MIRAE ASSET Sharekhan

Sector Update

IT Review

Demand condition stabilizing, execution up, attractive valuation

Q2FY2026 Results Review

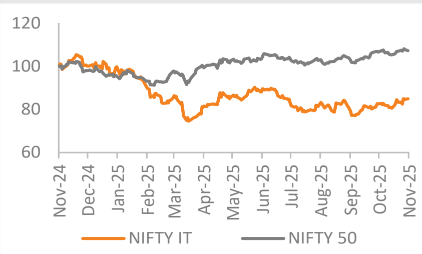
Sector:	IT
Sector View:	Positive

Coverage universe

Company	Reco	CMP (Rs)	Price target (Rs)
Birlasoft	Buy	380	450
Coforge	Buy	1,832	2,133
HCL Tech	Buy	1,601	1,893
Infosys	Buy	1,531	1,850
LTIM	Buy	5,833	6,827
L&T Tech	Buy	4,263	5,000
Mastek Limited	Buy	2,229	2,692
Persistent Systems	Buy	6,371	7,295
TCS	Buy	3,119	3,900
Tech Mahindra	Buy	1,495	1,804
Wipro	Buy	246	285

Source: Company, Mirae Asset Sharekhan Research

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Summary

- Tier-1 companies' USD revenue growth remain muted, with growth varying from -2.7 to +5.8%. In contrast, tier-2 IT companies clocked robust sequential revenue growth.
- Discretionary spending remains resilient in BFSI and Utilities but soft in telecom, retail, automotive, hi-tech, and energy
- Tier-1 IT companies margins remained largely positive (ex-Wipro), while deal wins were robust. We believe Q2FY26 marked a cyclical trough for demand, but bulk of the current deceleration cycle is now absorbed, with further material deterioration unlikely.
- We expect demand to either stabilise or improve going foward. Capping of downside risk favours gradual recovery through FY27E. Risk-reward remains tilted to the upside. We continue to have greater comfort on tier-1 companies and tier-2 players, given steady performance and better valuations. We stay Positive on the sector in medium to long term.

Revenue growth for tier-1 IT firms was subdued, with y-o-y revenue growth at -2.7% to 5.8%. HCL Technologies led the large-cap pack on CC revenue growth, while TCS clocked the weakest numbers. Among tier-2, revenues of Persistent grew 4.4% CC, Coforge's by 5.9% CC, with Birlasoft's numbers being subdued. EBIT margins improved across Tier-1 (excl. Wipro) and Tier-2 firms, on strong operational efficiency, higher offshore mix and forex tailwinds. Deal win momentum grew strongly for most firms, with combined wins for Tier-1 companies was up 26.1% y-o-y. HCLTech and Infosys have raised the lower end of revenue growth guidance for FY26, while Wipro has provided relatively steady guidance for Q3FY26 as compared to its previous quarters. Structural outlook continues to brighten, on faster AI adoption. We anticipate a new cycle of AI-centric workloads and AI-native deals to become a tangible revenue tailwind starting FY27E, only partially offset by concurrent AI-driven productivity deflation on legacy services. This dynamic should drive a favourable shift in the mix and drive incremental margin expansion over 2-3 years. Risk-reward stays tilted to the upside and we remain comfortable on tier-1 IT companies and select tier-2 IT companies, on their steady performance and better valuations. We stay Positive stance on the sector in medium to long term.

Revenues: Tier-1 IT companies reported mixed bag of revenue growth. Infosys/HCL Tech posted revenue growth of 2.9% and 4.6% CC y-o-y while TCS, Tech Mahindra and Wipro reported a down 3.3%, 0.3% and 2.6% y-o-y, respectively. Among Tier-2 IT companies, Persistent Systems posted revenue growth of ~17.8% y-o-y CC driven by robust growth in BFSI followed by Software, Hi-tech, & Emerging verticals, Coforge reported 25.7% CC y-o-y growth, led by travel, healthcare, retail and high tech contributing positively Birlasoft down 8.0% y-o-y CC. LTIM reported ~4.8% CC y-o-y.

