MIRAE ASSET Sharekhan

AI Opportunity or Obstacle?

Sector Update : **Information Technology**

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Overview

The Market Is Mispricing the Timeline, Not the Direction

The Indian IT sell-off since February 2026 is not wrong on direction, AI disruption is real. What the market is mispricing is the timing. AI deflation and AI revenue creation do not hit the P&L simultaneously; they are sequential. Deflation is immediate the moment a managed services contract comes up for renewal, clients push for cost-sharing on AI productivity gains, and the impact lands at full scale on the existing revenue base. New AI advisory revenue, by contrast, requires budget approvals, procurement cycles, and 6–8 quarters of pipeline conversion before it reflects in reported numbers. The market is discounting both as a present-day event. They are not. That 18-month lag between when revenue deflates and when new AI revenue scales is the mispricing and for patient investors, that gap is the trade.

The Structural Moat Remains Intact

Approximately 60–80% of enterprise IT budgets are locked in legacy maintenance, multi-year outsourcing contracts, and compliance-critical applications that pre-date the current AI cycle. Brownfield complexity, 80–85% of enterprise technology is legacy-driven and cannot be AI-overlaid without prior modernisation. There is no switch to flip. Every step required before AI can be deployed at scale - Data cleansing, integration, governance, middleware modernisation - is an IT service engagement. Legacy debt is simultaneously a near-term revenue moat and a medium-term modernisation catalyst.

AI Giants Need IT Firms to Go to Market

Deploying AI at enterprise scale is not a simple install. It requires navigating data sovereignty, regulatory clearance, and complex legacy integration tasks AI providers are not built for. Just as SAP and Salesforce needed system integrators to scale, Anthropic and OpenAI need IT firms as the last-mile delivery layer. Infosys-Anthropic, TCS-OpenAI, and HCL-OpenAI partnerships are already live. The orchestration role Indian IT played in the cloud era is repeating for the AI era.

Five Levers Drive the Recovery by FY28

AI platform companies cannot deploy at enterprise scale without IT firms as the last-mile delivery layer. Before AI can generate meaningful returns, 80-85% of enterprise technology infrastructure needs IT-led modernization. The rise of AI has sharply increased demand for these upgrades. The shift to Composite Delivery Units permanently decouples revenue from headcount and structurally improves margins. Four new service categories such as Sovereign AI, AIOps, agentic workflow governance, and enterprise platform AI activation would represent a combined new TAM by FY28.

The Bear Case Is Real But the Pain Is Arriving in Instalments, Not All at Once

The deflationary forces confronting Indian IT are not theoretical, they are already compressing addressable markets. Palantir's AIP directly threatens 10–15% of Indian IT revenues from ERP implementation, while Claude Code automating COBOL modernisation has begun shifting a $5.6 billion addressable market toward token-based pricing, triggering IBM's worst single-day decline since 2000. GitHub Copilot is visibly eroding junior developer demand with fresher hiring deferrals already visible across the sector, and the SaaS seat model underpinning Salesforce and ServiceNow faces structural pressure as AI agents displace per-user workflows. These are live revenue risks, not narrative ones. The critical distinction is timing with the average managed services contract running 3–5 years, the full bottom-line impact surfaces only at renewal, making the earnings pain real but firmly back-ended to FY28 and beyond.

Valuation: Floor is forming

The Nifty IT index is down 36.1% from its December 2024 peak, statistically not different from prior crises. Across six crises since 2003, the average drawdown was 37.5% over 15 months, the average breakeven 14 months, and the average 24-month return from trough 127.7%. Not one crisis produced a permanent loss. FCF yields of 4–6% are approaching levels last seen at the GFC and COVID troughs. We assign target multiples of 15–20x FY28E for large-caps and 20–35x for mid-caps in our base case.

Valuation

Company	Reco	Previous TP	New TP	CMP (Rs)	EPS (Rs)				P/E (x)			
					FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
Affle	Buy	2,100	1,640	1,303	27.2	32.0	37.8	46.9	59.10	39.7	33.6	27.1
Birlasoft	Buy	465	422	347	18.3	17.0	22.3	23.4	20.9	20.0	15.2	14.5
Coforge	Buy	2,133	1,482	1,110	29.6	44.8	56.4	67.4	54.7	24.5	19.5	16.3
HCL Tech	Buy	1,893	1,582	1,373	64.1	64.7	73.2	79.1	25.3	21.0	18.6	17.2
Infosys	Buy	1,920	1,497	1,278	64.5	71.7	77.9	83.1	23.2	17.5	16.1	15.1
LTIM	Buy	6,930	4,956	4,212	155.0	185.0	204.3	225.3	33.4	22.2	20.1	18.2
L&T Tech	Buy	4,700	3,628	3,154	119.4	123.0	144.3	164.9	35.4	25.1	21.4	18.7
Mastek Limited	Buy	2,692	1,725	1,432	118.1	129.3	138.9	156.8	18.5	10.7	10.0	8.8
NIITMTS	Buy	450	339	290	17.5	17.2	22.0	26.1	23.3	17.0	13.2	11.2
Persistent Systems	Buy	7,295	6,044	4,914	90.6	126.3	148.3	172.7	60.7	37.4	31.9	27.4
TCS	Buy	3,900	2,828	2,399	134.2	145.7	156.5	166.4	23.1	16.4	15.2	14.3
Tech Mahindra	Buy	2,000	1,651	1,433	49.3	58.2	77.5	86.9	28.8	23.8	17.9	15.9
Wipro	Hold	285	206	189	12.5	12.7	13.0	13.8	20.9	14.8	14.4	13.6
Intellect	Buy	1,000	757	643	23.5	25.7	27.9	34.4	44.0	25.3	23.3	18.9

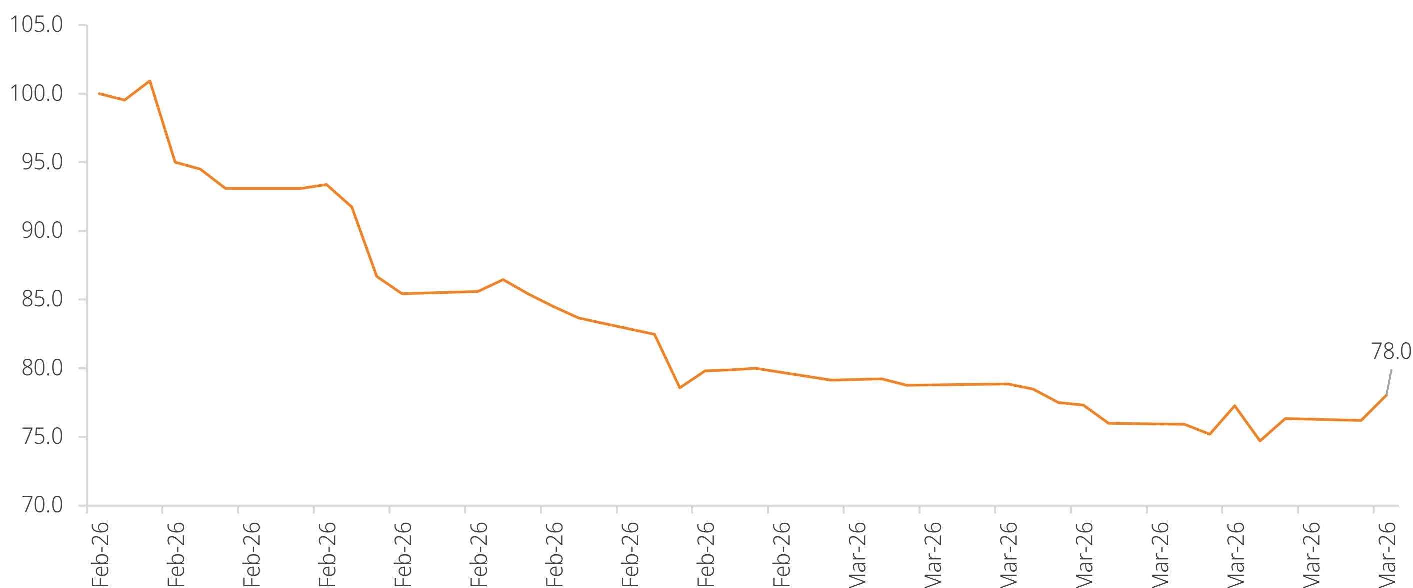
Source: Mirae Asset Sharekhan Research; CMP as on dated March 24, 2026

Nifty IT's plunge explained

The Nifty IT index has shed ~23% in the past six weeks, not because of earnings, deal losses, but owing to a sequence of announcements by a single AI company, despite the fact that Q3FY26 earnings were stronger than expected with strong deal momentum, AI-deals, margin improvements in a seasonally weak quarter. The fall in the index was only intensified by the macroeconomic uncertainty due to US-Israel war with Iran.

"What makes this sell-off different from prior corrections is the trigger. Every major fall below maps directly to a specific Anthropic product announcement not a macro shock, not earnings miss, not a guidance cut. The market was not reacting to what Indian IT earned. It was reacting to what it might never earn again."

