4%; wage revision to impact operating margins
- Amid supply challenges, attrition and operating margin defense will be a key monitorable for Q1FY22
- We stay optimistic on IT services sector on back of pandemic induced multiyear tech refresh cycle. Prefer TCS, HCLT, TECHM, LTI.

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.42	0bps	(13bps)	75bps
India 10Y yield (%)	6.09	2bps	6bps	25bps
USD/INR	74.31	0.6	(1.8)	0.5
Brent Crude (US\$/bbl)	77.16	1.3	7.3	79.0
Dow	34,786	0.4	0.1	32.3
Shanghai	3,534	0.4	(1.6)	6.0
Sensex	52,880	0.8	1.5	44.9
India FII (US\$ mn)	02-Jul	MTD	CYTD	FYTD
FII-D	10.3	(12.9)	(3,179.7)	(1,152.4)
FII-E	(335.6)	(351.0)	7,733.2	406.8

Source: Bank of Baroda Economics Research



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06 July 2021

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Expect strong start to FY22E: We expect Q1FY22 to set a strong start to FY22E as we forecast an average QoQ USD growth of 4.2% (excluding Coforge) in our coverage. We expect 1.5% to 9.1% QoQ dollar revenue growth for large cap IT players. Wipro will lead with 9.1% QoQ dollar revenue growth aided by ~700bps inorganic revenues. We expect mid-caps to report sequential dollar revenue growth of 3.3% to 11.4% with Coforge at leading end and LTI at bottom end. Coforge's revenue performance will be aided by consolidation of SLK Global.

Wage revision to impact operating margin: IT players are returning to normal wage revision cycle after pandemic led aberration in FY21. Q1FY22 will have full or partial impact of wage revision for IT companies under our coverage except for HCLT, Mphasis and Persistent. We expect an average 140 bps QoQ EBIT margin decline for our coverage universe because of salary hikes, supply constraint and rising attrition. Six companies are giving second round of wage hikes after 1st round since Sep'20 qtr. Companies are ramping up hiring as demand environment heats up, causing talent cost to shoot up.

Expect unchanged FY22 guidance: As stated by Accenture too ([IT Services - Sector Update 24Jun21.pdf](#)), demand environment continues to be robust driven by multi-year technology refresh cycle. We expect largely unchanged FY22 growth guidance from IT companies. The growth will be driven by large outsourcing opportunity, demand for hyperscaler cloud stacks and cyber-security. Cloud part of the business will continue to grow at a much faster pace vs. the total business. WPRO and HCLT joined peers with separate cloud business set up in last quarter. We expect the trend of larger volume of smaller deal TCVs to continue from Q4FY21.

Key things to watch out: 1) Amid supply challenges attrition and operating margin defense will be a key monitorable for Q1FY22, 2) large deal wins and (3) manufacturing and BFSI vertical demand trend.

Recommendation snapshot

Ticker	Price	Target	Rating
HCLT IN	980	1,190	BUY
LTI IN	4,047	4,710	BUY
MPHL IN	2,114	1,580	SELL
PSYS IN	2,904	1,340	SELL
TCS IN	3,321	3,780	BUY
TECHM IN	1,075	1,190	BUY

Price & Target in Rupees | Price as of 5 Dec 2021



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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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