Margins: Margin trend for Tier-1 IT companies largely remained positive (Excl. Wipro). EBIT margin for Infosys, TCS, HCLT, and Tech Mahindra, improved ~20, 72, 110, and 104 bps q-o-q, respectively while Wipro saw a sequential decline of ~70bps. The improvement in margins were largely led by overall improvement in operating efficiency, higher offshore, and forex tailwinds. Most Tier-2 IT companies reported sequential improvement in margins, with LTIMindtree improving 160bps driven by its fit-for-future initiative and forex. PSYS margins improved ~80bps q-o-q driven by favorable currency movement, lower software licensing costs, and higher offshore activities. Coforge and Birlasoft improved ~80/ 380 q-o-q, respectively.

Deal win momentum and FY26 guidance: Deal win momentum picked up. Combined deal wins TCV for Tier-1 companies was up 26.1% y-o-y. Deal win for TCS, Infosys, Tech Mahindra, Wipro, HCLT grew 16.3%, 27.6%, 35.3%, 91.6%, and 15.8%, respectively. Among Tier-2 IT companies, TTM TCV for Persistent and Coforge grew 15.2% /24.9% y-o-y, respectively. Deal wins are mostly driven by cost takeout, vendor consolidation, and AI led deals. HCL Technologies raised service revenue growth guidance to 4-5% in CC terms from 3-5%, while maintaining EBIT margin at 17-18% for FY26, while Infosys raised revenue growth guidance to 2-3% in CC terms from 1-3% for FY26 with EBIT margin guidance at 20-22%. Wipro provided IT services revenue growth guidance of -0.5% to +1.5% in CC terms for Q3FY26, excluding any revenue expected from the acquisition of Harman Digital Transformation Solutions.

Valuation:

The Nifty IT index underperformed (down ~11.4%) versus the Nifty (up~11.5%) over the past year, largely due to cautious discretionary spending with many verticals seeing global headwinds like manufacturing, retail, and telecom, with BFSI providing some level of support. IT services majors are guiding cautiously optimistic revenue growth for FY26E, underpinned by healthy deal pipelines and large-deal momentum. With the current valuation multiple already embedding a deeply pessimistic demand outlook, further material derating appears limited. Barring a significant macro shock, we expect demand to stabilise, followed by a meaningful inflection in CY26E as enterprise budget flushes resume and deferred programs are released. We see a structural re-acceleration ahead, fueled by an emerging wave of AI-native workloads and AI-first deals that should deliver clear revenue uplift from FY27E onwards. Productivity-driven pricing pressure on legacy services will provide only a partial offset, resulting in positive revenue mix shift and incremental margin leverage through FY27–28E. At current levels, risk-reward is strongly skewed to the upside. We remain overweight Tier-1 Indian IT and Tier-2 names on the back of resilient execution and undemanding valuations.

Key risks:

1) Rupee appreciation and/or adverse cross-currency movements, persisting macro headwinds, and recession in the US can moderate the pace of technology spending.

Preferred Picks:

Large caps: Pecking order: TCS, Infosys, HCL Tech, and Tech Mahindra

Mid-caps: Pecking order: Persistent Systems, Coforge and LTIMindTree

Highlights of quarterly performance

Quarterly revenue growth of Tier-1 IT companies (on reported basis):

