Q3FY25 Information Technology Sector Review

Result Review

18th Feb 2025

Information Technology

TCV growth led by small and mid sized deals

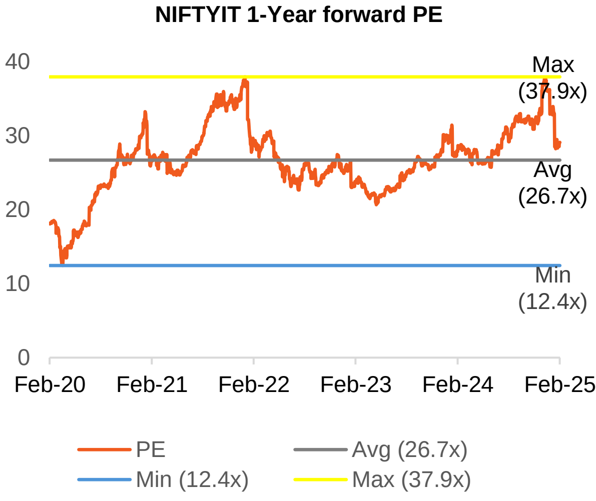
COVERAGE STOCKS

Coverage	Rating	CMP	Target (INR)	Upside
TCS	ACCUMULATE	3,905	4,631	18.59%
Tech Mahindra (TECHM)	ACCUMULATE	1,665	1,801	8.17%
Happiest Minds (HAPPSTMNDS)	ACCUMULATE	677	765	13.00%
Sonata Software (SSOF)	ACCUMULATE	420	517	23.10%
Infosys (INFY)	BUY	1,842	2154	16.94%
Infibeam Avenues	BUY	19	27.8	46.32%
Wipro (WPRO)	REDUCE	305	289	-5.25%
Tata Elxsi (TELX)	REDUCE	6,147	5853	-4.78%
Persistent Systems (PSYS)	REDUCE	5,531	5,989	8.28%
HCL Tech (HCLTECH)	HOLD	1,710	1,894	10.76%

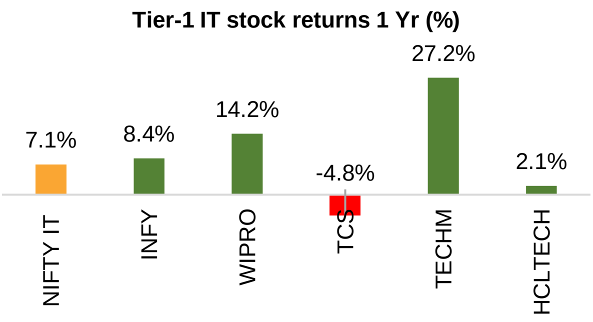
Source: Deven Choksey Research, Closing as of 17th Feb 2025

MARKET DATA

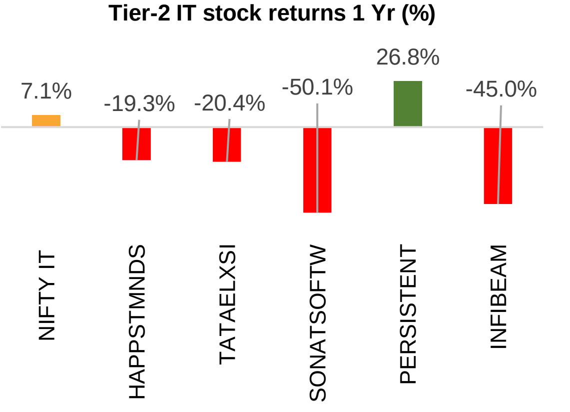
	Close	1M (%)	YTD (%)
Nifty	22,960	-1.0%	-2.9%
Sensex	75,997	-0.8%	-2.7%
Nifty IT	41,073	-2.3%	-5.2%
USD / INR	86.8	0.3%	1.5%



Source: NSE/ Bloomberg



Source: NSE/ Bloomberg



Source: NSE/ Bloomberg

SECTOR OVERVIEW – Information Technology Q3FY25

View and Valuation:

