

IT Services

Midcap IT outshines as Macros tighten grip on Large caps

Summary

Despite modest Q4FY25 revenue growth and persistent macroeconomic headwinds including tariff wars, cautious client sentiment, and rupee appreciation, Tier 2 IT firms outperformed their Tier 1 peers such as Coforge, driven by strong traction in AI, data engineering and ERP-led transformations. While BFSI, manufacturing, and communications remained stable, retail/auto-linked transportation sectors continued to face near-term pressure. Deal bookings remained robust across the board, excluding TCS, Infosys, and Cyient. Global peers such as Accenture, Cognizant, and Service Now have exceeded expectations and revised an upward guidance. However, divergence in outlook emphasizes a growing macro sensitivity among the large-cap IT firms, particularly those with significant offshore exposure to the US, where tariff-related disruptions have led several companies to trim spending forecast. The appreciating rupee further compounds margin pressures for firms heavily reliant on US revenues, potentially weighing on FY26 profitability.

Key Highlights

- **Revenue outlook:** Revenue guidance of large cap remains below FY25 growth; majorly in the range of -3.5% to +3% and mid-cap companies re-iterate their double digit/strong growth in FY26 (Coforge, LTTS).
- **Margin outlook:** Margin guidance remains stable across companies under our coverage universe. Headwinds include cost takeout deals, clients prioritizing high-ROI engagements, and passing AI benefits to clients & depreciation of USD/INR. Conversely, tailwinds stem from an increase in fixed-price contracts and a stronger offshore mix.
- **Gen AI:** Indian IT companies are heavily investing in GenAI capabilities, launching multiple platforms and collaborating closely with hyperscalers on GenAI initiatives.

India IT Sector: Valuation and Rating

Companies	Rating	CMP (Rs)	TP (Rs)	Upside (%)	Mkt Cap (Rs bn)	P/E (x)	
						FY26E	FY27E
TCS	BUY	3,519	3,733	6.1	12,733	24.3	23.5
Infosys	HOLD	1,559	1,500	-3.8	6,477	22.4	20.9
HCL Tech.	BUY	1,650	1,725	4.6	4,477	24.2	22.0
Wipro	HOLD	252	260	3.3	2,637	19.9	19.9
Tech M.	BUY	1,597	1,678	5.1	1,563	24.9	21.0
LTIMindtree	BUY	5,021	5,295	5.5	1,488	28.3	24.2
Coforge	BUY	8,275	8,722	5.4	553	39.7	32.7
Cyient	HOLD	1,297	1,370	5.6	144	18.4	15.6
Birlasoft	BUY	425	585	37.7	118	18.3	17.2
Zensar Tech.	BUY	786	810	3.0	179	24.6	21.8
Newgen	BUY	1,149	1,166	1.5	163	43.2	33.7
Sonata	BUY	389	465	19.5	109	20.5	15.7
LTTS	BUY	4,522	5,251	16.1	479	32.0	27.6

Source: IDBI Capital, Company; Note: CMP as of May 19, 2025; Birlasoft & IRCTC results are awaited

Saptarshi Mukherjee

saptarshi.mukherjee@idbicapital.com
+91-22-4069 1853

Divija Parekh

divija.parekh@idbicapital.com
+91-22-4069 1937

Exhibit 1: Mixed bag revenue growth

Companies	Q4FY25
Infosys	FY26: 0 to 3%
Wipro	Q1FY26: -3.5% to -1.5%
HCL Tech	FY26: 3% to 5%
Cyient	Q1FY26 impacted by seasonality
Coforge	\$2bn revenue mark by FY27
Sonata	Q1FY26 to be soft
LTTS	FY26: double-digit growth

Source: IDBI Capital, Company

Exhibit 2: Maintained EBIT margin guidance

Companies	Q4FY25
Infosys	FY26E: EBIT Margin 20-22%
Wipro	Narrow band
HCL	EBIT margin 18%- 19%
Coforge	FY26: EBITDA margin in range of 18%, EBIT margin around 14%
Zensar	Margin to be in range of mid-teens
LTTS	16% margin by Q4FY27

Source: IDBI Capital, Company

Exhibit 3: Q4FY25 performance of IT companies

Companies	US\$m	QoQ (%)	YoY (%)	Deal wins	QoQ (%)	YoY (%)
TCS	7,465	-1.0	1.4	12,200	19.6	-7.6
Infosys	4,730	-4.2	3.6	2,600	4.0	-42.2
Wipro	2,597	-1.2	-2.6	1,800	87.3	50.0
HCL Tech	3,498	-1.0	2.0	2,990	42.7	30.6
Tech Mahindra	1,549	-1.1	0.1	798	7.1	59.6
LTIM	1,131	-0.7	5.8	1,600	-4.8	14.3
Coforge	410	3.2	43.0	2,126	324.4	174.7
Zensar	157	-0.1	5.9	214	4.0	17.6
Cyient	220	-3.3	-1.6	184	-41.0	-19.1
Sonata*	81	-6.6	-0.5	na	na	na
Newgen (Inr.cr)	429	12.8	14.6	na	na	na
LTTS	345	10.6	13.1	na	na	na

Source: IDBI Capital, Company, Sonata (IT services)