Rs cr

Quarter ended	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Infosys	**4,555.0**	**4,659.0**	**4,554.0**	**4,617.0**	**4,718.0**	**4,663.0**	**4,564.0**	**4,714.0**	**4,894.0**	**4,939.0**	**4,730.0**	**4,941.0**	**5,076.0**
q-o-q (%)	2.5	2.3	(2.3)	1.4	2.2	(1.2)	(2.1)	3.3	3.8	0.9	(4.2)	4.5	2.7
TCS	**6,877.0**	**7,075.0**	**7,195.0**	**7,226.0**	**7,210.0**	**7,282.1**	**7,363.0**	**7,505.0**	**7,670.0**	**7,539.0**	**7,465.0**	**7,421.0**	**7,466.0**
q-o-q (%)	1.4	2.9	1.7	0.4	(0.2)	1.0	1.1	1.9	2.2	(1.7)	(1.0)	(0.6)	0.6
WIPRO	**2,797.7**	**2,803.5**	**2,823.0**	**2,778.5**	**2,713.3**	**2,656.1**	**2,657.4**	**2,625.9**	**2,660.1**	**2,629.1**	**2,596.5**	**2,587.4**	**2,604.3**
q-o-q (%)	2.3	0.2	0.7	(1.6)	(2.3)	(2.1)	0.0	(1.2)	1.3	(1.2)	(1.2)	(0.4)	0.7
HCL Technologies	**3,082.1**	**3,244.0**	**3,234.6**	**3,200.0**	**3,224.7**	**3,415.0**	**3,429.9**	**3,363.8**	**3,445.2**	**3,533.0**	**3,498.0**	**3,545.0**	**3,644.0**
q-o-q (%)	1.9	5.3	(0.3)	(1.1)	0.8	5.9	0.4	(1.9)	2.4	2.5	(1.0)	1.3	2.8
Tech Mahindra	**1,638.0**	**1,668.0**	**1,667.6**	**1,600.7**	**1,555.2**	**1,573.0**	**1,548.2**	**1,559.0**	**1,588.7**	**1,567.5**	**1,549.0**	**1,564.4**	**1,586.0**
q-o-q (%)	0.3	1.8	(0.0)	(4.0)	(2.8)	1.1	(1.6)	0.7	1.9	(1.3)	(1.2)	1.0	1.4
Total Revenue	**18,949.8**	**19,449.5**	**19,474.2**	**19,422.2**	**19,421.2**	**19,589.2**	**19,562.5**	**19,767.7**	**20,258.0**	**20,207.6**	**19,838.5**	**20,058.8**	**20,376.3**
q-o-q (%)	1.8	2.6	0.1	(0.3)	(0.0)	0.9	(0.1)	1.0	2.5	(0.2)	(1.8)	1.1	1.6

Source: Company; Mirae Asset Sharekhan Research

Quarterly y-o-y USD revenue growth (%)

Rs cr

Quarter Ended	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Infosys	13.9	9.6	6.4	3.9	3.6	0.1	0.2	2.1	3.7	5.9	3.6	4.8	3.7
TCS	8.6	8.4	7.5	6.6	4.8	2.9	2.3	3.9	6.4	3.5	1.4	-1.1	(2.7)
Wipro	8.4	6.2	3.7	1.6	-3.0	-5.3	-5.9	-5.5	-2.0	-1.0	-2.3	-1.5	(2.1)
HCL Tech	10.4	9.0	8.1	5.8	4.6	5.3	6.0	5.1	6.8	3.5	2.0	5.4	5.8
Tech M	11.2	8.8	3.7	-1.9	-5.1	-5.7	-7.2	-2.6	2.2	-0.3	0.1	0.4	(0.2)

Source: Company; Mirae Asset Sharekhan Research

Quarterly CC revenue growth y-o-y

Rs cr

Quarter Ended	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Infosys	18.8	13.7	8.8	4.2	2.5	-1.0	0.0	2.5	3.3	6.1	4.8	3.8	2.9
TCS	15.4	13.5	10.7	7.0	2.8	1.7	2.2	4.4	5.5	4.5	2.5	-3.1	-3.3
Wipro	12.9	10.4	6.5	1.1	-4.8	-6.9	-6.6	-4.9	-2.3	-0.7	-1.2	-2.3	-2.0
HCL Tech	15.8	13.1	10.5	6.3	6.3	4.3	6.0	5.6	6.2	4.1	2.9	3.7	4.6
Tech M	16.8	12.70	6.30	-0.9	-5.9	-5.4	-6.4	-1.2	1.2	1.3	0.3	-1.0	-0.3