- The demand landscape in Q3FY25 improved slightly with TCV growth driven by small and mid-sized deals. However, mega deals continue to remain muted across our coverage, reflecting clients maintaining a cautious approach in response to ongoing macroeconomic headwinds.
- BFSI (Banking, Financial Services, and Insurance) emerged as a key growth driver for IT firms, driven by increased spending in capital markets, banking IT investments, and digital transformation.
- Healthcare & Lifesciences also showcased robust performance driven by strong demand for payer analytics, compliance solutions, and AI-driven transformation. Telecom & Media segment struggled due to industry-wide cost pressures and delayed deal closures impacting revenue growth.
- The automotive segment faced significant headwinds, particularly in Europe and North America, with slow deal closures, budget constraints, and project deferrals impacting revenue. The EU and UK economies are experiencing slower growth due to weak demand, higher inflation, high energy and labor costs. Additionally, Western OEMs are reducing near-term investments in EV R&D and shifting their focus to Hybrids and ICE (Internal combustion engine) models. While project deferrals are prominent in Europe, the APAC region, including Japan and India, is seeing better traction in automotive IT services.
- Retail and consumer spending saw mixed responses with companies such as TCS & Happiest Minds seeing retail expansion and positive trends in fashion whereas INFY and SSOF highlighted weak demand.
- Companies maintain a cautious approach in the near term, awaiting greater macroeconomic stability before committing to incremental investments. However, the anticipated moderation in inflation, coupled with potential interest rate cuts, provides a constructive backdrop for a recovery in discretionary spending and capital deployment over the medium term.

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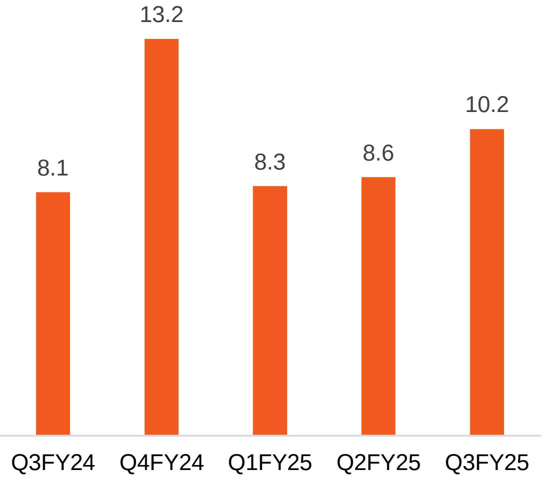
- The medium-to-long-term outlook remains favorable, underpinned by a strong deal pipeline, improved liquidity conditions supporting pent-up demand, and accelerating adoption of Gen-AI across automation, cloud migration, data modernization, and enterprise technology integration.
- **Top Picks: We remain positive on Infibeam Avenues, Tech Mahindra, and Infosys considering healthy quarterly results, improved management commentary, and anticipation of stronger FY26E results.**

➢ Tier-1 IT companies reported moderate TCV trends

- Tier-1 IT companies delivered moderate Total Contract Value (TCV) growth in Q3FY25, up 9.5% YoY (+9.6% QoQ). This growth was primarily driven by smaller and mid-sized deals across geographies and industries.
- A key structural shift in deal dynamics was observed, with shorter sales cycles, indicating faster client decision-making. However, the absence of large-scale, transformative deals (mega deals) underscores persistent caution in enterprise IT spending.
- Clients are cautiously increasing investments in Gen AI, cloud transformations, and modernization projects, which could drive stronger growth in CY25E, yet the preference for smaller engagements over long-term commitments suggests uncertainty in macro-driven capital expenditures.
- Among peers, TECHM recorded the most significant YoY improvement in TCV, up 96.1% YoY (+23.5% QoQ) – its strongest performance in two years. This was fueled by high-quality deal wins in TME, BFSI and Healthcare. Conversely, INFY reported a 21.9% YoY decline in TCV (+4.2% QoQ), primarily due to the absence of mega deals.
- We expect a revival in TCV growth in FY26E, driven by anticipated mega-deal announcements as client budgets for CY25E become more definitive, supported by potential increases in discretionary IT spending post-interest rate cuts.

Cumulative Tier-1 TCV (in USD Bn) improves led by TCS and Tech Mahindra



Source: Company Filings

➢ Revenue growth and margin status for Q3FY25

- Tier-1 IT firms reported modest YoY revenue growth of 4.0%, while Tier-2 IT firms delivered robust growth outpacing Tier-1 companies, with an average increase of 17.4% YoY. Among top IT companies, INFY led with 7.6% YoY revenue growth, followed by TCS/HCLTech/TECHM reported 5.6%/5.1%/1.4%. Wipro remained largely flat at 0.5% YoY revenue growth.
- Among mid-IT companies, HAPPSTMNDS/PSYS reported growth of 29.5%/22.6%, while INFIBEAM/SSOF/TELX growth came in at 18.0%/ 14.0%/ 2.7% YoY. Tier-1 IT companies continue to outperform Tier-2 firms in EBIT margin improvement. Tier-1 firms reported an average YoY increase of 146bps, led by Tech Mahindra, which achieved a 480bps YoY jump due to Project Fortius and reduced contractor costs.
- Wipro, reported a 260bps improvement in margin led by reductions in overheads, including G&A, improved utilization, and improved execution rigor in the core and consulting businesses. INFY, HCLTech, and TCS posted YoY margin changes of 83bps, -54bps, and -37bps, respectively.
- In contrast, Tier-2 IT firms continue to experience decline in margin (-152bps YoY). TELX, HAPPSTMNDS, and SSOF report the steepest decline of 327bps, 239bps, and 236 in EBIT margins, impacted by currency headwinds and wage hikes. PSYS/INFIBEAM saw a modest 35bps/ 7bps YoY increase in margins.