Industry-Wide Themes

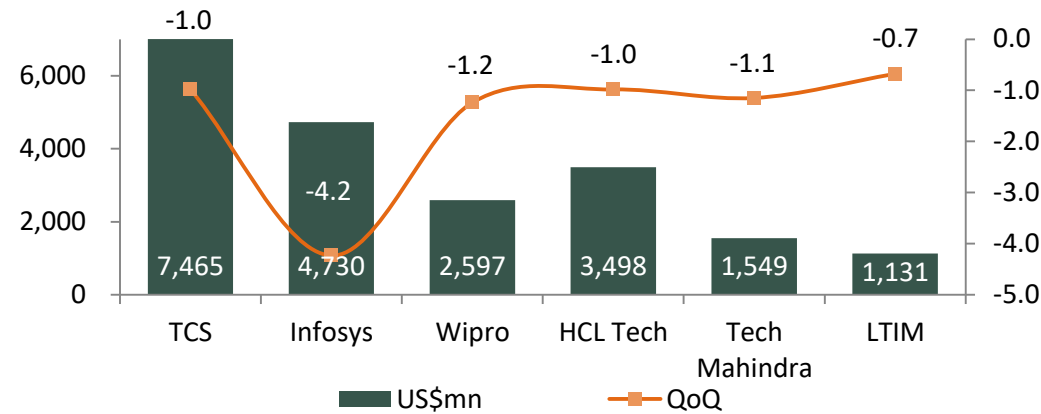
- **AI Adoption:** All players are emphasizing AI and GenAI across deals, focusing on driving efficiency, customer experience, and transformation. Clients are moving from pilot use-cases to AI-first strategies, integrating AI agents and automation deeply into operations.
- **Cloud & Modernization:** Cloud migration, tech modernization, vendor consolidation, and infrastructure upgrades are consistent client priorities.
- **Cost Optimization & Operational Efficiency:** Cost takeout, productivity improvement, and margin enhancement are key themes, driven by fixed-price models, pyramid restructuring, and automation.
- **Macro Impact:**
 - Mixed views: Infosys and LTIM report limited macro impact, while TechM, Wipro, and HCL cite decision-making delays and cautious client behaviour due to inflation, interest rates, or geopolitical pressures.
 - Discretionary spending remains under pressure, particularly in BFSI and large transformation programs.
- **Deal Trends:**
 - Shorter deal cycles (TCS), continued large deal momentum, and steady pipelines.
 - Focused on AI, cloud, and cost-saving measures.
- **Talent & Hiring:**
 - AI-led productivity means headcount not directly proportional to revenue (LTIM). Infosys plans to hire 20,000 fresher's in FY26.
- **AI Value Sharing:** TCS and LTIM are passing AI productivity gains to clients, impacting pricing dynamics.

Company-Specific Highlights

- **TCS:** Balanced TCV mix; clients prioritizing tech modernization and risk. AI benefits being shared with clients. Shorter deal cycles expected to continue.
- **Infosys:** Strong AI-led transformation demand; Project Maximus to improve margins; hiring push and margin focus continue despite reduced pass-through revenue.
- **HCLTech:** AI and GenAI embedded in nearly all deals. Cautious optimism despite macro/geopolitical concerns.
- **Wipro:** Strong large deal momentum; clients focusing on speed, AI-driven efficiency, especially in BFSI. Some project holds, but not cancellations.
- **LTIMindtree:** Focus on regulatory-driven data transformation, AI-led cost and sales strategies. No major macro impact seen yet; strong FY26 order book anticipated.
- **Tech Mahindra:** Cautious client sentiment due to global macros. Investing in delivery optimization and AI capabilities. Margin recovery expected with green shoots visible.
- **Coforge:** Management does not see any macro impact in near term. Drivers of large deal; transformation & legacy modernization.
- **LTTS:** Deal momentum growth would be driven by technology areas like SDV, Hybrid and AI from US & Europe. Margins to be in pressure due to headwinds from tariffs & macros.

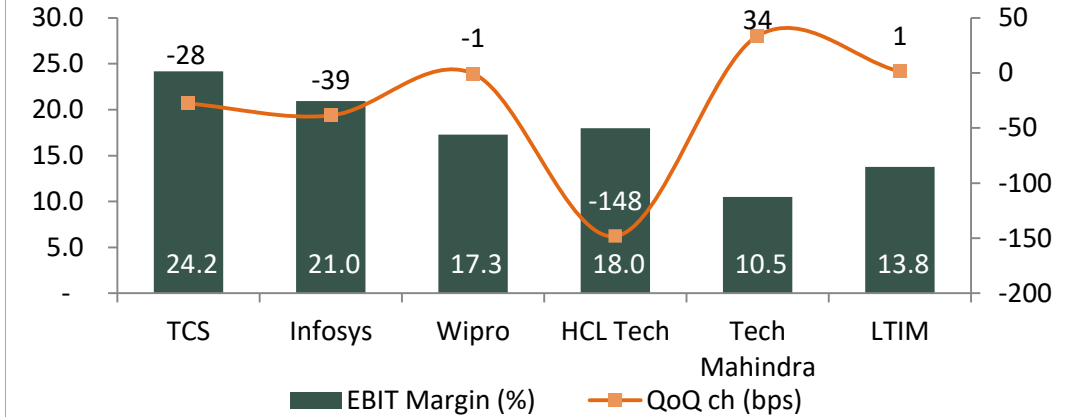
Key charts: Large Cap companies under our coverage