Nifty IT plunged 22.0% since Feb 01



Source: Mirae Asset Sharekhan Research

AI announcements: The timeline

Date	Closing	% Change	Announcement
04-Feb-26	36,345.70	-5.90%	On 30th Jan, Anthropic released 11 open-source plugins for Claude Cowork, its AI workplace suite. On 4th Feb: Nifty IT down 5.9% on Anthropic launched Claude Cowork. The market feared that AI could bring down revenue of IT service providers.
06-Feb-26	35,611.10	-1.50%	On 6th Feb: Continuation selling from Feb 4, compounded by AMD falling 17% on a weak forecast, broadening the tech selloff beyond AI into semis.
11-Feb-26	35,095.20	-1.80%	
12-Feb-26	33,160.20	-5.50%	
13-Feb-26	32,681.50	-1.40%	
17-Feb-26	33,075.10	1.00%	
18-Feb-26	32,668.30	-1.20%	
19-Feb-26	32,319.40	-1.10%	
20-Feb-26	32,004.10	-1.00%	On 20th Feb: Claude Code Security (Triggered Feb 23 fall) On Feb 20, Anthropic announced Claude Code Security, which scans codebases for security vulnerabilities and suggests targeted software patches.
23-Feb-26	31,550.50	-1.40%	On 23rd Feb: The COBOL bombshell. IBM closed nearly 13.2% after Anthropic said Claude Code could automate the exploration and analysis work that drives most of the complexity in COBOL modernization a key IBM business. It was IBM's worst single-day percentage loss since October 2000, with shares down 27% in February, on track for its biggest monthly slide since at least 1968. Accenture and Cognizant shares also fell due to their reliance on legacy system modernization.
24-Feb-26	30,053.50	-4.70%	On 24th Feb: The full enterprise plug-in arsenal. The February 24 update added connectors for Google Workspace, DocuSign, Apollo, Clay, Outreach, Similarweb, MSCI, LegalZoom, FactSet, WordPress, and Harvey, covering finance, HR, legal, engineering, and design departments in one announcement. In one announcement, Anthropic had effectively declared itself a competitor to every major enterprise software category. Markets responded accordingly.
25-Feb-26	30,526.40	1.60%	
02-Mar-26	30,273.00	-1.10%	

Source: Mirae Asset Sharekhan Research

Will History repeat?

Crisis	Year	Peak	Trough	Drawdown	Period	BreakEven	Nifty IT after 24M	Returns from Trough
ERP Saturation	2003-2005	2,416.4	1,717.1	-28.9%	6 Months	5 Months - Sep 2004	3,869.7	125.4%
Global Fin Crisis	2007-2009	5,857.1	1,992.8	-66.0%	25 Months	10 Months - Jan 2010	6,489.7	225.7%
	2008-2009	4,814.8	1,992.8	-58.6%	15 Months	6 Months - Sep 2009	6,489.7	225.7%
Cloud-Computing & RPAs	2010-2012	7,512.1	5,011.1	-33.3%	9 Months	24 Months - July 2013	7,808.5	55.8%
	2016-2017	12,908.1	9,295.3	-28.0%	21 Months	15 Months - Jan 2018	16,282.1	75.2%
Covid- 19 Crash	2020	16,882.5	10,991.3	-34.9%	2 Months	5 Months - July 2020	35,845.3	226.1%
Rate Hike Cycle	2022-2023	39,446.7	26,186.7	-33.6%	9 Months	23 Months - Jun 2023	41,381.1	58.0%
Valuation correction from All-time high (Dec 2024-Jan 2025)	2025-2026	46,088.9	28,288.1	-38.6%	15 Months	TBD		
AI Selloff (Current)	2026	39,139.5	28,288.1	-27.7%	3 Months	TBD		
Average				-37.5%	21 Months	14 Months		127.7%

Source: Mirae Asset Sharekhan Research

Nifty IT: Every Crisis Has Been a Buying Opportunity

The table above maps every major Nifty IT crisis since 2003, its peak, trough, drawdown, time to recover, and what the index returned in the 24 months following each bottom. The pattern is remarkably consistent. Across six crises, the average peak-to-trough drawdown has been 37.5%, the average time spent in the drawdown has been 15 months, and the average time to recover back to the prior peak has been 14 months. Most importantly, the average return from the trough over the following 24 months has been 127.7%. Every single time, patience was rewarded.

Where does the current selloff stand?

The Nifty IT index is currently down 38.6% from its December 2024 peak almost exactly at the historical average drawdown level. On a year-to-date basis from its January 2026 high, it is down 27.7%.

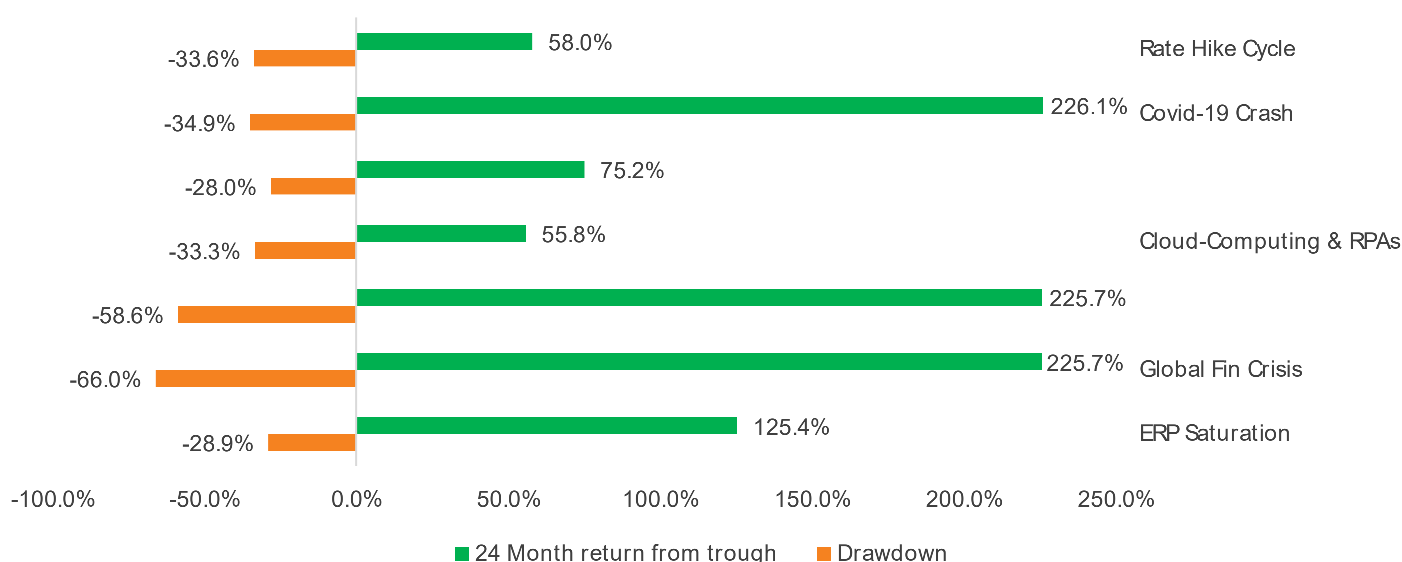
The uncomfortable truth is that in a worst-case scenario, there is room for another 9-10% fall from current levels before a trough is confirmed. History suggests the average drawdown including the GFC was 37.5%, and excluding it was 31.7%. We are not there yet on the milder measure.

However, history also says every time Nifty IT has been at this level of drawdown, the 24-month forward return from the bottom has been exceptional. The question is not whether to own Indian IT. The question is how to position into it and the answer, given the structural uncertainty around AI, is gradually and selectively rather than all at once.

Crisis Event	Drawdown	24 Month return from trough	Actual Return (24 Month Nifty IT/Peak-1)
ERP Saturation	-28.9%	125.4%	60.1%
Global Fin Crisis	-66.0%	225.7%	10.8%
	-58.6%	225.7%	34.8%
Cloud-Computing & RPAs	-33.3%	55.8%	3.9%
	-28.0%	75.2%	26.1%
COVID-19 crash	-34.9%	226.1%	112.3%
Rate Hike Cycle	-33.6%	58.0%	4.9%

Source: Mirae Asset Sharekhan Research

Nifty IT - Every crisis created a buying opportunity



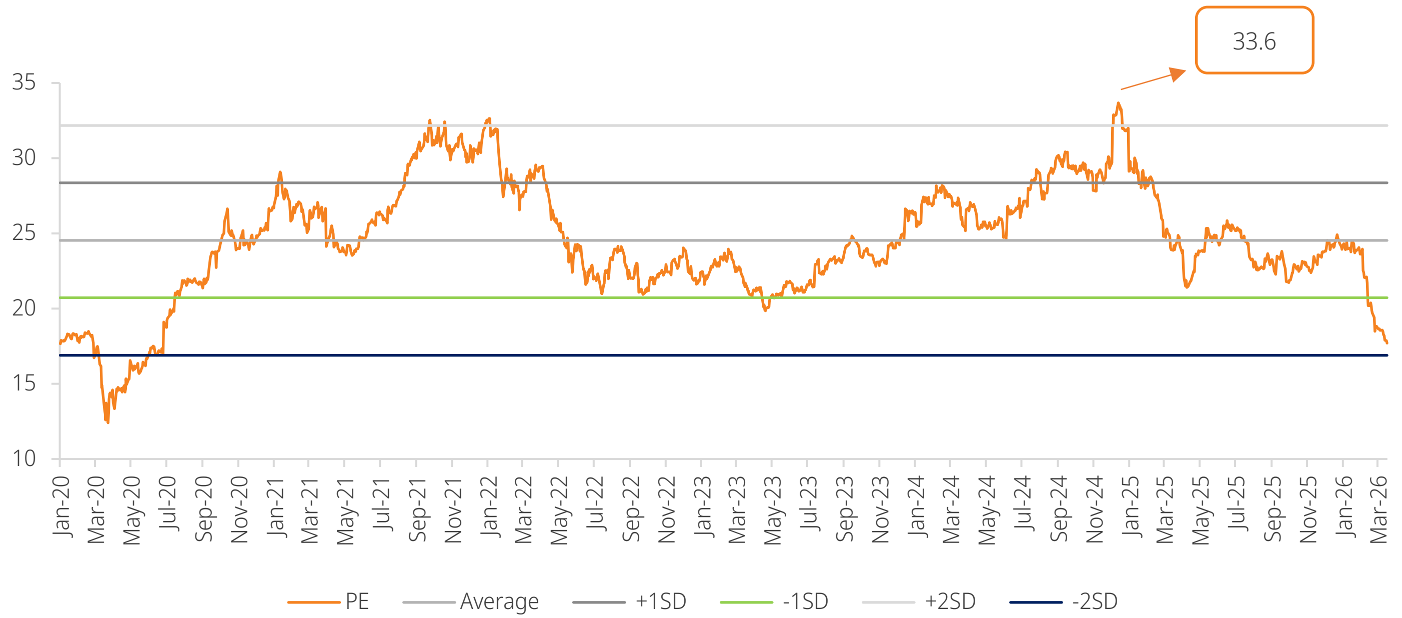
Source: Mirae Asset Sharekhan Research

The above disruptions were real and the direction was right. The timeline was wrong, by three to five years in every case. Complexity never disappeared. It shifted to the next layer. And Indian IT was paid to manage every new layer that each disruption created.