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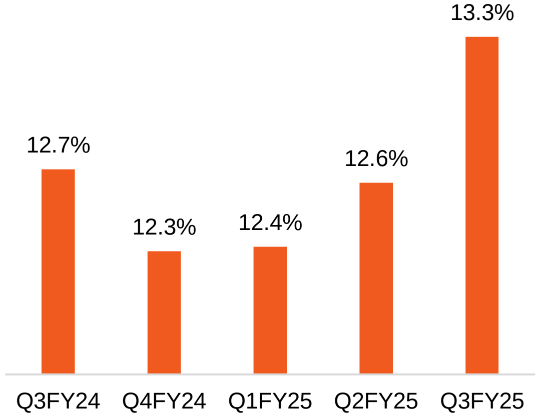
➢ Attrition rate inches up after bottoming out; IT firms adopt cautious hiring stance

- In Q3FY25, Tier-1 IT firms witnessed a modest increase in attrition rates, averaging 13.3%, a 70bps sequential increase. Tier-1 IT firms, collectively employing 1,534,708 employees, reported a sequential net deduction of 2,557 in Q3FY25, signaling cautious hiring sentiment.
- Among Tier-1 IT firms, INFY led hiring momentum, adding 5,601 employees sequentially, followed by HCLTech with a net addition of 2,134 employees. However, TCS recorded the highest net workforce reduction of 5,370 employees QoQ. TECHM and WIPRO also reported sequential workforce declines, underscoring a continued emphasis on cost rationalization and selective talent acquisition.
- Tier-2 IT firms adopted a more conservative hiring strategy, with muted workforce expansion (Excl. Infibeam Avenues). PSYS added the most, 704 employees followed by SSOF (+158), TELX (+85), and HAPPSTMNDS (+50) exhibited selective hiring for strategic roles, indicating a focus on specialized talent over large scale recruitment.
- The restrained hiring activity across both Tier-1 and Tier-2 firms correlates with subdued TCV momentum, as deal pipelines have not expanded at the pace anticipated by market participants.

Tier-1 IT firms median attrition (%) inches upwards

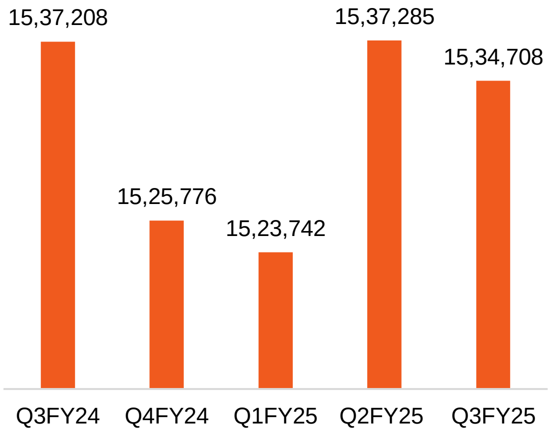


Source: Company Filings

➢ Wage hike announcements

- Among Tier-1 IT firms, Infosys has opted for a staggered wage hike implementation, with junior employees receiving increments in Q4FY25E, while the senior staff will see revisions deferred to Q1FY26E. HCL Tech has given hikes to junior staff in Q3FY25. The company while maintaining a stable margin outlook, has factored in a senior wage hike in Q4FY25E. TECHM has also announced a wage hike for Q4FY25E, likely to exert a 100-150 bps impact on EBIT margins. Within Tier-2 IT firms, SSOF executed salary hikes for mid and senior level employees in Q3FY25.
- The deferral of wage hikes across Tier-1 IT firms is driven by subdued discretionary spending and extended deal conversion cycles, underscoring prudent capital allocation strategies amid a volatile macroeconomic environment and cautious client sentiment.