Exhibit 4: Revenue and QoQ %



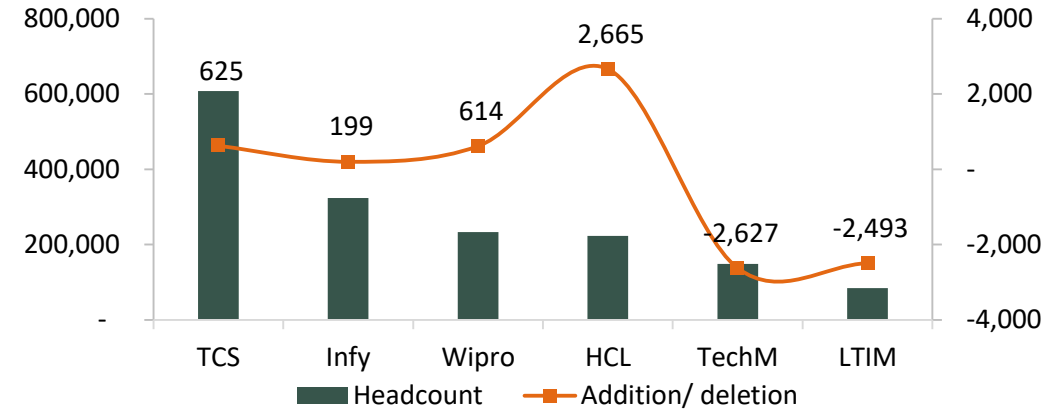
Source : IDBICAPITAL research Company

Exhibit 5: EBIT Margin



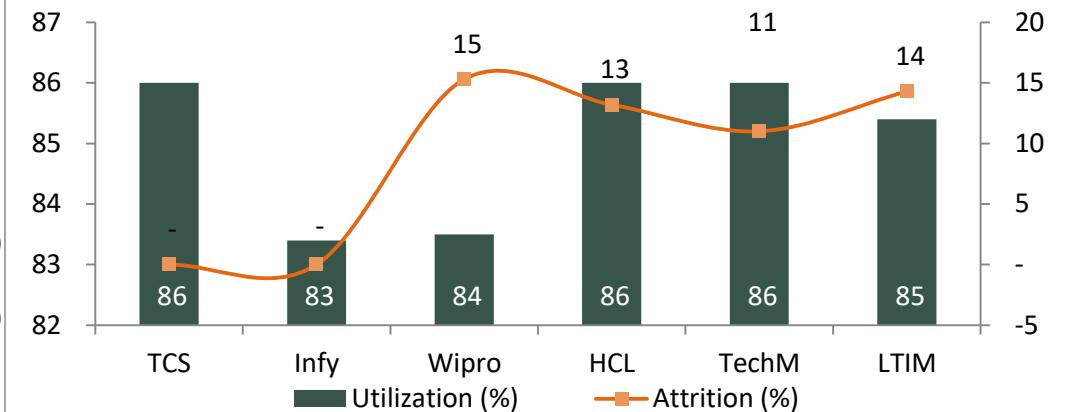
Source : IDBICAPITAL research, Company

Exhibit 6: Headcount/Net addition



Source : IDBICAPITAL research, Company

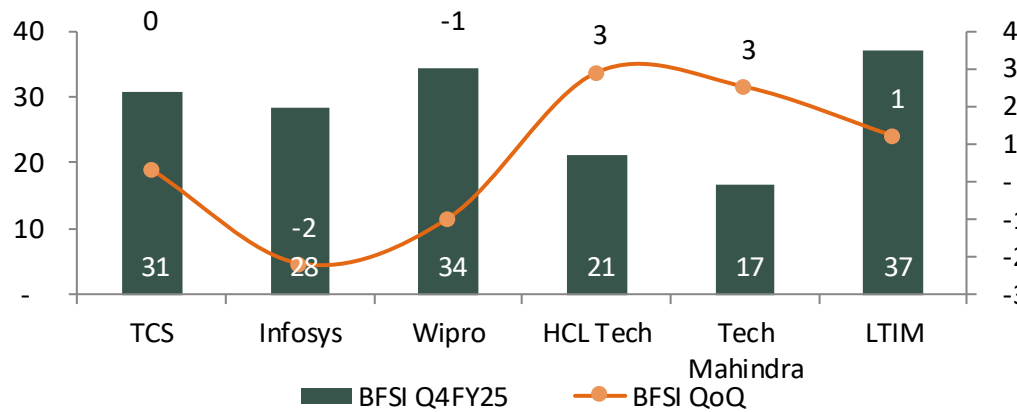
Exhibit 7: Utilization (%) and attrition (%)