Source: Company; Mirae Asset Sharekhan Research

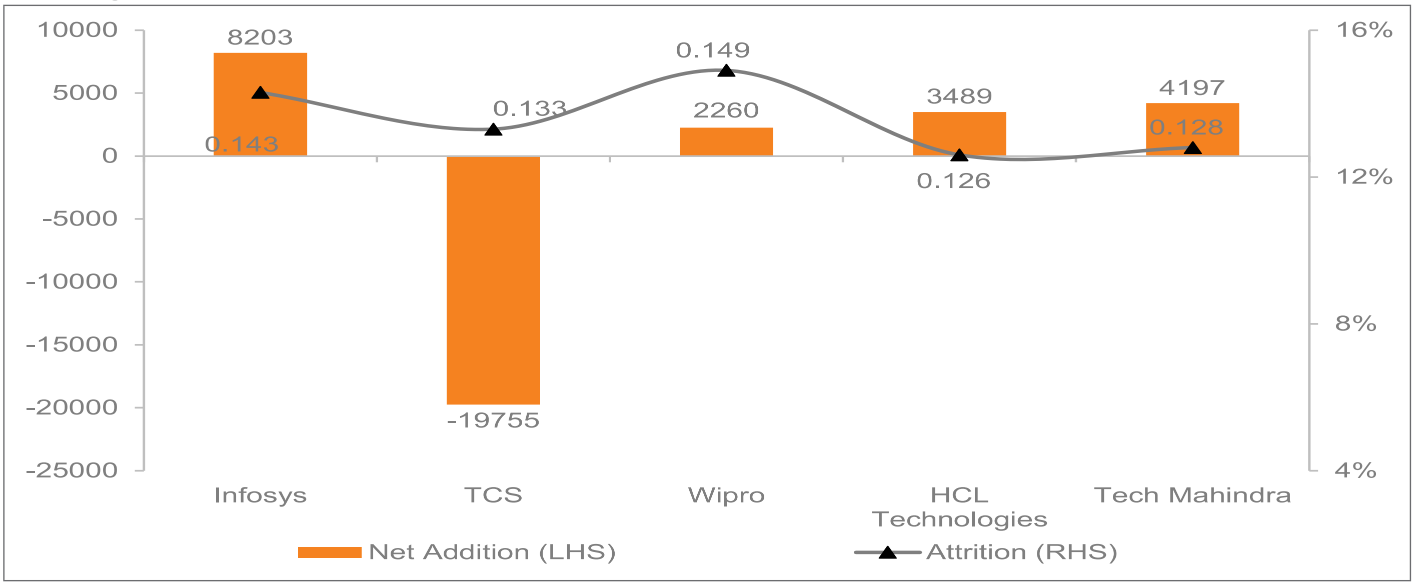
EBIT margin (%) trend for Tier1 IT companies

Rs cr

EBIT Margin	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Infosys	**21.5**	**21.5**	**21.0**	**20.8**	**21.2**	**20.5**	**20.1**	**21.1**	**21.1**	**21.3**	**21.0**	**20.8**	**21.0**
q-o-q (bps)	149	-4	-47	-24	42	-71	-41	99	2	24	-39	-15	20
TCS	**24.0**	**24.5**	**24.5**	**23.2**	**24.3**	**25.0**	**26.0**	**24.7**	**24.1**	**24.5**	**24.2**	**24.5**	**25.2**
q-o-q (bps)	91	52	-4	-132	110	75	98	-133	-60	43	-30	26	72
Wipro (IT)	**15.1**	**16.3**	**16.3**	**16.0**	**16.10**	**16.0**	**16.4**	**16.5**	**16.8**	**17.5**	**17.5**	**17.3**	**16.6**
q-o-q (bps)	16	115	7	-29	5	-11	40	7	35	68	0	-23	-67
HCL Tech	**17.9**	**19.6**	**18.2**	**17.0**	**18.5**	**19.7**	**17.6**	**17.1**	**18.6**	**19.5**	**18.0**	**16.3**	**17.4**
q-o-q (bps)	92	165	-141	-122	154	124	-213	-51	148	90	-148	-171	112
Tech M	**11.4**	**12.0**	**11.2**	**6.8**	**4.7**	**5.4**	**7.4**	**8.5**	**9.6**	**10.2**	**10.5**	**11.1**	**12.1**
q-o-q (bps)	32	62	-83	-438	-206	65	199	112	114	55	34	56	104