Top Tier-1 IT firm saw marginal decline in headcount



Source: Company Filings

➢ Guidance for FY25E Outlook

- INFO has revised its FY25E revenue guidance upwards to a range of 4.5–5.0%, from the previous estimate of 3.75 - 4.50%, while maintaining its margin guidance at 20.0 – 22.0%. The company has raised its FY25E guidance for constant currency revenue growth to 4.5%-5.0%, up from the previous 3.5%-5.0%. The revised guidance factors in 50bps contribution from the HPE CTG acquisition, this translates to a FY25E organic revenue growth of 4.0-4.5% from 3.5%-5.0% (excluding the HPE CTG acquisition).
- WIPRO anticipates Q4FY25E with revenue from its IT Services business segment to range between USD 2,602 Mn and USD 2,655 Mn, reflecting a sequential growth guidance of (-) 1.0% to 1.0% in constant currency terms.
- PSYS has set an ambitious revenue target of USD 2 Bn revenue by FY27E, USD 5.0 Bn by FY31E. SSOF has revised its Q4FY25E revenue guidance downward by 2.5%-3.5% QoQ due to a large ramp-down in Q3FY25, a one-time discount to a major hi-tech client.
- Infibeam's guidance remains intact for FY25E with gross revenue of INR 39,000 – 42,000 Mn, a growth of 23.0–32.0% YoY. Net Revenue is expected to be between INR 4,500 – INR 5,000 Mn (up 5.0% - 17.0% YoY), and EBITDA is forecasted to be in the range of INR 2,750 – 3,000 Mn (up 9.0% - 19.0% YoY). PAT for FY25E is expected to be in the range of 18.0% - 35.0% around INR 1,750 – 2,000 Mn.

Information Technology

TCS | Target: INR 4,631 | Rating: Accumulate | Upside: 18.6%

- Key updates of Q3FY25 include 1) TCS delivered a 4.5% YoY CC, 2) TCV stood at USD 10.2 Bn (+25.9 YoY/ +18.6% QoQ), driven by smaller and mid-sized deals across geographies and industries. 3) UK grew by 4.1% YoY CC, India region (+70.2% YoY CC), MEA grew by 15.0% YoY CC, partially offset by decline in North America region (-2.3% YoY CC).
- TCS expects to exit Q4FY25E at 26.0% operating margin. The tapering off of the BSNL contract, which has lower profitability, could provide a margin tailwind in subsequent quarters.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	6,39,730	-0.4%	5.6%	-1.1%
EBIT	1,56,570	1.2%	3.3%	-2.5%
PAT	1,23,800	4.1%	12.1%	-0.9%
EBITM (%)	24.5%	(41bps)	(54bps)	(34bps)
PATM (%)	19.4%	(85bps)	(113bps)	(6bps)

Infosys | Target: INR 2,154 | Rating: Accumulate | Upside: 16.9%

- Key updates of Q3FY25 include 1) INFY delivered a strong 6.1% YoY (+1.7% QoQ) CC, 2) BFSI segment reported growth of 6.1% YoY, 3) TCV stood at USD 2.5 Bn, down 21.9% YoY (+4.2% QoQ), with 63.0% of the wins being net new business.
- INFO has revised its FY25E revenue guidance upwards to a range of 4.50 – 5.0%, from the previous estimate of 3.75 - 4.50%, while maintaining its margin guidance at 20.0 – 22.0%.
- The implied growth rate for Q4FY25E is likely to be tepid with some negative bias, driven by a decline in third-party revenue due to Q3FY25 seasonality and the impact of large deals. Additionally, furloughs are expected to weigh on performance in Q4FY25E.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	4,17,640	1.9%	7.6%	1.4%
EBIT	89,120	3.0%	11.9%	3.9%
PAT	68,220	4.7%	11.6%	2.7%
EBITM (%)	21.3%	24bps	83bps	52bps
PATM (%)	16.3%	44bps	59bps	22bps

Wipro | Target: INR 289 | Rating: Reduce | Upside: -5.2%

- Key Updates of Q3FY25 include 1) WIPRO reported revenue growth of 0.7% YoY (+0.1% QoQ) in CC, 2) TCV stood at USD 3,514 Mn down 7.3% YoY (-1.3% QoQ), 3) the BFSI segment grew by 3.4% YoY CC (-1.9% QoQ CC).
- EBIT margin for Q3FY25 stood at 17.3% achieving a 12-quarter high margin. The margin expansion was driven by reductions in overheads, including G&A, improved utilization, and improved execution rigor in the core and consulting businesses, including Rising and Capco partially offset by wage hikes and furloughs.
- WIPRO anticipates Q4FY25E with revenue from its IT Services business segment to range between USD 2,602 Mn and USD 2,655 Mn, reflecting a sequential growth guidance of (-) 1.0% to 1.0% in constant currency terms.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	2,23,188	0.1%	0.5%	-0.9%
EBIT	38,633	5.2%	18.2%	3.9%
PAT	33,538	4.3%	24.7%	7.9%
EBITM (%)	17.3%	84bps	260bps	81bps
PATM (%)	15.0%	64bps	289bps	123bps