Source : IDBICAPITAL research, Company

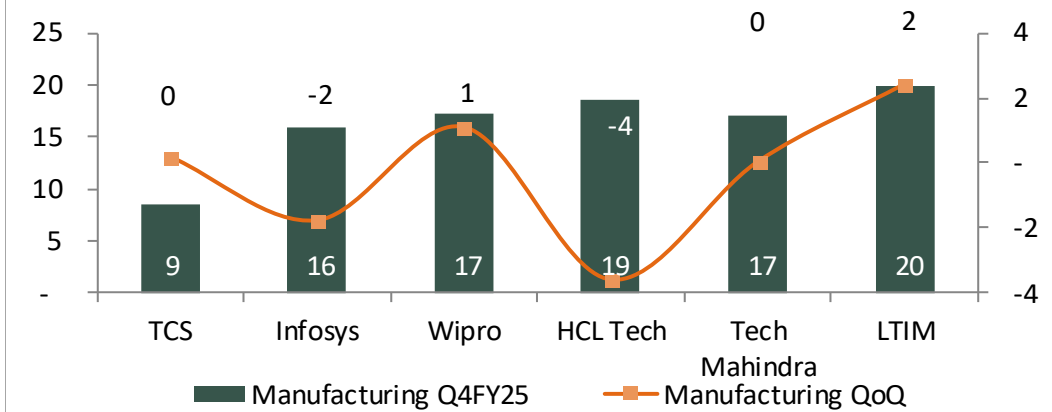
Large-cap: Among verticals BFSI showed strong growth

Exhibit 8: BFSI (% of revenue/ QoQ)



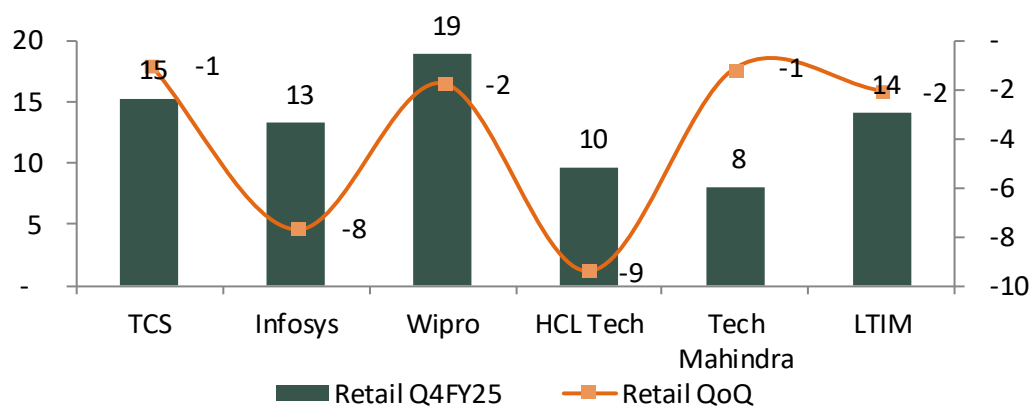
Source : IDBICAPITAL research, Company

Exhibit 9: Manufacturing (% of revenue/ QoQ)



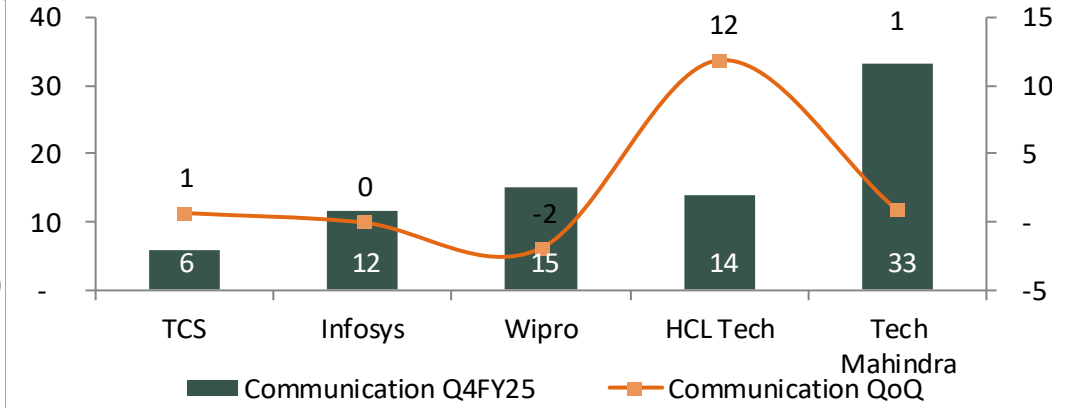
Source : IDBICAPITAL research, Company

Exhibit 10: Retail (% of revenue/ QoQ)



Source : IDBICAPITAL research, Company

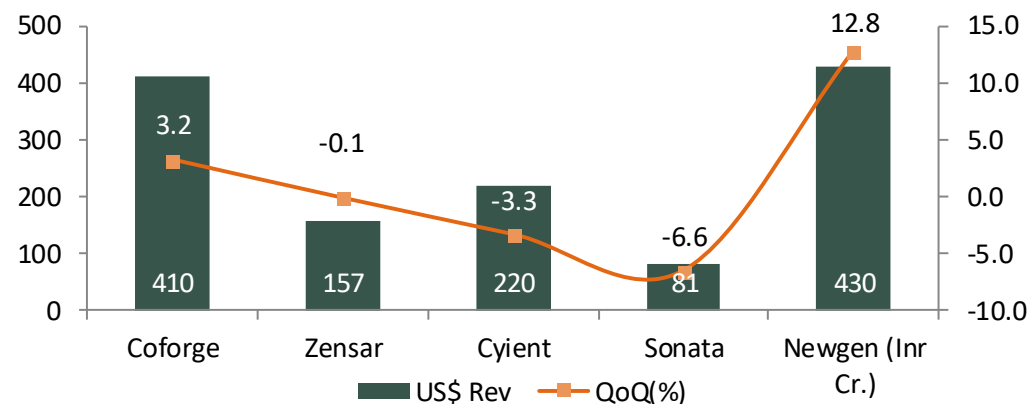
Exhibit 11: Communication (% of revenue/ QoQ)