FII sell-off in 2026

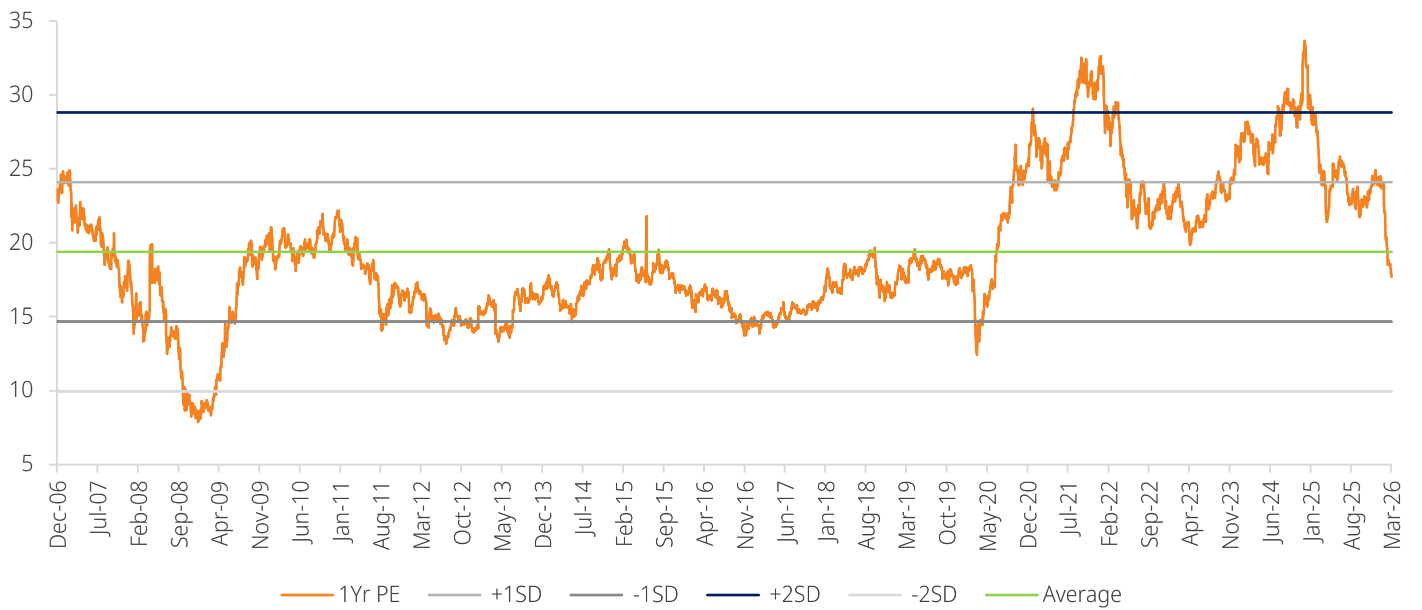
As the Nifty IT index rallied, FII holdings of Indian IT stocks peaked, with investors assigning premium multiples on expectations that AI-led transformation spending would drive new deals. What followed was par for the course – FIIs booked profits, and headline IT stocks saw steady outflows, even as the Nifty IT was trading at an all-time high PE of 33.6x. As 2025 progressed, in the absence of any meaningful revival in discretionary spending by US and European clients and non-materialisation of the much-anticipated post-rate-cut spending surge, led to a slide in the Nifty IT index. Throughout 2025, muted management commentary on deal wins, persistent pricing pressure, and slower pipeline conversion reinforced investor caution, resulting in consistent selling pressure that extended well into early 2026.

Nifty IT 1Yr FwD PE



Source: Mirae Asset Sharekhan Research

Nifty IT Last 20 Yr 1Yr Fwd PE



Source: Mirae Asset Sharekhan Research

FIIs and DIIs change in shareholding pattern from Dec-2024 to Dec-2025

Scrip Name	FIIs	DIIs	Net Change
TCS	-2.31	1.95	-0.36
Infosys	-3.03	2.89	-0.14
HCLTech	-3.17	3.16	-0.01
Wipro	0.41	0.18	0.59
Tech Mahindra	-6.25	7.06	0.81
LTIM	-0.94	1.92	0.98
LTTS	0.03	0.27	0.30
PSYS	-1.96	3.54	1.58
Coforge	-8.02	5.81	-2.21
Birlasoft	-0.14	-0.52	-0.66
Mphasis	-0.99	10.64	9.65
Mastek	0.87	3.38	4.25
Affle 3i	1.30	1.79	3.09
NIIT Learning Systems	-0.50	2.74	2.24

Source: Mirae Asset Sharekhan Research

Wipro, L&T Technology Services (LTTS), and Affle India were the only stocks to witness net buying from both FIIs and DIIs. In contrast, for all other stocks, FIIs turned net sellers, while DIIs absorbed the selling pressure by accumulating the shares being offloaded by foreign institutions.

Riding the AI elephant: Plugin-n-Play

On January 30, 2026, Anthropic released 11 open-source plugins for Claude Cowork, its AI workplace suite covering Google Workspace, DocuSign, Apollo, Clay, Outreach, Similarweb, MSCI, LegalZoom, FactSet, WordPress, and Harvey.

11 Plugins announced

Plugin	Category	What it Automates
Google Workspace	Productivity	Document drafting, email composition, meeting summaries, calendar management
DocuSign	Contract Management	Contract drafting, clause extraction, signature workflow automation
Apollo	Sales Intelligence	Prospect research, lead scoring, outreach sequencing
Clay	Data Enrichment	Contact enrichment, CRM data population, workflow triggers
Outreach	Sales Execution	Automated follow-up sequences, pipeline management, call summaries
Similarwev	Market Intelligence	Competitive analysis, traffic benchmarking, market sizing
MSCI	Financial Data	ESG scoring, risk analytics, portfolio benchmarking
LegalZoom	Legal Workflow	Document drafting, compliance checks, entity management
FactSet	Financial Research	Earnings analysis, financial modelling support, data summarisation
WordPress	Content Management	Content creation, SEO optimisation, publishing workflow automation
Harvey	Legal AI	Contract review, legal research, regulatory document analysis

Source: Mirae Asset Sharekhan Research

Replacing Rigid SaaS Flows with Modular Plugins

Low risk, high volume cognitive tasks: Plugins can automate document drafting, content creation, data summarisation, and prospect research without requiring SaaS vendor involvement or IT outsourcing firms directly compressing the addressable market for commodity automation engagements.

Internal workflow automation: Plugins allow users to encode multi-step internal processes as slash commands without developer involvement what previously required a scoping engagement, a delivery team, and a 3–6 month project can increasingly be configured internally by a digitally literate business user.

Business intelligence and reporting: Plugins connecting to data sources can autonomously generate dashboards, variance analyses, and executive reports without requiring managed analytics engagement. Few firms have started deploying AI-driven reporting tools that eliminated entire layers of outsourced BI and analytics work previously handled by IT services firms.

Cross-application task execution: Excel-to-PowerPoint finance workflows, document drafting, and data summarisation tasks are being absorbed at the analytics and documentation layer compressing demand for lower-complexity RPA and workflow automation work that was already under pressure from UiPath and Automation Anywhere.

However, Bypasses are likely to be constrained for many processes

Regulated workflows: Anthropic's own documentation warns against using Cowork autonomously for regulated workloads. Deployment of AI agents with authority over compliance-relevant actions requires governance infrastructure that most organisations do not yet have and only 7% of enterprises are currently ready to scale agentic AI.

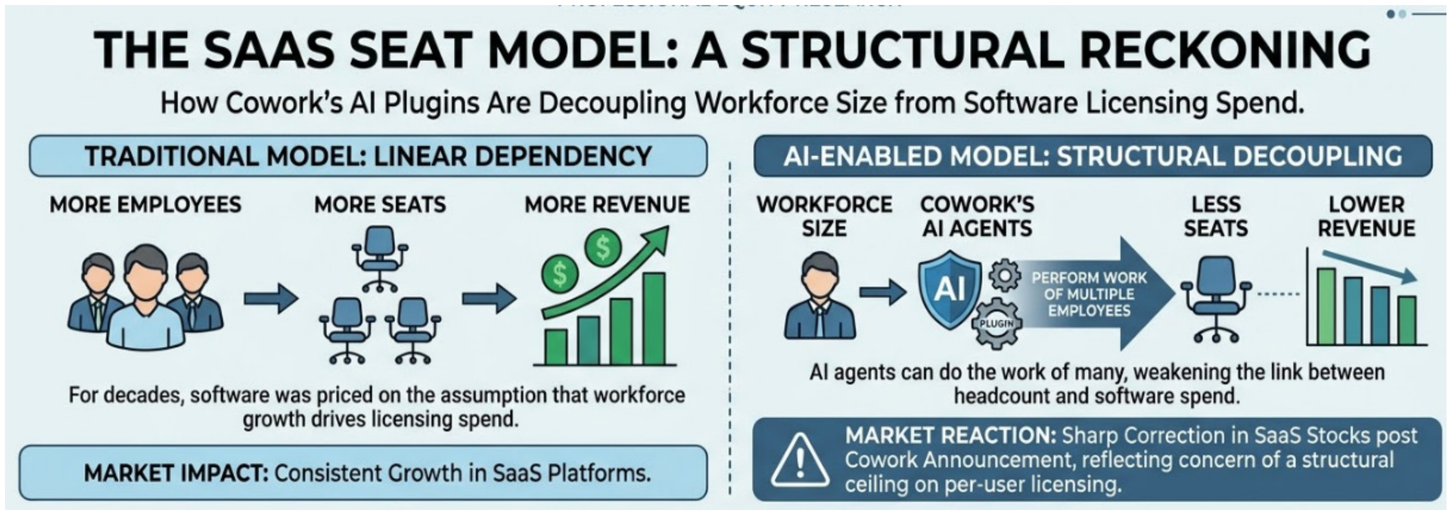
Mission-critical autonomous authority: Most enterprises are primarily deploying AI agents in advisory or assistive roles rather than granting autonomous authority over mission-critical processes. Air Canada's chatbot error where a tribunal ordered the airline to honour a discount its AI incorrectly promised established legal precedent that enterprises are directly liable for AI agent outputs, reinforcing board-level reluctance to deploy agents autonomously.