Tata Elxsi | Target: INR 5,853 | Rating: Reduce | Upside: -4.8%

- Key Updates of Q3FY25 include 1) TELX reported revenue growth of 2.0% YoY in CC (+0.2% QoQ CC), 2) Transportation segment sees global headwinds in US and European, 3) Western OEM's losing market share to Chinese OEMs, 4) reprioritizing near-term EV R&D budgets and focusing on ICE and hybrids.
- Management highlighted green shoots in the healthcare and media verticals, with new deals secured, but it may take a few quarters before these convert into material revenue.
- EBIT margins got impacted due to currency headwinds by adverse currency fluctuations in GBP. EUR, and JPY, and full effect of the wage hike cycle across the employee base

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	9,392	-1.7%	2.7%	-5.9%
EBIT	2,206	-7.8%	-9.8%	-14.8%
PAT	1,990	-13.3%	-3.6%	-2.9%
EBITM (%)	23.5%	-156bps	-327bps	-245bps
PATM (%)	21.2%	-283bps	-139bps	65bps

Note:
QoQ – Quarter on Quarter Growth | YoY – Year over Year Growth | Surprise – deviation from estimates

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Information Technology

Tech Mahindra | Target: INR 1,801 | Rating: Accumulate | Upside: 8.2%

- Key updates for the quarter include 1) revenue grew by 1.3% YoY CC (+1.2% QoQ CC), 2) TCV stood at USD 745 Mn, up 95.5% YoY (+23.5% QoQ), and 3) BFSI segment witnessed growth of 9.5% YoY CC (+2.7% QoQ CC), driven by demand for core banking and communications segment declined by 2.4% YoY CC (+0.4% QoQ CC), attributed to industry wide pressures.
- Management reiterated its commitment to achieving a 15.0% EBIT margin by FY27E. However, margins for Q4FY25E are expected to face 100-150 basis points of pressure from wage hikes scheduled for January 2025.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	1,32,856	-0.2%	1.4%	-0.5%
EBIT	13,502	5.5%	92.1%	3.3%
PAT	9,832	-21.4%	92.6%	-1.5%
EBITM (%)	10.2%	55bps	480bps	37bps
PATM (%)	7.4%	-199bps	350bps	-8bps

Persistent Systems | Target: INR 5,989 | Rating: Reduce | Upside: 8.3%

- Key updates for Q3FY25 include 1) revenue growth led by BFSI up 24.5% YoY and Healthcare & Lifesciences up 55.7% YoY, driven by significant deal wins, 2) TCV stood at USD 594.1 Mn, up 13.9% YoY (+12.3% QoQ), with USD 333.6 Mn of TCV from new bookings, and 3) Annual contract value (ACV) stood at USD 428.3 Mn up 9.2% YoY (+23.0% QoQ), with USD 195.6 Mn contributed by ACV from new bookings.
- PSYS has outlined an ambitious roadmap targeting USD 5 Bn in revenue by FY31E, doubling down on its existing verticals, deepening engagement with its top 100 clients (~80.0% of revenue) and expanding into alternative channels such as private equity and sourcing advisors.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	30,623	5.7%	22.6%	3.7%
EBIT	4,557	12.2%	25.5%	5.4%
PAT	3,730	14.8%	30.4%	8.7%
EBITM (%)	14.9%	86bps	35bps	25 bps
PATM (%)	12.2%	96bps	73bps	56 bps

HCL Tech | Target: INR 1,894 | Rating: Hold | Upside: 10.8%

- Key updates for the quarter include 1) HCLTECH reported revenue growth of 4.1% YoY in CC (+3.8% QoQ CC), 2) TCV for the quarter stood at USD 2,095 Mn, up 8.7% YoY (-5.5% QoQ), 3) company raised the lower end of the revenue guidance to 4.5%-5.0% CC YoY from 3.5% - 5.0% CC YoY.
- The revised guidance factors in 50bps contribution from the HPE CTG acquisition, this translates to an FY25E organic revenue growth of 4.0-4.5% from 3.5%-5.0% (excluding the HPE CTG acquisition), reflecting a downward revision in organic growth signaling towards challenges in the core operations.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	2,98,900	3.6%	5.1%	-1.0%
EBIT	58,210	8.6%	3.1%	4.0%
PAT	45,910	8.4%	5.5%	2.8%
EBITM (%)	19.5%	90bps	-37bps	93bps
PATM (%)	15.4%	69bps	7bps	57bps