Source : IDBICAPITAL research, Company

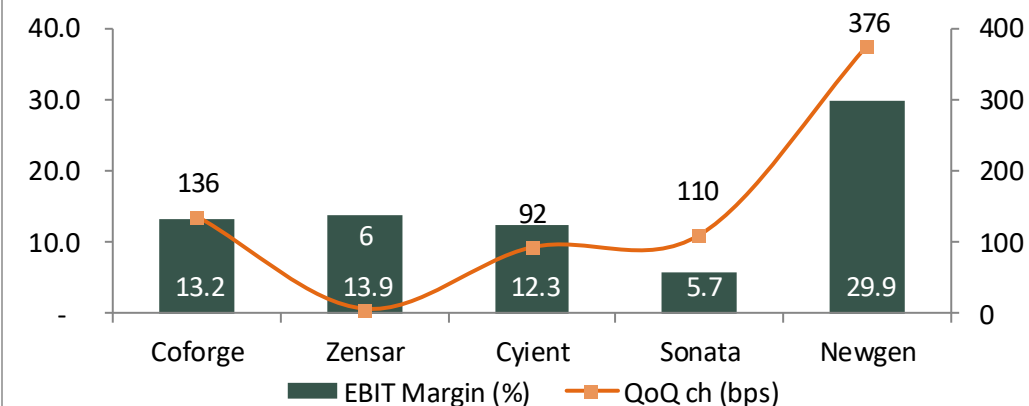
Key charts: Mid Cap IT companies under our coverage

Exhibit 12: Revenue and QoQ Growth



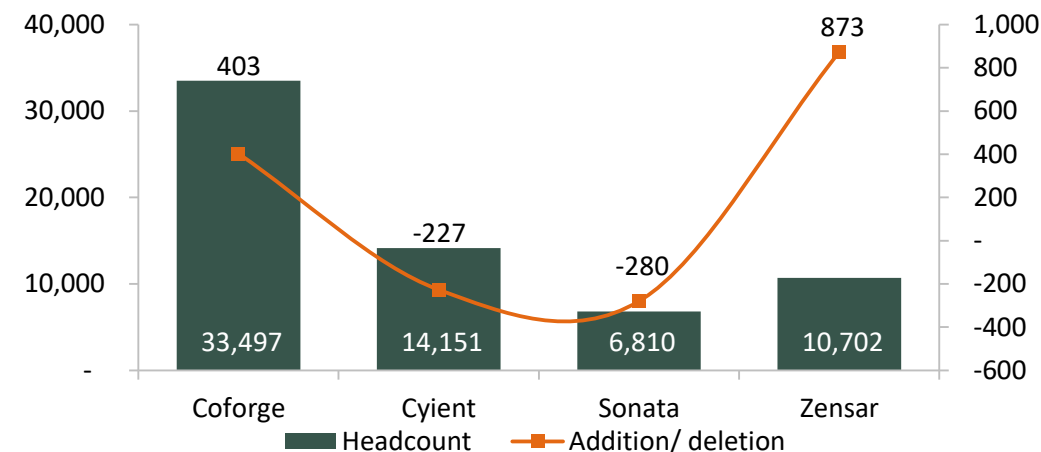
Source : IDBICAPITAL research, Company, Sonata (IT services)

Exhibit 13: Margin (%)