Cybersecurity incident response: While plugins can accelerate threat detection and initial triage, actual incident response isolating affected systems, executing forensic analysis, managing regulatory notification timelines requires privileged access to infrastructure that Cowork's connector architecture explicitly does not support. The 2024 CrowdStrike outage demonstrated that even well-resourced internal teams could not manage complex incident response without structured vendor and SI involvement.

Accountability: When an AI-assisted process fails, someone must be contractually liable. Plugins carry no SLA, no indemnification, and no accountability framework. IT service providers carry all three, and in an environment of increasing regulatory scrutiny, that willingness to assume contractual responsibility is itself a competitive moat no plugin can replicate.

The SaaS Seat Model: A Structural Reckoning

For decades, enterprise software has been priced on a simple assumption, more employees means more seats means more revenue. Cowork's plugin ecosystem breaks that assumption directly. If AI agents can perform the work of multiple employees, the link between workforce size and software licensing spend structurally weakens. The market recognized this immediately, resulting in major SaaS platforms corrected sharply post the Cowork announcement, reflecting investor concern that per user licensing may have reached its structural ceiling.



Source: Mirae Asset Sharekhan Research

Consequences for Indian IT sector

A significant portion of Indian IT revenue is tied to implementing and maintaining the very platforms now under structural pressure, any deterioration in that ecosystem directly compresses the third-party implementation and support services market. Simultaneously, these plugins demonstrate that AI can execute data entry, entry-level coding, compliance tracking, and contact-centre workflows categories that have historically formed a meaningful share of billable effort for Indian IT firms. The sharp fall in IT stocks reflects a growing market realisation that AI is no longer an assistive layer but an increasingly credible substitute for entire categories of labour-based services.

Risk is real, but impact is back-ended

- Near-term revenue visibility remains intact as most large enterprise deals are governed by multi-year contracts with AI related tasks getting embedded, insulating reported earnings from immediate displacement.
- The automation risk is not a next-quarter event. It is a contract-renewal event and the average managed services contract runs 3–5 years, meaning the first meaningful revenue impact surfaces only as contracts come up for renegotiation.
- Structural pressure builds gradually through FY27–FY28 as renewal cycles begin to reflect AI-driven productivity gains in renegotiated pricing. It is beyond that window, FY28 and beyond, where the full deflationary impact on revenues and margins becomes visible in reported numbers.
- ***"The direction of disruption is not in question. The timing of bottom-line impact is and it is materially more back ended than the current market selloff implies. The market is pricing risks that lies beyond FY28 and the unknown risks that lies ahead."***

The Disruption Is Real - What's at Risk

India's IT services sector faces its most consequential re-rating event in two decades. The Nifty IT Index has shed 22.0% YTD as the market prices in existential risk from Generative AI. This report cuts through the narrative noise to assess what the market is actually pricing, what the evidence supports, and where the investment thesis should anchor.

THE STRUCTURAL MOAT	THE PARTNERSHIP PIVOT	THE BEAR CASE
60–70% of IT budgets locked in legacy maintenance and multi-year contracts. Brownfield complexity cannot be AI-auto-solved	IT services are the last-mile delivery layer for enterprise rollouts of OpenAI/Claude. Anthropic is partnering with IT service providers for enterprise-scale deployments.	Managed services face structural deflation. T&M to outcome-based pricing shift compresses billings per unit of work delivered.

Source: Mirae Asset Sharekhan Research

The Structural MOAT:

Budget Lock-In: The 60–80% Rule

Approximately 60–80% of enterprise IT budgets are still allocated to maintaining existing systems, legacy ERP stacks, on-premises data centres, compliance-critical applications, and long-cycle outsourcing contracts that pre-date the current AI cycle. This is not a transitional phenomenon; it is the structural reality of large enterprise IT estates built over 20-30 years. Multi-year outsourcing contracts carry significant switching costs, SLA penalties and re-integration risks. Most Fortune 500 enterprises operate under framework agreements that simply cannot be exited for AI-led alternatives in 12-18 months.

Historical Precedent: IT Has Survived Multiple 'Extinction' Cycles

Current AI narrative closely mirrors three prior disruption cycles: (1) the rise of cloud computing (2010–2015), which was supposed to eliminate large-scale outsourcing; (2) the shift to Digital/SMAC (Social, Mobile, Analytics, Cloud) circa 2015–2020; and (3) the Robotic Process Automation wave of 2018–2022. In each cycle, IT services revenues grew rather than contracted, because complexity shifted from one layer to another. Indian IT companies adapted by acquiring capabilities, retraining workforces, and repricing services. The self-built software share in US enterprise IT fell from 35-40% in the 1990s to just 14% today, precisely because in-house development consistently underdelivered on security, governance, and uptime versus vendor-managed alternatives.

Contract structure as a valuation moat

Large Indian IT firms carry TCVs of $10–14 billion annually (TCS FY26E ~$30 billion revenue base). Deal durations average 3-5 years for infrastructure managed services, 2-3 years for application services. These are not sprint contracts; they are multi-year annuity streams that provide revenue visibility regardless of AI disruption narratives.

The Partnership Pivot

IT services as the 'Last Mile' for Enterprise AI

Deploying AI isn't a simple install. It requires navigating data sovereignty, regulatory clearance, and complex legacy integration, tasks that AI providers aren't built for. While digital-native startups are OpenAI's top users, the Global 500 still run on 20-30-year-old tech stacks. These systems require deep foundational modernization before AI can even function. Just as SAP and Salesforce needed system integrators to scale, AI giants (like Anthropic/OpenAI) need IT firms to handle the proprietary fine-tuning and workflow redesign required for large-scale enterprise adoption.

Two track adoption & New Revenue Models

The transition to AI in the enterprise sector is bifurcating into two distinct tracks: greenfield and brownfield. Cloud-native firms are rapidly penetrating the market by re-architecting workflows from scratch. However, the S&P 500 "Brownfield" environments burdened by layered ERP instances and legacy code require the deep integration expertise and multi-phase migration roadmaps that are the core competency of IT services firms. This partnership pivot can prove to be a premium driver rather than a neutral shift as specialized AI services would command higher billing rates. New project structures are emerging, including platform fees and "composite delivery units" where firms bill for both human engineers and AI agents. While volume compression in lower-complexity managed services remains a threat, the sector's net revenue health now depends on whether this high-margin AI advisory work can expand fast enough to offset the deflation in commodity coding and maintenance tasks.

Implementation gap

AI's rapid march suggests an immediate takeover, but the transition from model capability to actual enterprise revenue displacement is far more friction filled than the street realize. A massive Implementation Gap exists, formed by three structural barriers that act as a temporary insurance policy for IT services revenue.

- First, the **data privacy and sovereignty** barrier creates a complex "Last Mile" problem. In highly regulated sectors like BFSI and healthcare, strict frameworks like GDPR and the DPDP Act prevent firms from simply feeding sensitive data into public models. This forces enterprises to build "Sovereign AI" private, audited environments that require high-complexity IT engagement for data masking and custom model hosting.
- The second is **legacy exposure at scale.** With 60–70% of global enterprise tech anchored in technical debt, there is no "flip a switch" path to AI. Paradoxically, AI has actually accelerated modernization timelines — compressing SAP ECC-to-S/4HANA migrations from 18 months to two — but the specialized skills required command higher billing rates. Legacy debt is simultaneously a revenue moat and a modernisation catalyst.
- Finally, the shift toward **Agentic AI** introduces a new crisis of **Governance and Observability**. As autonomous workflows take over, risks of "hallucinations" and model drift in critical processes become a boardroom-level concern.

AI – Constraints and Opportunities

CONSTRAINT	AI ADOPTION IMPACT	IT SERVICES OPPORTUNITY
Data Privacy & Sovereignty	Restricts third-party model access; requires private deployment	Sovereign AI infrastructure build-out; data governance consulting
Technical Debt (60–80% legacy)	Prevents direct AI overlay on existing systems	Modernization engagements; migra-tion-as-a-prerequisite pipeline
Agentic AI Governance	Introduces new audit, observability, and rollback requirements	AI Operations (AIOps) as a managed service; SLA management layer
Regulated Industry Constraints	Slows BFSI, healthcare, insurance AI adoption 12–18 months	Compliance-validated AI implementation; industry-specific accelerators
Token Economics Optimization	Enterprises must balance cost vs. automation depth	Token usage optimization consulting; hybrid human + AI model design

Source: Mirae Asset Sharekhan Research

III. The BEAR Case: Revenue Deflation, Pricing Compression, and Business Mix Risk

Acknowledging the structural moat and partnership opportunity does not eliminate the bear case, but contextualises it. The revenue deflation risk is real, measurable, and likely to intensify in 3-5 years as AI capabilities advance and enterprise adoption constraints ease. The question is not whether deflation occurs, but when, at what magnitude, and against what offsetting revenue from higher-complexity work.

Managed Services Deflation Vendor

Managed services represent a significant chunk of revenue for IT service providers. This is the segment most directly exposed to AI-driven productivity gains, as it involves repetitive, rule-based tasks that LLMs and AI Agents can automate most effectively. Clients would renegotiate contracts to pass productivity gains through as cost savings rather than billing the same Time and Material (T&M) hours for AI-assisted work. The direction of the trend is clear, while the timing & magnitude is the key unknown.