Sonata Software | Target: INR 517 | Rating: Accumulate | Upside: 23.1%

- SSOF vertical witnessed a slowdown in TMT vertical due to a sudden ramp-down in its TMT vertical, as a major high-tech client reduced its IT spending by 25.0 – 30.0%. Management anticipates continued revenue pressure in Q4FY25E, primarily due to the full impact of the ramp-down, which may extend into Q1FY26E.
- Additionally, Quants Systems, a subsidiary of SSOF, is expected to experience its typical seasonality weakness in Q4FY25E, further contributing to the anticipated decline in revenue. The company has revised its Q4FY25E revenue guidance downward by 2.5%-3.5% QoQ, reflecting the full-quarter impact of the ramp-down.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	28,428	31.0%	14.0%	3.6%
EBIT	1,313	-9.0%	-24.5%	-23.4%
PAT	1,050	-1.4%	-18.3%	-18.8%
EBITM (%)	4.6%	-203bps	-236bps	-163bps
PATM (%)	3.7%	-121bps	-146bps	-102bps

Note:
QoQ – Quarter on Quarter Growth | YoY – Year over Year Growth | Surprise – deviation from estimates

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Happiest Minds | Target: INR 765 | Rating: Accumulate | Upside: 13.0%

- Key updates for Q3FY25 include 1) growth in CC stood at 28.2% YoY and 0.8% QoQ, 2) BFSI revenue grew up 180.4% YoY (+6.7% QoQ), driven by new opportunities generated through acquisitions in the banking and Arttha banking platform, 3) maintained revenue growth guidance of 30.0 - 35.0% for FY25E.
- Happiest Minds Technologies recently acquired the Middle East business of GAVS Technologies Ltd to strengthen its presence in the Middle East, particularly in the BFSI sector, where the company is already witnessing strong growth.
- As of Q3FY25, average revenue per customer stood at USD 898,000 from USD 842,000 in Q2FY25 (USD 808,000 Mn in Q3FY24).

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	5,308	1.8%	29.5%	-3.5%
EBIT	729	6.2%	10.3%	-14.3%
PAT	501	1.2%	-14.4%	-19.0%
EBITM (%)	13.7%	57bps	-239bps	-172bps
PATM (%)	9.4%	-5bps	-485bps	-180bps

Infibeam Avenues | Target: INR 27.8 | Rating: Buy | Upside: 46.3%

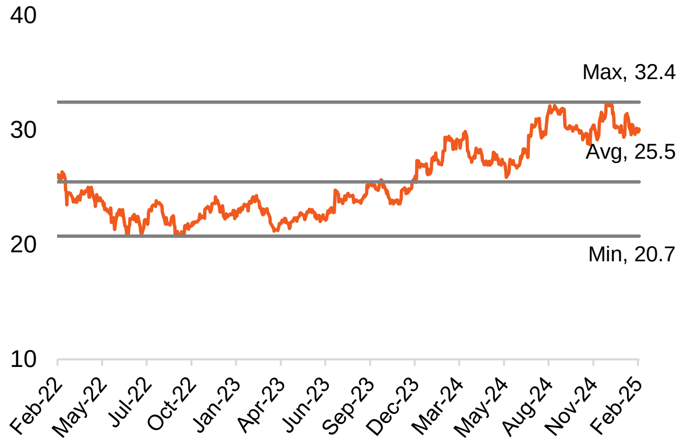
- Key updates for the quarter 1) Transaction Processing Value (TPV) stood at INR 2,240 Bn, up 23.8% YoY (+9.9% QoQ), 2) Net Take Rate (NTR) has inched up to 11.3bps, up 32.1% YoY (-1.8% QoQ).
- Infibeam has embarked on a strategic expansion into the data center business. The data centers will be marketed under the Infibeam Quantum Edge brand. A 2-megawatt (MW) data center has been launched in Q3FY25. Infibeam has applied for a TPAP (Third-Party UPI App Provider) license under the RediffPay brand, which, once approved, will allow it to offer UPI services directly to consumers.

INR Mn	Q3FY25A	QoQ	YoY	Surprise
Revenue	10,704	5.3%	18.0%	-4.3%
EBIT	593	-3.2%	19.6%	-11.8%
PAT	624	41.6%	42.6%	63.4%
EBITM (%)	5.5%	-49bps	7bps	-47bps
PATM (%)	5.8%	150bps	101bps	241bps

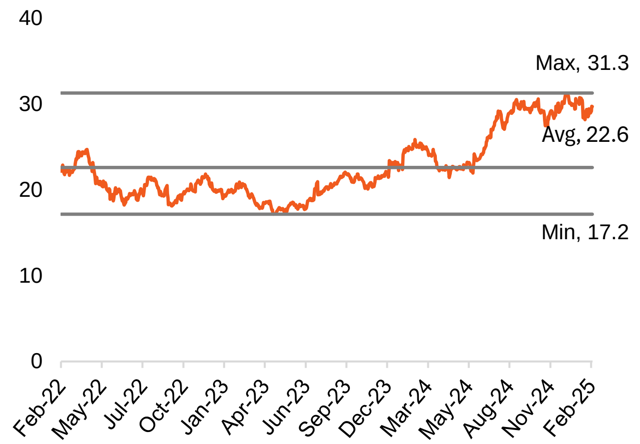
Note:
QoQ – Quarter on Quarter Growth | YoY – Year over Year Growth | Surprise – deviation from estimates