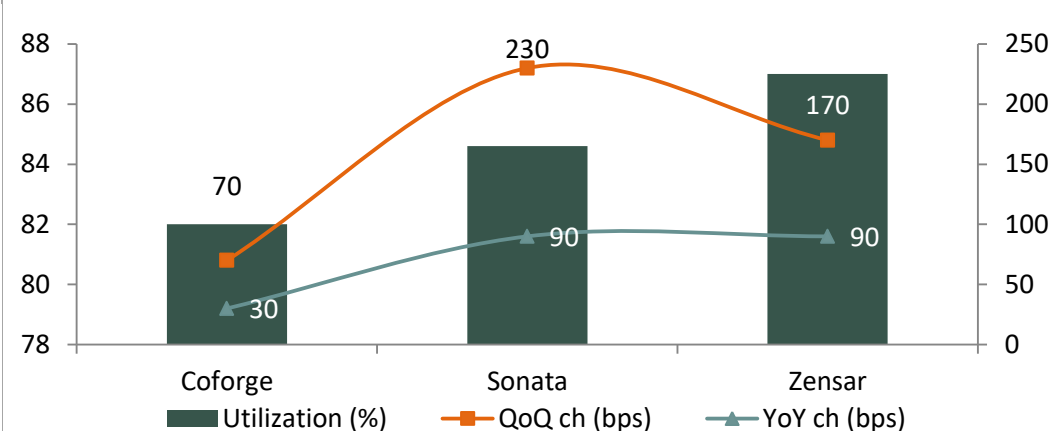
Source : IDBICAPITAL research, Company

Exhibit 14: Headcount/ Net addition



Source : IDBICAPITAL research, Company

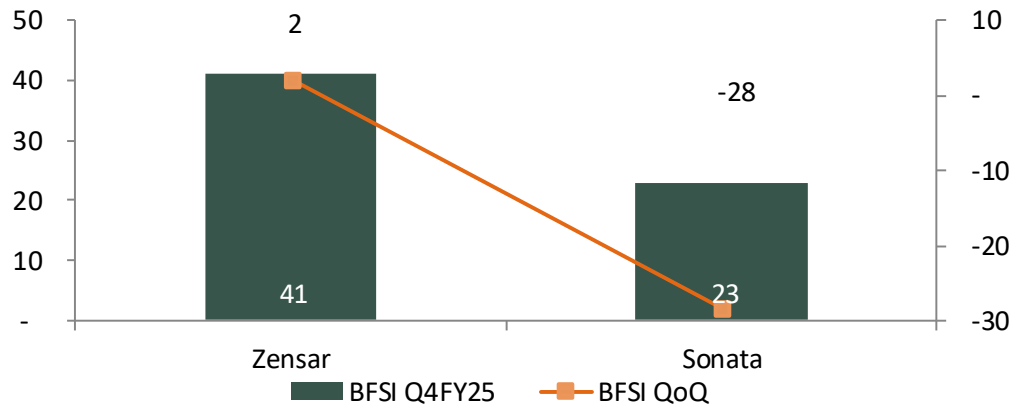
Exhibit 15: Utilization (%)



Source : IDBICAPITAL research, Company

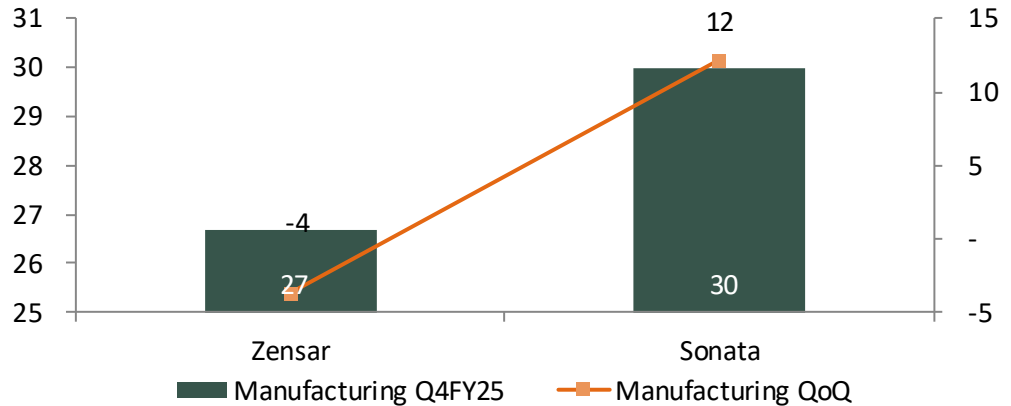
Verticals: Except BFSI all other verticals showed softness

Exhibit 16: BFSI (% of revenue/ QoQ)



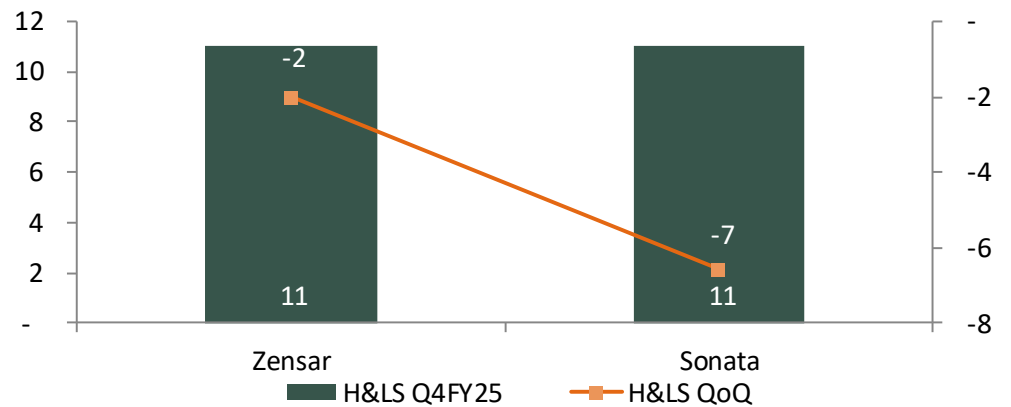
Source : IDBICAPITAL research, Company,* sonata has quant acquisition effect

Exhibit 17: Manufacturing (% of revenue/ QoQ)



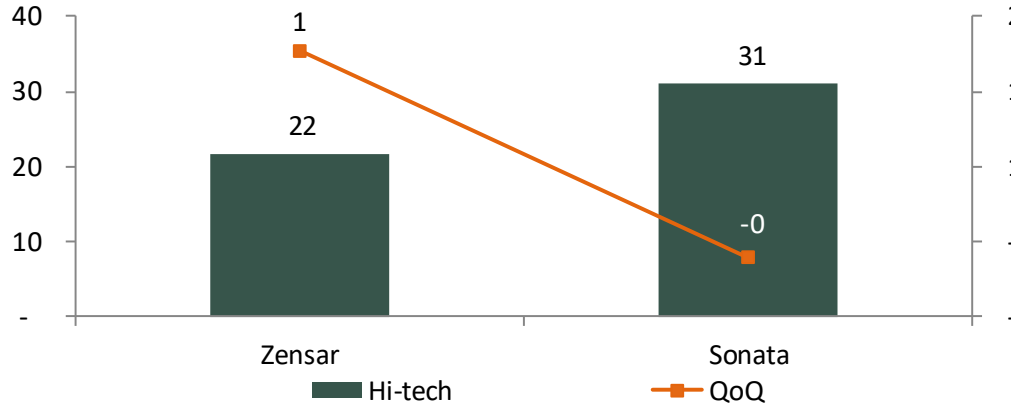
Source : IDBICAPITAL research, Company

Exhibit 18: Healthcare & life-science (% of revenue/ QoQ)



