

**RESEARCH**
**[Sector Report] IT Services**

Deep Dive 3: Swift BFSI recovery ahead – raise TCS to BUY

**SUMMARY**
**IT Services**

While BFSI vertical revenues of Indian IT players contracted in Q1FY21, we expect a swift recovery to pre-Covid growth levels through FY21 on the back of (1) receding supply challenges and (2) steady technology budgets at large US banks. In our view, the pandemic will catalyse deepening of technology systems in the BFSI industry as digital channels take centre stage. TCS (31% BFSI revenue mix) is likely to be a key beneficiary – we upgrade the stock to BUY (from ADD) and roll to a new Sep'21 TP of Rs 2,620 (Rs 2,320).

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

**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Bajaj Finance</a>	Buy	4,000
<a href="#">Cipla</a>	Buy	850
<a href="#">GAIL</a>	Buy	155
<a href="#">Petronet LNG</a>	Buy	310
<a href="#">Tech Mahindra</a>	Buy	910

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,600
<a href="#">Chola Investment</a>	Buy	280
<a href="#">Laurus Labs</a>	Buy	1,200
<a href="#">Transport Corp</a>	Buy	270
<a href="#">Mahanagar Gas</a>	Sell	750

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.70	(2bps)	18bps	(79bps)
India 10Y yield (%)	6.12	(3bps)	28bps	(44bps)
USD/INR	73.62	(0.3)	1.6	(3.1)
Brent Crude (US\$/bbl)	45.28	0.5	4.6	(22.8)
Dow	28,430	(0.8)	7.6	7.7
Shanghai	3,396	(0.2)	2.6	16.1
Sensex	38,628	(2.1)	2.7	3.5
<b>India FII (US\$ mn)</b>	<b>28 Aug</b>	<b>MTD</b>	<b>CYTD</b>	<b>FYTD</b>
FII-D	(256.9)	(531.6)	(15,059.3)	(5,299.8)
FII-E	65.1	6,415.9	5,127.7	11,730.7

Source: Bank of Baroda Economics Research

**BOBCAPS Research**

research@bobcaps.in



## IT SERVICES

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Ruchi Burde | Seema Nayak

research@bobcaps.in

**BFSI to see quick rebound:** BFSI forms the largest chunk of revenue for Indian IT companies at ~28%. Revenues from this vertical contracted 2-6% QoQ in Q1FY21, whereas tech spends by large US banks increased both sequentially and annually – this contrast stemmed from supply-side issues, mainly delayed work-from-home approvals due to security, compliance and regulatory concerns. We expect Indian IT players to see a quick rebound in BFSI revenue growth to pre-Covid levels through FY21, as supply challenges have abated and commentary from large US banks indicates intact IT budgets.

**Digital channels fortified bank operations amid pandemic, tech budgets intact:**

Digital channels and technology infrastructure have enabled banks to provide uninterrupted services during the pandemic. In our view, the Covid-19 outbreak will catalyse the entrenchment of technology spending in the banking industry, with large US banks remaining committed to tech investments despite a cost optimisation focus. The proportion of tech spends in operating cost has risen by 200bps for major US banks in the last five years. In Europe, banking majors have fast tracked restructuring plans with a higher resource allocation for IT.

**Upgrade TCS to BUY:** TCS with its high 31% BFSI exposure is in a favourable position to benefit from the vertical's healthy growth dynamics, on the back of its comprehensive services portfolio, rich product offerings, robust scale and efficient, geographically-diverse delivery model. We upgrade TCS to BUY from ADD. The stock's CYTD underperformance at +5% vs. +15% for the Nifty IT index adequately captures its soft showing in the last two pandemic-hit quarters. We see increased impetus for technology demand catalysed by the Covid crisis and hence raise valuation multiples across our coverage universe, aligning these to the 5Y average P/E +1SD/+2SD.

**RECOMMENDATION SNAPSHOT**

Ticker	Price	Target	Rating
TCS IN	2,257	2,620	BUY
INFO IN	929	1,020	ADD
WPRO IN	271	246	SELL
HCLT IN	694	810	BUY
TECHM IN	741	910	BUY
LTI IN	2,458	3,290	BUY
MPHL IN	1,104	950	SELL
MTCL IN	1,156	1,220	ADD
HEXW IN	396	500	BUY
PSYS IN	958	840	SELL
NITEC IN	1,924	2,110	ADD
ECLX IN	704	580	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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