Information Technology

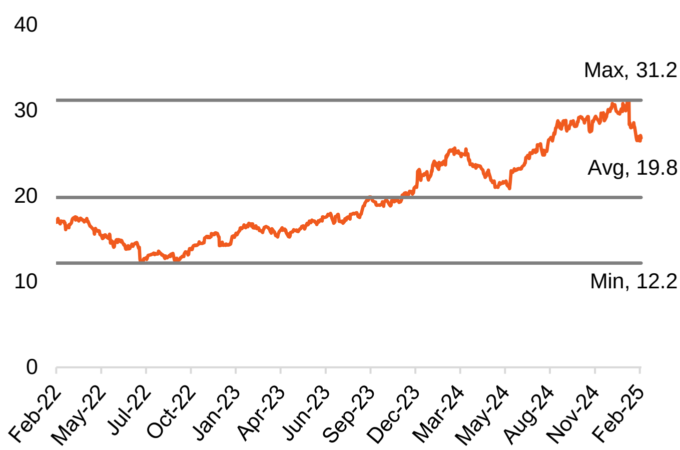
TCS 1-Year forward PE



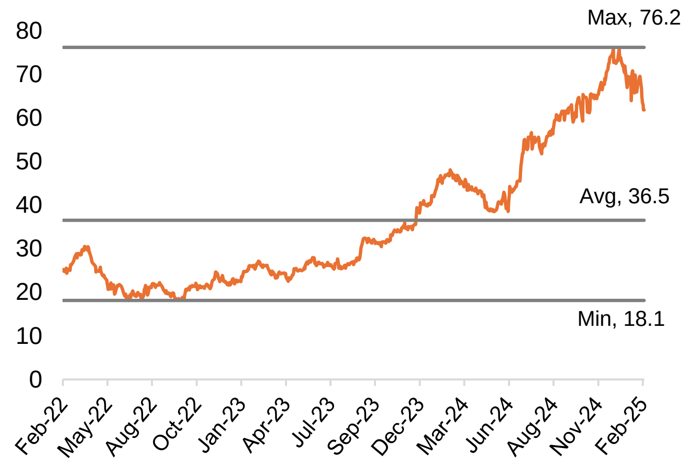
INFO 1-Year forward PE



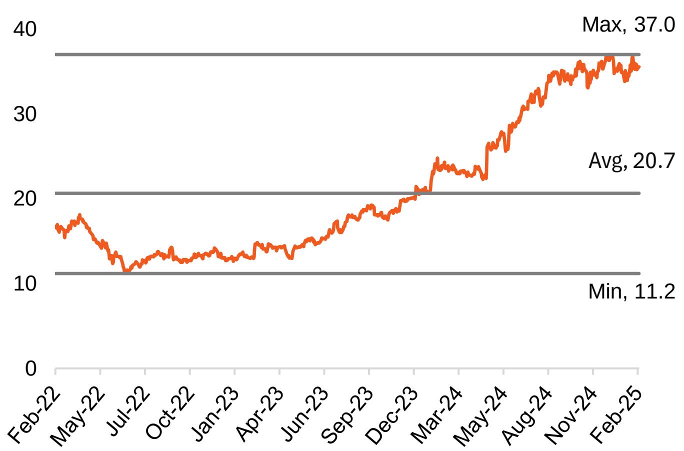
HCLT 1-Year forward PE



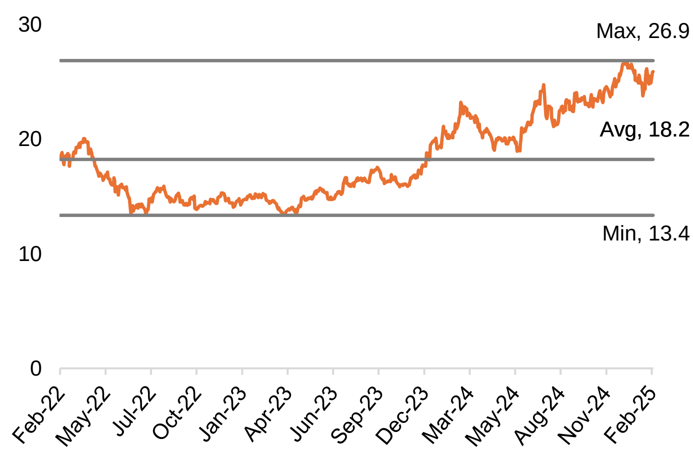
PSYS 1-Year forward PE



TECHM 1-Year forward PE



WPRO 1-Year forward PE