Source : IDBICAPITAL research, Company

Exhibit 19: Hi-tech (% of revenue/ QoQ)



Source : IDBICAPITAL research, Company

Exhibit 20: Q4FY25 Margin performance of IT companies

Companies	Gross Margin (%)	QoQ ch (bps)	YoY ch (bps)	EBIT Margin (%)	QoQ ch (bps)	YoY ch (bps)
TCS	38.3	-3	-229	24.2	-28	-174
Infosys	30.2	-10	71	21.0	-39	86
Wipro	30.9	-14	168	17.3	-1	128
HCL Tech	29.8	-97	15	18.0	-148	38
Tech Mahindra	25.7	34	229	10.5	34	315
LTIM	25.3	-72	-191	13.8	1	-95
Coforge	34.1	90	0	13.2	136	-82
Zensar	30.3	20	-34	13.9	6	-69
Cyient	32.6	163	96	12.3	92	-211
Sonata	12.8	-150	-426	5.7	110	68
Newgen	54.9	546	985	29.9	376	-78
LTTS	47.1	-28	-482	13.2	-270	-367

Source: IDBICAPITAL research, company

Exhibit 21: App/(Dep) %

Major Currencies	Q4FY25 avg (Jan-Mar)	April avg	App/(Dep)%
USD/INR	87.26	85.80	1.68%
GBP/INR	109.97	112.82	-2.60%
EUR/INR	92.32	96.49	-4.51%
AUD/INR	54.82	54.04	1.41%

Source: IDBICAPITAL research, company

Major Currencies	Q4FY25 avg (Jan-Mar)	April avg	App/(Dep)%
USD/INR	86.67	84.65	2.34%
GBP/USD	1.26	1.08	14.07%
EUR/USD	1.05	1.08	-2.69%
AUD/USD	0.63	0.65	-3.58%

Source: IDBICAPITAL research, company

Exhibit 22: Revenue estimates for IT companies

Coverage Revenues (US\$mn)	Growth YoY %						
	FY24	FY25	FY26E	FY27E	FY25E	FY26E	FY27E
TCS	29,080	30,179	31,221	32,991	3.8	3.5	5.7
Infosys	18,562	19,277	20,095	21,454	3.9	4.2	6.8
Wipro	10,831	10,512	10,279	10,511	-2.9	-2.2	2.3
HCL Tech	13,270	13,840	14,526	15,778	4.3	5.0	8.6
Tech Mahindra	6,277	6,264	6,476	7,037	-0.2	3.4	8.7
LTIM	4,279	4,493	4,778	5,262	5.0	6.4	10.1
Coforge	1,119	1,468	1,815	2,120	31.2	23.6	16.8
Zensar	592	624	674	752	5.4	8.0	11.5
Cyient	863	870	960	1,078	0.8	10.4	12.3
Sonata	324	336	345	373	3.7	2.8	8.2
Newgen(Inr.mn)	12,438	14,869	18,002	21,984	19.5	21.1	22.1
LTTS	1,164	1,259	1,443	1,630	8.2	14.6	13.0

Source: IDBICAPITAL research, company

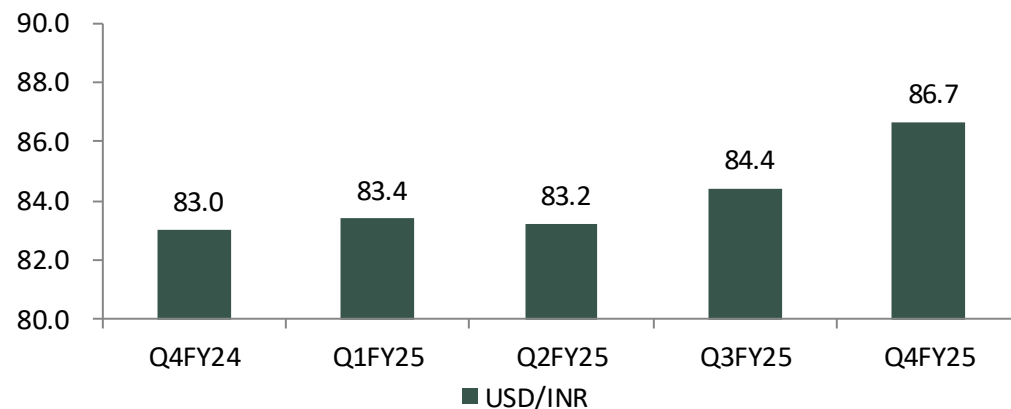
Exhibit 23: EBIT margin estimates of IT companies