T&M to Outcome-Based Pricing Transition

T&M billing, where clients pay for engineer hours regardless of the output is the legacy revenue model that AI disrupts most directly. Outcome-based contracts, by contrast, price on deliverables. As AI productivity gains accelerate, clients will increasingly demand outcome-based structures that capture AI efficiency gains. This is structurally margin-dilutive for IT firms in the near term, as it compresses billable utilization even as EBIT per engineer-hour can rise. The net revenue per engagement will decline before cost restructuring can offset it. In a front-loaded scenario, AI-driven deflation could stagnate growth at 0% CC growth for FY28, prompting a 5-10% EPS reductions across large cap IT. In the more benign path, a rebound in discretionary spending could partially offset managed services compression, keeping CC revenue growth in the 4–6% range and allowing earnings momentum to resume. The recovery doesn't eliminate the headwind; it simply buys enough time for IT firms to reprice and reposition their delivery models around AI-augmented workflows.

ERP implementation: Palantir is Coming for the Most Profitable Work

ERP migrations from legacy SAP systems to modern cloud platforms have historically resulted in multi-year, high-margin engagements for Indian IT firms. Palantir's AI Platform now claims to compress what took large-outsourced teams' months into a matter of days, by ingesting documentation, business requirements and compliance frameworks simultaneously. Palantir's management has explicitly stated that AI could reduce the need for large-scale offshore labour. Indian IT earns an estimated 10–15% of revenues from ERP implementation that revenue pool is directly at risk.

COBOL Crisis: Market shifting to token pricing

Eight hundred million lines of COBOL still power global banking, insurance, and government systems. Legacy COBOL maintenance has been a high-margin annuity business for Indian IT for decades, it was sticky, scarce-skilled, and almost impossible to displace. In February 2026, Anthropic announced Claude Code could automate a significant portion of COBOL modernisation, triggering IBM's worst single-day stock decline since 2000. The economics are blunt: At $7 per line, the addressable market is $5.6Bn. As work shifts from human-led line-by-line conversion to token-based AI pricing, that value pool compresses sharply. Maintenance contracts that followed these engagements face the same fate, modernise the system and you eliminate the need for ongoing maintenance.

Junior developer demand shrinking

This is not a future risk, it is happening now. GitHub Copilot users complete coding tasks 55% faster. McKinsey documents a 20–45% reduction in development time. The consequence is already visible: Cognizant, Infosys, and Wipro have all deferred fresher hiring in FY25–26, directly citing AI productivity tools. The entry-level developer base, the foundation of the managed services pyramid is contracting before a single managed services contract has been renegotiated.

SaaS disruption: Implementation TAM is shrinking at the source

Indian IT firms earn significant revenue by implementing and maintaining Salesforce, ServiceNow, SAP, and Workday. These platforms are built on seat-based licensing more employees, more seats, more implementation work. Cowork's plugins challenge that model directly. If AI agents do the work of multiple employees, enterprises need fewer seats and fewer seats means less implementation, customisation, and support work for Indian IT. The implementation TAM is shrinking at its source, before displacement has even reached the managed services layer.

The Aggregate Picture

The aforementioned risks are not four separate factors, they are four forces compressing Indian IT revenue simultaneously across ERP implementation, legacy maintenance, entry-level headcount, and SaaS customisation. The bear case is not extinction. It is that the revenue base underpinning the sector's premium valuation deflates faster than new AI advisory revenue can replace it. That is a legitimate concern and it needs to be stated plainly before it is addressed.

Why does revenue deflation take the lead in the short run?

Both AI deflation and revenue creation are happening simultaneously. The market is not wrong about the direction, but it may be wrong about the symmetry. Both forces are real, but they are not equal in speed or scale, and that gap is the mispricing the market has yet to fully price in.

Why deflation hits first and hard

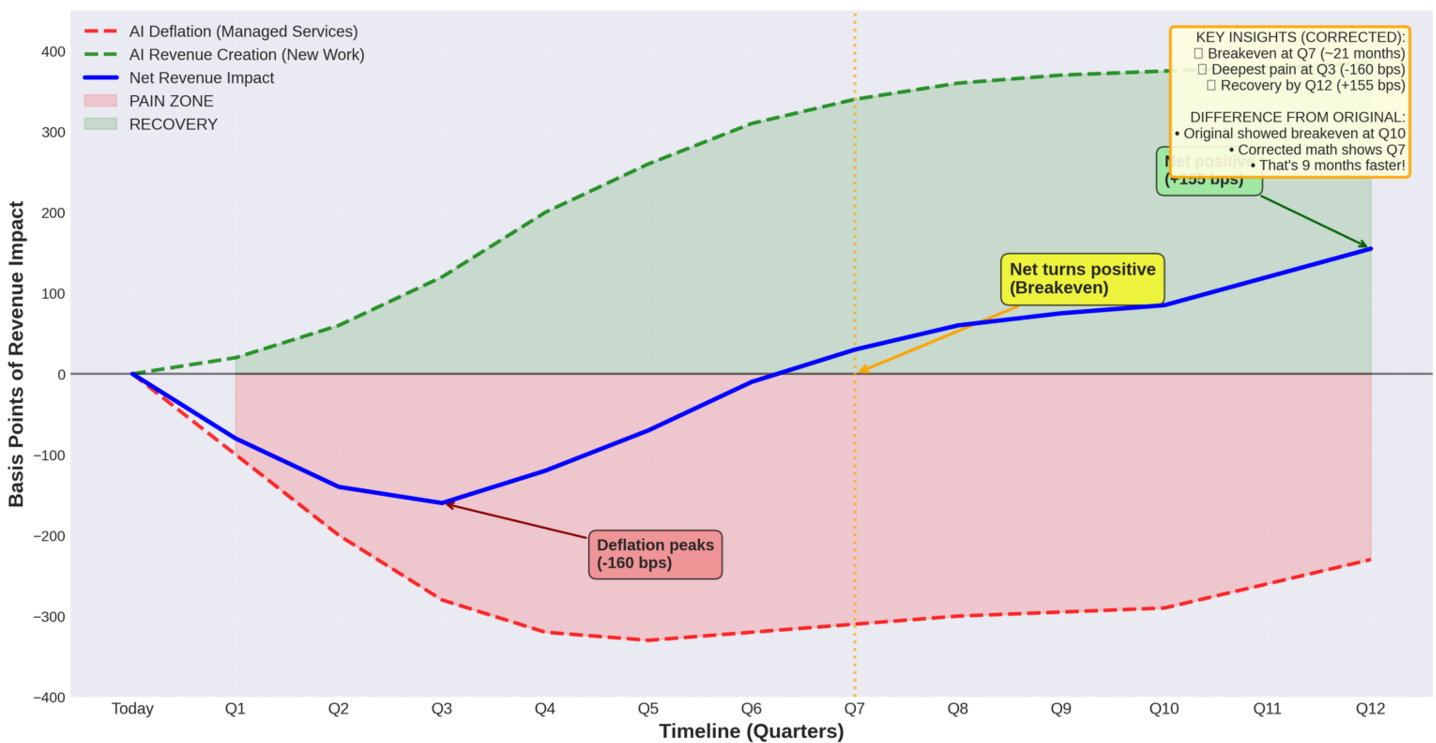
Managed services contracts are already live. The moment AI productivity tools reduce the hours required to complete a task; clients push for cost-sharing at the next renewal cycle. It applies to the full value of the existing contract, immediately. For a company which derives approximately 30% of revenues from managed services, a 10% pricing concession on renewal translates directly into a 300-basis point revenue headwind. There is no ramp-up period. The compression is on the existing stock of revenue.

Why new revenue takes time to offset it

Fresh AI implementation work across sovereign AI infrastructure, data governance architecture, agentic workflow design requires clients to first allocate budget, go through procurement, sign a new contract, and then ramp the engagement. Pipeline-to-conversion currently runs 2–3 quarters, and new mandates typically take another 4-6 quarters to scale meaningfully. The revenue is real and it is coming but it accrues on the flow of new deals, not the stock of existing ones. At the current scale, new AI advisory work offsets only 100–150bps of that headwind. The net impact is negative in the near term, closing only once new work reaches 15-20% of revenues, approximately 6–8 quarters.

Investment implication: This is not a permanent impairment. Right now, AI-driven revenue losses are heavier than AI-driven revenue gains. That is what is hurting IT stocks today. But the scale is not broken, it is just tilted temporarily. As new AI work builds up, the balance shifts. The question is not whether it shifts. It is when, and for which companies. Companies heavy on managed services feel the pain longest. Companies already doing higher-value AI work get to the balance point faster.

AI Deflation vs AI Revenue Creation



Source: Mirae Asset Sharekhan Research

Charting the bounceback – Indian IT firms' playbook

The bear case for the Indian IT sector rests on the assumption that what AI takes away, is not replaced by anything of comparable scale. This assumption misreads how enterprise technology actually works. There are five specific operating levers already in motion, each of which is visible in current deal pipelines, contract structures, and on-the-ground client behaviour.