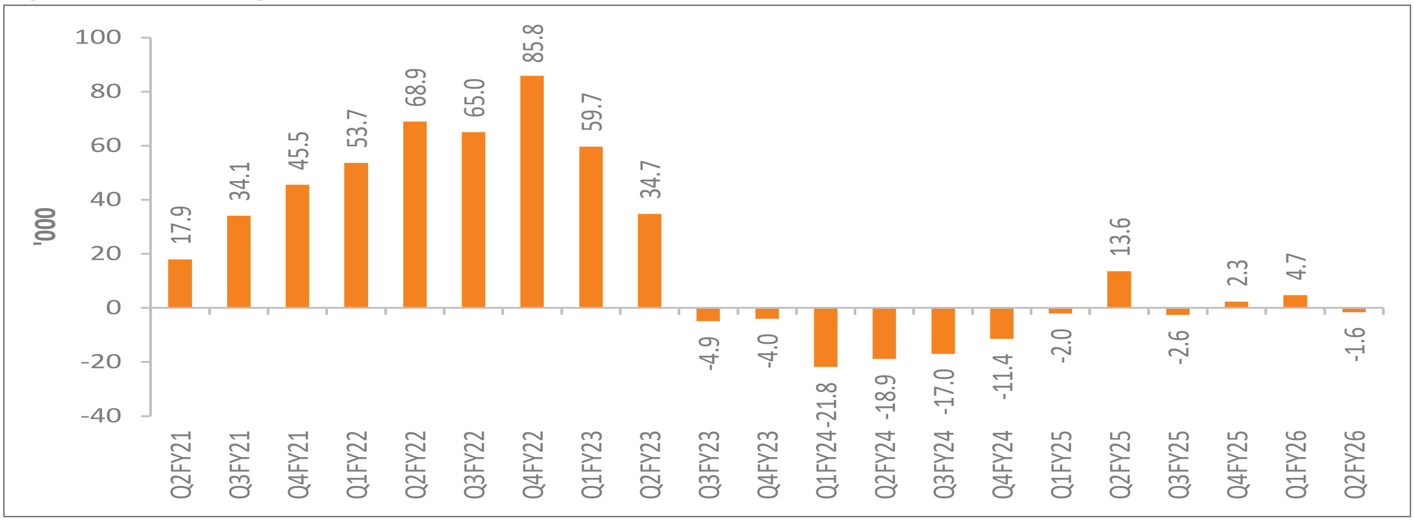
Source: Company; Mirae Asset Sharekhan Research

