

## IT SERVICES

26 November 2020

### Pickup in digital and blockchain-led deals

Most key deal wins and partnerships in Q3FY21 so far have been in the blockchain and digital transformation space. TECHM and TCS have been especially active in announcing new partnerships. TCS's major acquisitions have focused on BFSI which would ensure continued traction for the company in this vertical. Increased acquisition and deal win activity in Europe and Australia reflect efforts to diversify away from the US. We remain positive on TCS, HCLT and TECHM among large-caps and LTI and Coforge in mid-caps.

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**TECHM enterprise activity gaining traction:** Besides the communication vertical (5G), Tech Mahindra (TECHM) has also striven to expand its enterprise business through various acquisitions and partnerships. In Q3FY21 YTD, it has announced partnerships with RUAG, BurstIQ, Appvance, Sumitomo Corp and Subex, centered around strengthening capabilities in digital transformation and blockchain. In terms of large deal wins, it has announced a Rs 4bn HAL contract (ERP modernisation). We have been positive on TECHM since Q1FY21 (see [Deep Dive 2: Upgrade TECHM](#)) and reiterate BUY with a Sep'21 TP of Rs 980 (higher than street average), on a target P/E of 15.7x.

**TCS building BFSI capabilities:** With its acquisition of Pramerica Technology Services (in Ireland) and Postbank Services (in Germany), TCS has added ~3,000 employees in Europe. Besides a wider market footprint, this also expands its capabilities in BFSI where demand has risen for digital services post pandemic (see [Deep Dive 3: Swift BFSI recovery ahead](#)). Further, TCS is developing new capabilities in capital markets with its SAP technology-based investment insights solution. In insurance, it is partnering with B3i to launch blockchain solutions. TCS's Q2FY21 BFSI growth at 8.6% QoQ was one of the best among large-caps. Recent acquisitions will help maintain growth momentum in the vertical.

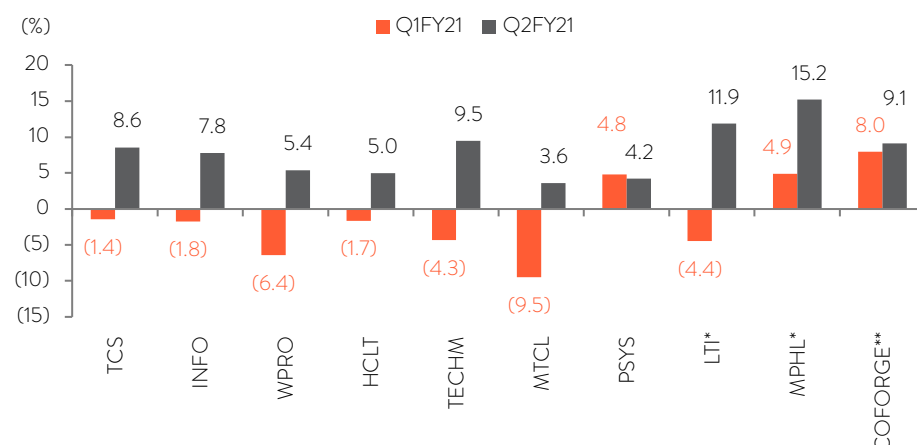
**Pickup in acquisitions around Europe:** More deals and acquisitions are taking place in Europe, especially in the financial services sector. TCS's acquisition of Postbank Services and Pramerica Ireland, Wipro's (WPRO) accelerated M&A in Europe, and HCL Tech (HCLT) and Mindtree's (MTCL) new deal wins are some examples. The pickup in activity can be attributed to Europe being one of the worst Covid-19 hit geographies, resulting in a struggling financial sector and enterprises that are now looking to cut costs. European banks are also investing a lot more in technology due to fiercer competition from fintech players.

### RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,701	3,180	BUY
INFO IN	1,116	1,210	ADD
WPRO IN	350	290	SELL
HCLT IN	824	980	BUY
TECHM IN	862	980	BUY
LTI IN	3,108	3,590	BUY
MPHL IN	1,326	1,410	REDUCE
MTCL IN	1,376	1,540	ADD
PSYS IN	1,206	840	SELL
COFORGE IN	2,424	2,690	BUY
ECLX IN	716	600	SELL

Price &amp; Target in Rupees



**FIG 1 – IT SERVICES: Q2FY21 BFSI GROWTH, QOQ**

Source: BOBCAPS Research | \*BFS only, \*\*INR terms

**FIG 2 – NOTABLE DEAL WINS / PARTNERSHIPS IN Q3FY21 YTD**

Company	Deal wins	Geography	Remarks
TCS	B3i	Europe	TCS partnered with B3i to design, develop and launch ecosystem innovations based on distributed ledger technology for insurance industry
TECHM	HAL	India	TECHM signed a contract worth Rs 4bn for ERP modernisation to support HAL's 'Project Parivartan'
TECHM	RUAG	Europe	TECHM will support RUAG in digitising its IT infrastructure by transforming core operations to enhance customer experience
INFO	XacBank Mongolia	Mongolia	INFO's Finacle to power digital transformation for XacBank
INFO	ATP	UK	Association renewed for three more years. INFO will continue to accelerate innovations in artificial intelligence, data analytics and cloud
INFO	Resimac	Australia	INFO will provide end to-end digital modernisation for enhanced customer experience
WPRO	Olympus	Japan	WPRO will deliver managed services WAN transformation, leveraging CISCO technology to Olympus
WPRO	Fortrum	Europe	As part of the five-year agreement, WPRO will manage Fortum's application portfolio across hundreds of applications in 18 countries
WPRO	ThoughtSpot	USA, UK	WPRO won a five-year contract for engineering services from ThoughtSpot to analyse business analytics data
MTCL	Nordex Group	Europe	As part of a five-year deal, MTCL will partner with Nordex group to modernise its IT processes
HCLT	Green Datacentre	Europe	With the DACH region being of strategic importance to HCLT, this collaboration will help organisations adopt cloud technologies and improve client outcomes
MPHL	R3	USA	MPHL and R3 are partnering to develop a blockchain-based payments and financing network for global supply chains. Leveraging R3's blockchain platform Corda, MPHL is strategically extending its payments and trade finance technology solutions portfolio

Source: BOBCAPS Research

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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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