Charting the bounceback – Indian IT firms' playbook

LEVEL 1

AI labs can't go to market alone

Anthropic, OpenAI, Microsoft lack enterprise sales + delivery muscle

IT firms are the last-mile deployment layer, not a disruption target

20-40% billing premium for AI-skilled delivery teams

LEVEL 2

60-80% of enterprise tech needs IT services first

Legacy systems built over 20-30 years: layered, fragmented, undocumented Before AI deploys: data cleaned, integrations resolved, middleware modernised

18-month migrations now compress to 1-2 months with AI, at higher rates

LEVEL 3

Billing shifts: headcount to composite delivery

Old: 30 engineers billed as 30 units. New: 10 engineers + 20 AI agents = 1 unit Revenue moves from time-based to usage-based (tokens, outcomes) Near-zero marginal cost after deployment = high-margin revenue

Leaner workforce, higher revenue per head, better margins

LEVEL 4

AI creates entirely new service categories

AI ops as managed service: monitoring drift, hallucinations, compliance Agentic workflow governance: approvals, compliance, change management

Enterprise platform AI activation: SAP, Salesforce nat

Source: Mirae Asset Sharekhan Research

Lever 1 — AI Giants Cannot Go To Market Alone

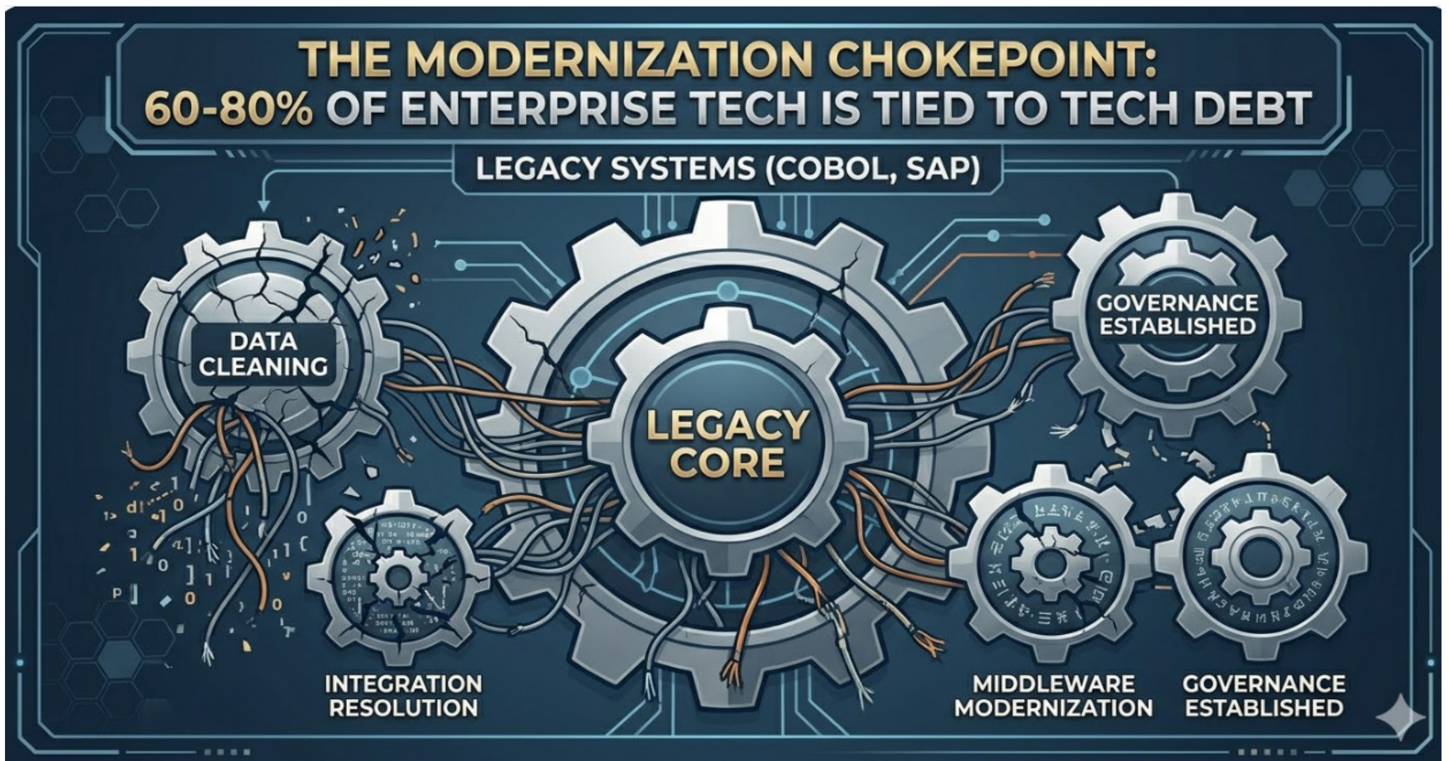
Anthropic, OpenAI, and Microsoft build the product. They do not have the enterprise sales force, regulatory expertise, or integration capability to deploy it inside a Global 500 company. Indian IT is the last-mile delivery layer, the same orchestration role it played for Salesforce, Workday, and ServiceNow. Infosys-Anthropic, TCS-OpenAI, HCL-OpenAI, and TCS-ServiceNow-AMD partnerships are not defensive arrangements, they are the industry structure reasserting itself. AI platform companies need IT firms to scale, and IT firms would command a 20-40% billing premium for AI-skilled delivery teams.

Lever 2 — 60–80% of Enterprise Technology Cannot Be AI-Overlaid Without IT Services

The bear case assumes enterprises can simply switch to AI. They cannot. Global 500 companies run on systems built over 20–30 years layered, integrated, and held together by undocumented dependencies. Before AI can be deployed at scale, data must be cleaned, integrations resolved, middleware modernised, and governance established. Every one of those steps is an IT services engagement.

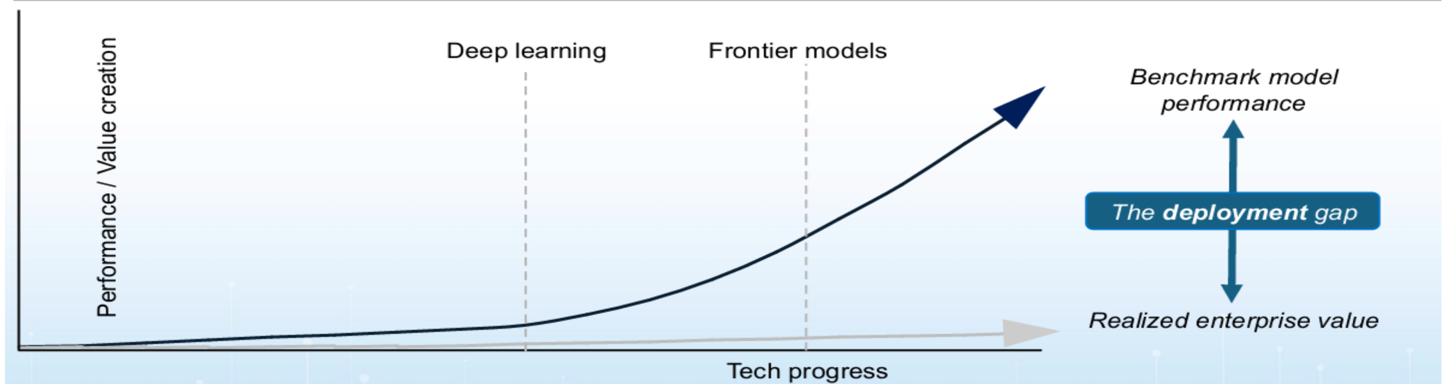
The counterintuitive truth is that AI has not reduced modernisation demand, it has accelerated it. SAP migrations that once took 18 months now compress to 1–2 months with AI assistance. Legacy debt is not a liability for IT firms. It is their moat today and growth catalyst tomorrow. There is no shortcut around the firms that built and maintained these systems and enterprises know it.

Claude Code compressing COBOL discovery from 12 months to weeks does not hurt IT firms, it pulls forward programmes that enterprises had deferred for years. That is a TAM expansion, not a revenue loss. The “buy-to-build” shift, where enterprises use AI to develop custom applications, further widens the implementation partner opportunity.



Source: Mirae Asset Sharekhan Research

Huge gap between the hype and actual enterprise adoption



Source: Infosys, Mirae Asset Sharekhan Research

The greenfield-brownfield productivity gap

New build environments	Legacy environments
• Clean structure and consistent patterns	• Technical debt
• Real-time data availability	• Data silos
• Structured environments	• Undocumented dependencies
• Probabilistic	• Brownfield = high overhead + rework
	• Deterministic
Task level	**Business function level**
15-50% productivity	**Only 1% fully scaled to AI**

Source: Infosys, Mirae Asset Sharekhan Research

Lever 3 —Billing model transforms from headcount to composite delivery

The traditional IT services model billed by the engineers i.e., more engineers, more revenue. That model is being replaced by the Composite Delivery Unit, teams of human engineers working alongside AI agents, billed as a combined unit. For example, a team of 10 engineers with 20 AI agents bills as 30 units. The client pays for outcomes, not headcount. This decouples revenue from headcount for the first time in the industry's history. It adds a recurring, usage-based revenue stream, token consumption, agent hours, platform fees that is structurally harder to renegotiate than a traditional FTE contract. And since AI agents carry near-zero marginal cost after deployment, every agent-hour billed is high-margin revenue.

The firms that make this transition fastest will emerge leaner, more profitable, and more defensible. Smaller workforces. Higher revenue per head. Better margins. A client relationship anchored to outcomes rather than inputs. That is not a disrupted business. That is a structurally better one.

Lever 4 - AI Creates Service Categories That Did Not Exist Before

AI is not just disrupting existing IT revenue streams, it is creating entirely new ones. Four are already generating enterprise pipeline, none of which existed two years ago.

Sovereign AI and DPDP Compliance. India's DPDP Act enforcement on November 13, 2026 makes private AI model hosting and data governance legally mandatory. This is not discretionary spend, it cannot be deferred, and IT firms are the only credible delivery partner.

AI Operations as a managed service. Every enterprise deploying AI agents needs someone to monitor model drift, manage hallucinations, and ensure SLA compliance. This is an ongoing annuity engagement, structurally more defensible than the application maintenance work it partially replaces.

Agentic workflow governance. Deploying AI agents at an enterprise level requires redesigning approval processes, managing compliance, and governing autonomous decision-making. This sits precisely at the intersection of IT architecture and change management, the core competency of every large IT firm.

Enterprise platform AI activation. SAP and Salesforce are embedding AI natively into their platforms. The system integrators who deployed these platforms are the ones activating their AI features. The same client relationships. The same delivery teams. New work already in the pipeline.

Lever 5 - India has the only talent pool that can staff the AI era at scale

The workforce transition is not a retraining programme. It is three structural advantages working simultaneously and no other country has all three.

Natural attrition creates runway. At a 12–14% annual attrition, the industry replaces 700,000–800,000 people every year. Firms are simply redirecting that hiring toward AI engineering, platform specialisation, and data governance. The compositional shift happens through natural churn, no mass redundancy required.