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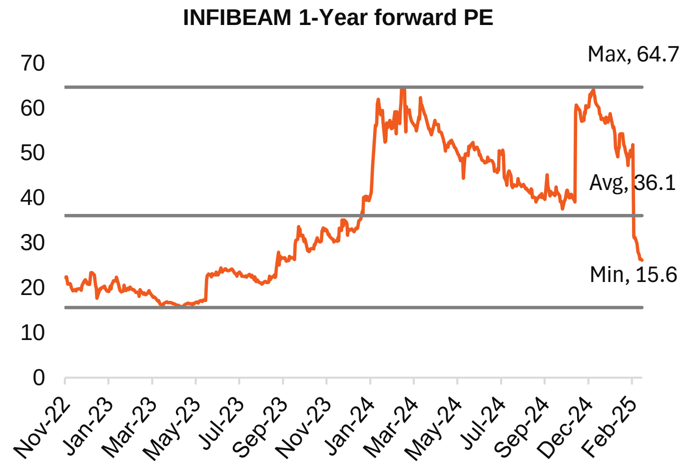

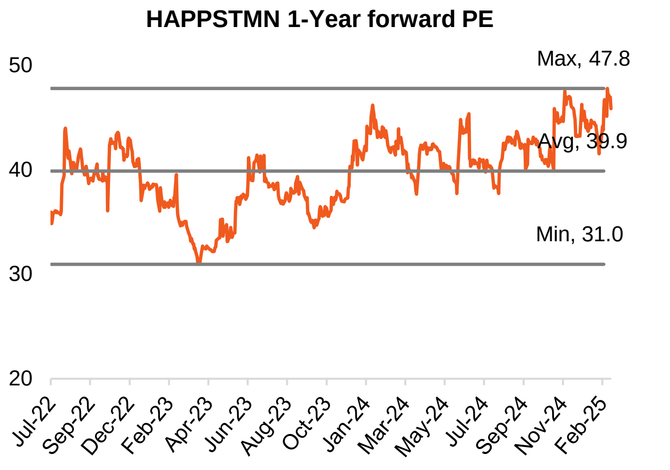

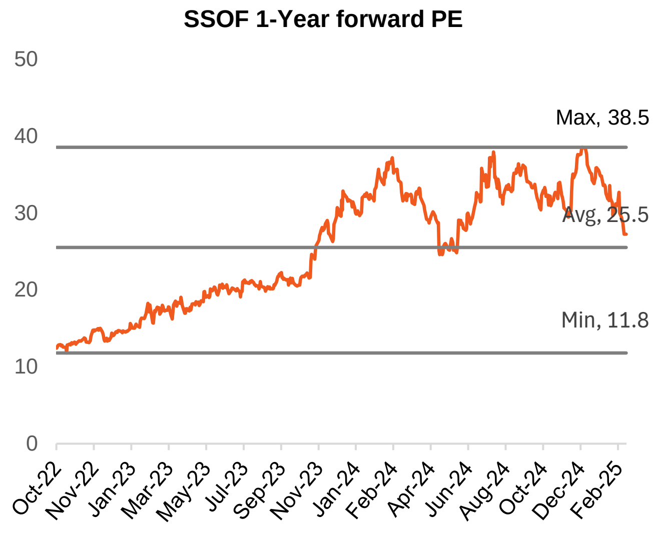

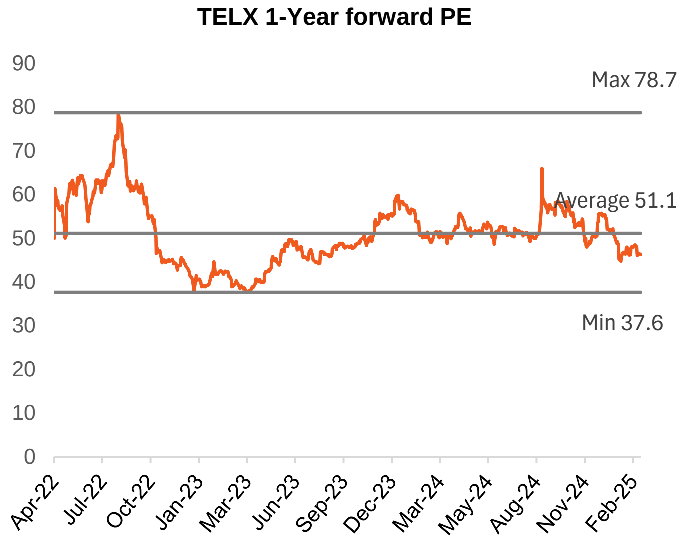

Information Technology

Rating Legend (Expected over a 12-month period)	
Our Rating	**Upside**
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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