Companies	FY24	FY25	FY26E	FY27E	Change (bps) FY25-27
TCS	24.2	24.3	24.1	24.5	16
Infosys	20.7	21.1	21.3	21.7	54
Wipro	15.1	17.0	17.3	17.6	62
HCL Tech	18.2	18.3	18.6	18.9	65
Tech Mahindra	5.8	9.7	12.1	13.4	372
LTIM	15.7	14.5	15.2	16.4	194
Coforge	13.5	13.0	13.1	13.8	78
Zensar	15.1	14.0	14.2	14.5	50
Cyient	14.4	12.0	13.0	13.5	149
Sonata	23.4	17.0	16.5	17.0	3
Newgen	20.9	23.1	22.6	23.2	14
LTTS	17.1	14.9	15.7	15.9	103

Source: IDBICAPITAL research, company

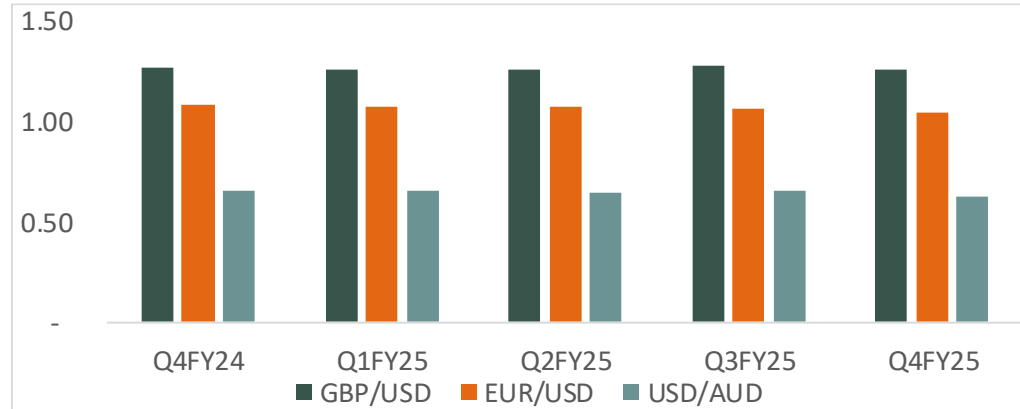
Currency & stock performance

Exhibit 24: USD/INR quarterly performance



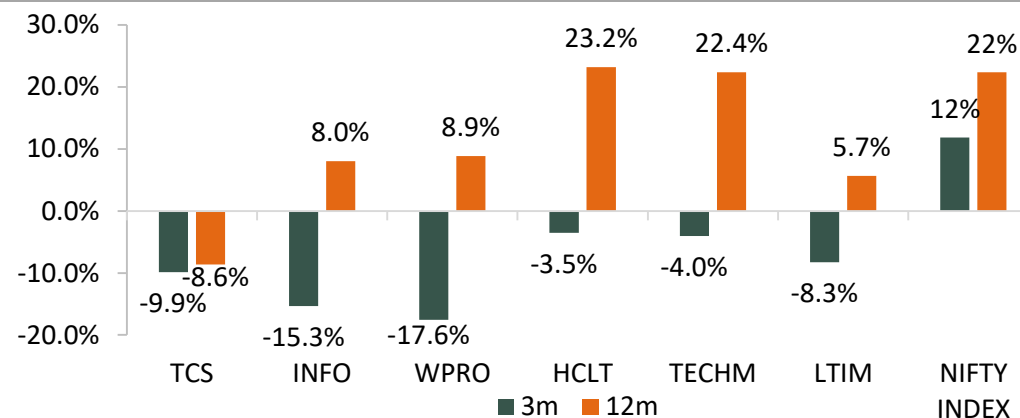
Source : IDBICAPITAL research, Company, * Average of quarters

Exhibit 25: Quarterly performance



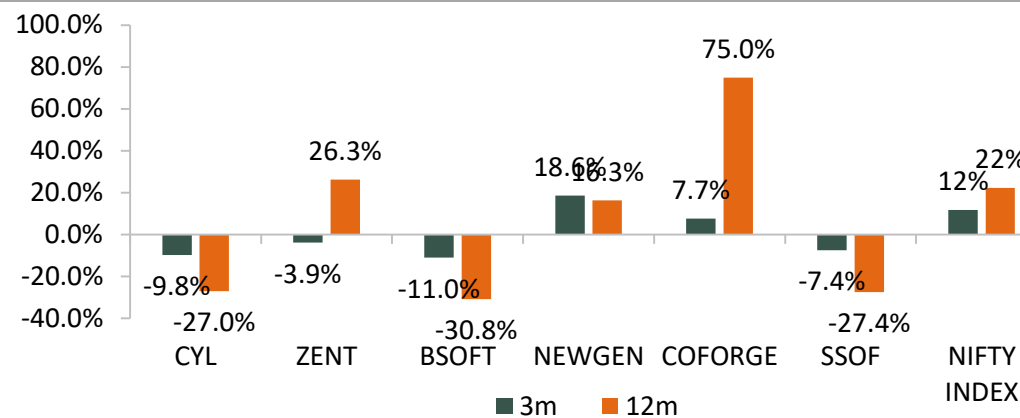
Source : IDBICAPITAL research, Company

Exhibit 26: Large-cap performance with Index



Source : IDBICAPITAL research, Company

Exhibit 27: Mid-cap performance with Index



Source : IDBICAPITAL research, Company

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

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