Talent pipeline pointing the right way: India produces more AI-specialised engineering graduates each year at a fraction of the cost of training equivalent talent in the US or UK. The same scale and cost advantage that built the managed services industry applies with equal force to AI advisory.

Reskilling investment is a signal, not just a programme: The scale of internal AI training across the sector is only economically rational if management has genuine conviction that reskilled workforces generate incremental revenue. That conviction, backed by capital allocation, suggests the new service lines are already producing returns before they fully appear in reported numbers.

Recent deal wins

Why Indian IT Firms Are Partnering With Nvidia and LLM Providers?

1. To Build Credibility in the AI Advisory Market Partnerships with Nvidia, Anthropic, and OpenAI are as much a signalling exercise as an operational one. An IT firm that can say it is a certified delivery partner for the world's leading AI platforms commands a 30–40% billing premium on AI-skilled engagements and wins RFPs that firms without those partnerships cannot even bid on. The badge matters as much as the capability in the early years of enterprise AI adoption.

2. To access proprietary tools and early releases: Certified partners get early access to new model capabilities, APIs, and deployment frameworks before they are publicly available. This gives IT firms a 3-6 month headstart in building client solutions on the latest models — a meaningful competitive advantage in a market where every quarter of AI capability improvement changes what is deployable at enterprise scale.

3. Nvidia: To Build the Infrastructure Layer for Enterprise AI: Nvidia's partnerships are specifically about the infrastructure side of enterprise AI helping clients design and deploy on-premise GPU clusters, private cloud AI infrastructure, and hybrid AI environments that meet data sovereignty requirements. As DPDP, GDPR, and sector-specific regulations force enterprises toward private AI deployment, someone needs to build the infrastructure. IT firms with Nvidia partnerships are positioned to win that work.

4. Co-Selling: LLM providers like Anthropic and OpenAI have extraordinary technology but no enterprise sales force. IT firms have decades of client relationships but need AI credibility. The partnership is a mutual distribution arrangement wherein Anthropic gets access to Global 500 enterprises through Infosys's client relationships, Infosys gets AI platform credibility through Anthropic's brand. Both sides win deals they could not win alone.

5. To defend against being disintermediated: The existential risk for IT firms is not that AI automates enterprise work it is that AI platform companies figure out how to go direct to enterprise clients and cut IT firms out entirely. Partnering with Nvidia and LLM providers is partly a defensive move, it ensures IT firms are inside the tent rather than outside it, and it gives them contractual relationships that make disintermediation more difficult.

6. To Capture the $300–400Bn AI Services Market Before competitors: Infosys's own Analyst Day in February 2026 estimated the AI services market at $300–400 billion by 2030. The firms that establish certified partnership status with the leading AI platforms today are the ones that will be on the shortlist for enterprise AI implementation mandates in FY27 and FY28. The partnerships are not just about today's revenue, they are about being positioned for the market that materialises at the FY28 crossover.

Recent Deal Wins

Company	Initiative / Deal Win	Key Partner	Focus Area & Description
TCS	Gemini Experience Centers (GEC)	Google Cloud	**Physical AI:** Dedicated to developing AI solutions for the manufacturing sector; seventh center launched in Michigan with a goal of 13 centers by 2026-end.
TCS	Rapid Outcome AI Platform	NVIDIA	**Scale & automation:** Moving AI from experimentation to full-scale production to automate workflows in manufacturing, telecom, and banking.
HCL Tech	Agentic AI Collaboration	Google Cloud	**AI Agents:** Integrating industry solutions with Gemini Enterprise to deliver production-ready autonomous AI agents across industries.
HCL Tech	AWS European Sovereign Cloud	AWS	**Compliance & sovereignty:** Providing cloud innovation for European organizations that must adhere to strict regulatory and data sovereignty requirements.
Infosys	Advanced AI for Regulated Industries	Anthropic	**Regulated workflows:** Integrating Claude models with Infosys Topaz to automate complex workflows in telecom, finance, and manufacturing.
Infosys	Data Modernization for CSX	Microsoft	**Data consolidation:** Using Infosys Topaz and Microsoft Fabric to create a unified, cloud-native platform for real-time analytics for CSX Corporation.
Wipro	AI-Native Software Delivery	Harness	**Software Modernization:** Combining Wipro's WEGA platform with Harness to automate software releases and modernize development for global enterprises.

Source: Disclosures, Mirae Asset Sharekhan Research

Key Monitorables to watch for

The April–May 2026 earnings season will serve as the first meaningful inflection point, with Q4FY26 results and FY27 full-year guidance forming the dual litmus test for sector re-rating. On the revenue front, a CC growth guidance above 3–4% accompanied by net new deal mix exceeding 40–50% of total bookings, with no commentary around managed services contract renegotiations, would signal a healthy demand environment.

Conversely, guidance below 3% CC from large cap IT firms, net new deal contribution falling under 40%, or any acknowledgement of managed services pricing pressure would validate the bear thesis of accelerating revenue deflation.

On the guidance front, a constructive FY27 outlook where management explicitly calls out AI advisory as a quantifiable growth driver rather than offering hedged, narrow-range guidance with revised deal conversion timelines would be a strong re-rating catalyst.

The June 2026 quarter will sharpen this narrative further, with Q1FY27 results and Accenture's Q3FY26 earnings together providing a dual read on both Indian IT execution and global enterprise spending trends. A sequential revenue acceleration in Q1FY27, stable margins, and a visible uptick in AI advisory as a percentage of revenue mix would confirm the FY28 crossover thesis.

Accenture's results will act as a global bellwether growing AI advisory revenues, confirmed enterprise demand, and an expanding deal pipeline would validate the structural opportunity for Indian IT, whereas slowing AI advisory growth, cautious enterprise spending, or weak forward guidance from Accenture would remove the last pillar supporting a near-term valuation recovery.

Impact: Different verticals, Different stories

Not all verticals would be hit on an equal magnitude during the AI transition, with firms' revenue mix determining whether the next three years would seem like a crisis or a catalyst -

BFSI, contributing to 30-35% of Indian IT services, is moving in two directions simultaneously, ***aggressively adopting AI for fraud detection, underwriting, and customer service, while also being the most constrained by regulatory barriers***. The result is large, complex, high-value mandates with 12-18-month clearance cycles. Slow to start, but sticky and defensible once live.

Healthcare & Lifesciences is the second-most regulated vertical and moving cautiously. The HIPAA in the US and equivalent frameworks globally severely constrain patient data usage, creating the same sovereign AI imperative as BFSI but with even less tolerance for error. However, the opportunity is substantial precisely because of how far behind HLS is. Clinical documentation, prior authorisation, revenue cycle management and drug discovery support are all active pipeline categories. IKS Health and Sagility are purpose-built for this vertical and carry none of the managed services exposure that makes large-cap IT firms vulnerable.

Technology, Media & Telecom (TMT) clients are the earliest and most aggressive AI adopters leading to ***best near-term revenue opportunity and highest managed services deflation risk.*** TMT clients are digitally native, have cleaner data estates, and face fewer regulatory barriers to AI deployment than BFSI or healthcare & Lifesciences. The opportunity in TMT is second-order work - i.e. the integration of AI into legacy media rights management systems, telecom network optimisation, and the governance of AI-generated content at scale. These are complex, multi-year engagements that internal teams cannot self-serve. The risk is that TMT clients are the first to renegotiate managed services contracts at lower rates as productivity gains become visible. IT firms with high TMT concentration should expect the earliest pricing pressure in managed services.

Retail and Consumer Packaged Goods (CPG) split cleanly into two sub verticals with opposite AI adoption trajectories. E-com and digital retail players are among the most advanced adopters of AI globally, deploying recommendation engines, dynamic pricing, and supply chain optimisation at scale. This is largely greenfield work and moves fast. The traditional retail vertical is constrained by legacy POS systems, fragmented data, and thin margins that make large IT investment difficult to justify. The core opportunity in CPG is supply chain AI, demand forecasting, inventory optimisation, and logistics automation, where ERP integration complexity creates deep, multi-year engagements. Infosys and TCS are well positioned through decades of SAP relationships in this vertical. The risk is that cost-pressured CPG clients use AI productivity gains to renegotiate IT spend before committing to new programmes.

Manufacturing and automotives: Manufacturing is the positive surprise in the AI adoption story. ***Industrial AI, predictive maintenance, quality control vision systems, digital twin deployment, and factory floor automation is advancing faster than*** most IT sector analysts expected 12 months ago. The reasons are structural: manufacturing data is largely machine-generated, structured, and clean relative to the messy human-generated data in BFSI or healthcare. This makes AI deployment faster and the ROI more immediately measurable.

Automotive is a specific sub-vertical worth watching independently. The shift to electric vehicles and software-defined vehicles has created a massive IT modernisation requirement every automotive OEM is essentially becoming a software company. The legacy automotive IT estate (dealer management systems, supply chain software, embedded systems) requires complete modernisation before EV and autonomous vehicle software can function on top of it.

Energy & utilities is among the most capital-intensive verticals and is consequently one of the slowest to adopt AI scale. Grid management, energy trading and utility billing systems operate on decades-old infrastructure with near-zero tolerance for downtime, making AI deployment cautious and phased. The opportunity is however, is building. Global energy transition, decarbonization mandates, smart grid modernization, and renewable energy integration is creating a structural IT rebuilding requirement that is only beginning. Predictive maintenance, AI-driven demand forecasting, and carbon accounting platforms are active pipeline categories. The risk is procurement cycle length. The opportunity is duration once engaged; these are among the stickiest client relationships in the sector.