Net Hiring and Attrition Trend



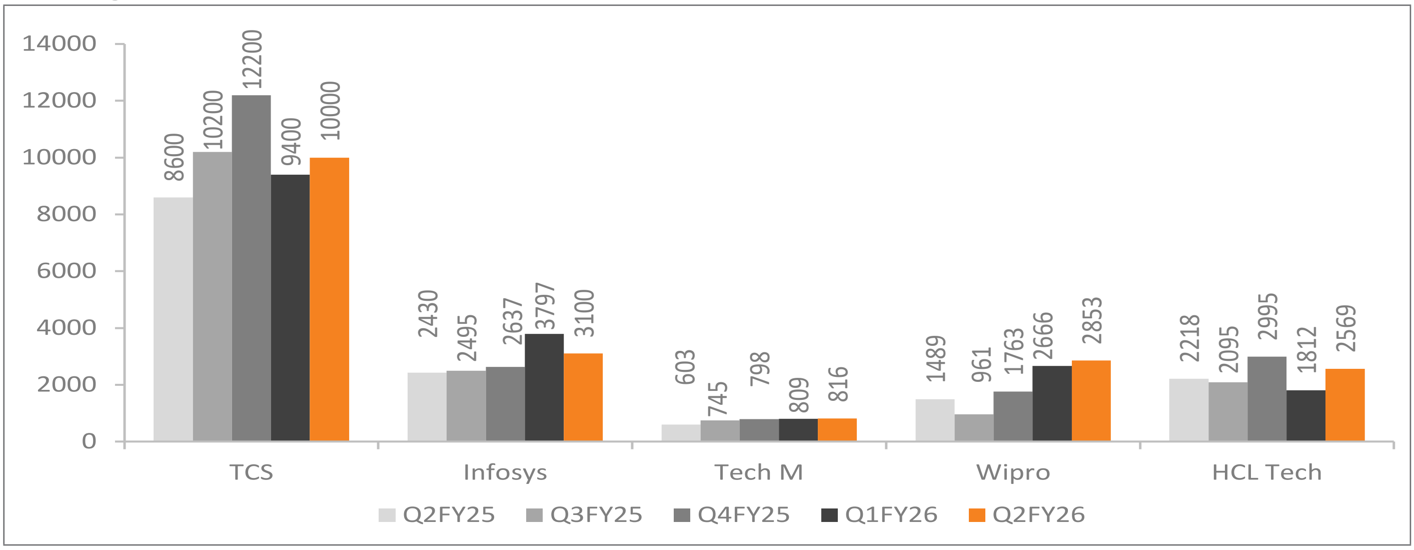
Source: Company; Mirae Asset Sharekhan Research

Top five Indian IT companies: Net headcount additions



Source: Company; Mirae Asset Sharekhan Research

Net Hiring and Attrition Trend



Source: Company; Mirae Asset Sharekhan Research

Our view on the coverage universe

Particulars	Reco	CMP (Rs)	Price target (Rs)	EPS (Rs.)				P/E (x)			
				FY25	FY26E	FY27E	FY28E	FY25	FY26E	FY27E	FY28E
Birlasoft	Buy	380	450	18.3	15.0	21.0	23.6	20.9	25.5	18.1	16.2
Coforge	Buy	1,832	2,133	29.6	47.3	57.3	70.1	54.7	38.2	31.6	25.8
HCL Tech	Buy	1,601	1,893	64.1	64.6	71.5	75.1	25.3	24.9	22.5	21.5
Infosys	Buy	1,531	1,850	64.5	67.1	61.9	66.4	23.2	23.1	25.0	23.3
LTIM	Buy	5,833	6,827	155.0	178.1	207.6	232.9	33.4	33.2	28.5	25.4
L&T Tech	Buy	4,263	5,000	119.4	134.9	146.5	175.3	35.4	36.2	32.0	29.5
Mastek Limited	Buy	2,229	2,692	118.1	120.0	150.6	180.9	18..5	18.7	14.9	12.4
Persistent Systems	Buy	6,371	7,295	90.6	123.4	149.5	184.7	71.2	60.7	51.6	42.6
TCS	Buy	3,119	3,900	134.2	147.0	153.2	165.4	23.1	21.4	20.5	19.0
Tech Mahindra	Buy	1,495	1,804	49.3	60.3	75.3	84.9	28.8	24.8	19.8	17.6
Wipro	Buy	246	285	12.5	12.9	13.6	13.9	20.9	19.1	18.1	17.8

Source: Company, Mirae Asset Sharekhan Research; UR – Under Review

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