Opportunities & Barriers across verticals

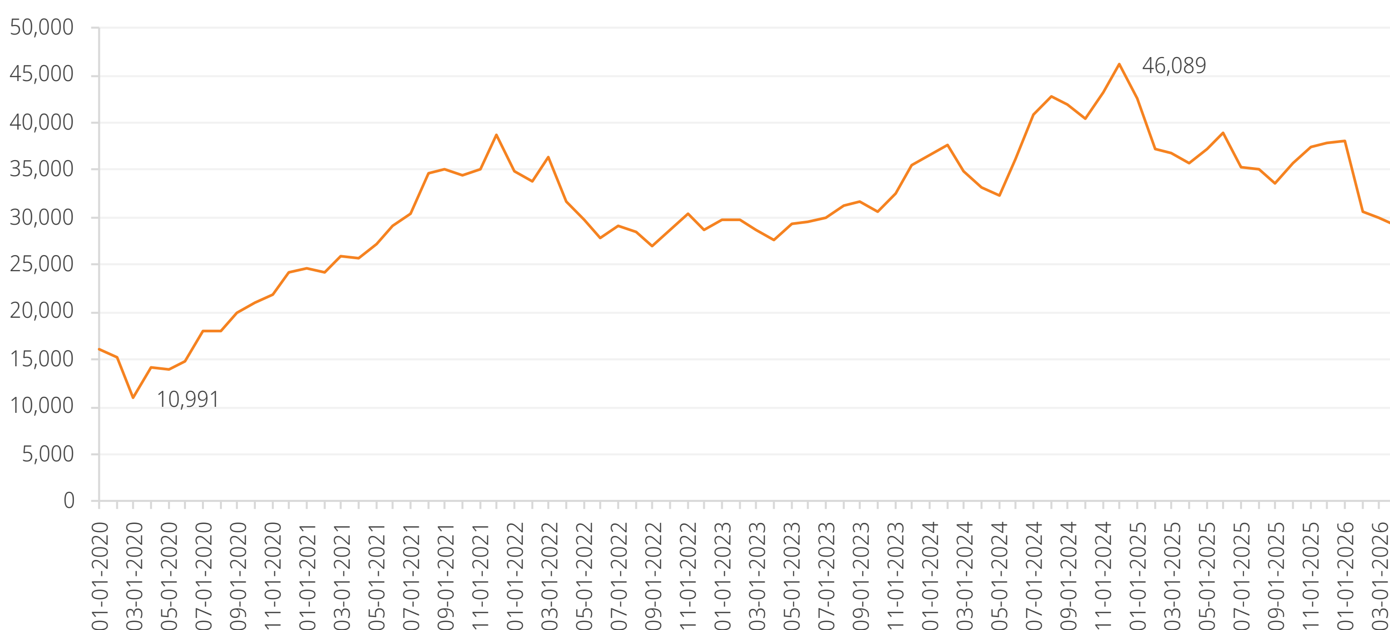
Vertical	Revenue Mix	AI Adoption Speed	Regulatory Barrier	Net Opportunity
BFSI	30-35%	Fast – but gated	High	High – long cycle, sticky
HLS	15-20%	High but cautious	Low	High
TMT	15-20%	Very Fast	High – earliest repricing	Medium – Internal Competition
Retail & CPG	10-15%	Bifurcated	Moderate	Medium – Supply Chain Focus
Manufacturing	10-12%	Faster than expected	Low	High – Clean Data, fast ROI
Automotive	5-8%	Accelerating	Medium	Very High – EV Modernization wave
Energy & Utilities	5-8%	Moderate	Medium-High	Medium – Grid optimization

Source: Mirae Asset Sharekhan Research

Nifty IT Hits Dec 2024 Peak Before FII Sell-Off; DIIs Absorb Outflows in 2025

Macro and sector-specific tailwinds drove up the Nifty IT index to an all-time high of 46,089 in December 2024. A weak rupee sharpened Indian IT firms' competitiveness, while a rally in US tech stocks reflected optimism around rapid corporate tech spending in the US, which made Indian IT companies attractive for investors. Lower US inflation, expectations of rate cuts by the US Fed and a resultant rise in discretionary technology spending also propelled the Nifty IT index to record highs.

Nifty IT Performance



Source: Mirae Asset Sharekhan Research

Risks to our Thesis

Our thesis rests on the assumption that AI advisory and new service categories scale fast enough to offset managed services deflation by FY28. If that offset takes longer or never fully materialises, the earnings and valuation consequences are material.

On earnings, if managed services contract renegotiations accelerate beyond our base case assumption, EPS cuts of 10–15% across large-cap IT stocks become realistic, compounding the 1-4% cuts already embedded in consensus estimates.

Revenue growth could stall at 1-3% in CC terms through FY27–FY28 rather than recover to 4–5%. We anticipate that in a business with high operating leverage, even a modest slowdown in revenue growth disproportionately hits margins.

On valuation, a structural shift from annuity managed services to cyclical advisory and implementation work increases earnings volatility permanently and markets price volatile earnings at lower multiples.

The more consequential risk is not an earnings collapse; it is a multiple that never recovers. If AI advisory revenues fail to scale visibly by FY27, the market has every reason to permanently re-rate Indian IT from a technology enabler to a mature, commoditised business.

Large-caps burdened by high managed services exposure and slower business model transition could settle into a structural trading range of 10-14x earnings, a level that implies meaningful further downside even from current prices.

Mid-caps with better growth visibility but unproven AI advisory practices would fare only marginally better, finding a floor at 15-20x. At those multiples, the sector offers limited upside and the premium that Indian IT has historically commanded over global peers disappears entirely.

This is not the base case, but is the risk that makes stock selection and vertical concentration more consequential in this cycle than in any prior one.

Valuation: Sector being re-rated, not in a freefall

Why multiples are compressing?

Current compression in valuation multiples across the IT services sector reflects a structural re-pricing of terminal growth. While previous valuation compressions were dismissed as cyclical fluctuations tied to macro headwinds like H-1B restrictions or temporary shifts in discretionary spending, the emergence of autonomous workflow capabilities highlighted by Anthropic's latest AI deployments has introduced a structural threat to the traditional labor-pyramid model. We are seeing a transition where the market is no longer pricing these assets for high-growth premiums but is instead applying a value-oriented lens, mirroring periods to low growth or crisis period.

"Multiple compression" is driven by three specific anxieties:

- **Fear of cannibalisation** - AI is automating the high-volume, bread-and-butter tasks that previously fuelled headcount growth, threatening the legacy revenue base.
- **Innovation gap narrative** - The perception that Indian IT lacks AI innovation leadership has triggered a rotation away from growth-focused investors, visibly reflected in falling forward PE multiples.
- **Lowered terminal value** - The market is no longer treating these firms as infinite growth machines but as businesses that must prove their relevance in an AI-first architecture or risk being re-rated as sunset industries permanently.

Accordingly, we assign target multiples of 15–20x FY28E earnings for large-cap IT and 20–30x for mid-tier IT. In a scenario where AI advisory revenues fail to scale and the business model transition stalls, large-caps could settle into a structural trading range of 10–14x and mid-caps at 15–18x, a new normal low-PE regime that prices Indian IT as a mature, commoditised industry rather than an AI-era enabler.

What drives multiple re-ratings

Multiples will not mean-revert to historical averages of 20-24x on management commentary alone. Markets require three specific proofs.

- First, business model adaptability, visible evidence that AI advisory is no longer a pilot category but a scaling revenue line, ideally with separate disclosure.
- Second, innovation leadership - Proprietary AI frameworks and composite delivery models that demonstrate Indian IT is an architect of enterprise AI transformation, not a passive recipient of disruption.
- Third, long-duration earnings visibility proof that deep client relationships and global delivery scale remain indispensable in an AI-first architecture, evidenced by deal tenure, net new TCV mix, and client retention in AI-adjacent engagements.

Despite the near-term uncertainty, we remain confident in the structural resilience of Indian IT. This is an industry that has navigated six major disruption cycles over two decades each time emerging with a larger revenue base, a more diversified client mix, and a stronger delivery model than before.

The same firms being written off today as disruption victims are the ones holding record deal pipelines, signing partnerships with the world's leading AI platforms, and actively building the service categories that will define enterprise technology for the next decade.

The de-rating is real. The opportunity it creates is equally real. Indian IT will not just survive the AI cycle,s it will be built by it.

Our View – Changes in multiples for our coverage universe

Company	Reco	CMP	Bull Case			Base Case			Bear Case		
			PT	Upside	P/E	PT	Upside	P/E	PT	Upside	P/E
Affle	BUY	1,304	1,875	43.8%	40.0	1,640	25.8%	35.0	1,172	-10.2%	25.0
Birlasoft	BUY	348	476	36.8%	20.4	422	21.3%	18.1	304	-12.6%	13.0
Coforge	BUY	1,121	1,779	58.7%	26.4	1,482	32.3%	22.0	943	-15.8%	14.0
HCL Tech	BUY	1,389	1,765	27.1%	22.3	1,582	13.9%	20.0	949	-31.7%	12.0
Infosys	BUY	1,294	1,746	34.9%	21.0	1,497	15.7%	18.0	1,084	-16.2%	13.0
LTIM	BUY	4,224	5,632	33.3%	25.0	4,956	17.3%	22.0	3,830	-9.3%	17.0
L&T Tech	BUY	3,151	4,156	31.9%	25.2	3,628	15.1%	22.0	2,803	-11.0%	17.0
Mastek Limited	BUY	1,427	2,196	53.8%	14.0	1,725	20.9%	11.0	1,255	-12.1%	8.0
NIITMTS	BUY	293	391	33.7%	15.0	339	15.9%	13.0	261	-10.9%	10.0
Persistent Systems	BUY	4,871	7,253	48.9%	42.0	6,044	24.1%	35.0	3,454	-29.1%	20.0
TCS	BUY	2,417	3,494	44.5%	21.0	2,828	17.0%	17.0	1,996	-17.4%	12.0
Tech Mahindra	BUY	1,436	1,911	33.1%	22.0	1,651	14.9%	19.0	1,101	-23.3%	12.7
Wipro	HOLD	190	248	30.3%	18.0	206	8.6%	15.0	151	-20.4%	11.0
Intellect	BUY	649	895	38.0%	26.0	757	16.8%	22.0	516	-20.4%	15.0

Source: Mirae Asset Sharekhan Research; CMP as on dated March 24, 2026

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