



TM

IT Sector

07 July 2025

Muted start to FY26; eyes on AI

1QFY26 RESULT PREVIEW

Industry

IT & ITES

Sector Rating (Prices as of 4 July 2025)

Company	CMP (Rs)	TP (Rs)	Rating
TCS	3,420	4,017	BUY
Infosys	1,641	1,600	HOLD
Wipro	270	235	HOLD
HCL Tech	1,726	1,687	HOLD
Tech M	1,655	1,182	SELL
Sonata Software	411	452	HOLD

Source: Systematix Institutional Research

We expect the six IT services companies within our coverage to report modest QoQ revenue growth during 1QFY26 on muted demand environment, weak discretionary spending and slower client decision making. Global enterprises remain on the sidelines, adopting a wait-and-watch approach to assess the tariff-led potential impact on their cost structures and supply chains. Deal wins are expected to remain stable, driven by cost optimization and vendor consolidation projects, though momentum may be tempered by softness in the consumer, telecom, and automotive manufacturing verticals. USD revenue growth for large-caps is likely to range from -1.4% to +2.5% QoQ, with Infosys expected to lead on deal ramp-ups. Margin gains may be limited due to low utilization and lack of operating leverage. While near-term outlook remains subdued, we stay constructive over the medium-to-long term given strong digital transformation priorities and GenAI adoption. Valuations have moved up meaningfully, but we continue to prefer TCS for its consistent execution and favorable risk-reward.

1Q Growth Expectation

The USD revenue growth of large-cap IT companies may range from -1.4%-2.5% QoQ for 1QFY26. Infosys (INFY IN, +2.5%) is expected to lead on acquisition and deal ramp ups, followed by Tata Consultancy Services (TCS IN, +1%), HCL Technologies (HCLT IN, +0.9%), and Tech Mahindra (TECHM IN, +0.5%), supported by favorable currency tailwinds. Wipro (WPRO IN) may see a 1.4% decline due to weak demand in Europe. Sonata Software (SSOF IN) is expected to register 1.4% growth, as we expect pressure from the hi-tech client to ease. EBIT Margin gains are likely to be minimal, due to low utilization and the absence of operating leverage.

Key aspects to watch out for in 1Q

a) commentaries on discretionary spending, b) margin levers and revenue guidance for FY26, c) tariff impact, d) FY26 hiring plans, and e) progress in AI initiatives and new deals. While near term prospects remain muted, outlook for the medium to long term seems favorable, as enterprises prioritize digital transformational programs and accelerate the adoption of generative AI.

Valuation & Outlook

The NSE Nifty IT index has rallied ~10% over the last two months, pushing valuations into the expensive territory. The LTM PE multiple of the NIFTY IT index is 31x—well above its 10-year average of 24x. We remain positive on TCS, which trades at 23x 1-year forward PE, below its long-term average, and stands out for its strong order book, resilient margins, and robust return ratios. We have not changed our target prices for TCS, INFY, WPRO, HCLT, TECHM, and SSOF.

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1QFY26 Earnings Overview

TCS: We expect TCS' revenue to remain flattish QoQ in USD terms, mainly due to deal ramp-ups and favorable currency movements, partially offset by ramp down of the BSNL deal. However, we expect a resilient TCV (Total Contract Value) and a steady revival in overall its discretionary spend. Last quarter, the Asia Pacific, Continental Europe, and MEA (Middle East Asia) markets predominantly contributed to growth, with the US, UK, and India markets recording muted growth, a trend we believe the company could replicate. We estimate a 16 bps QoQ decline during the quarter, as talent-related investments and limited operating leverage weigh on profitability, despite the support from currency tailwinds.

INFY: The upper end of management's FY26 CC growth guidance (3%) assumes a stable-to-improving macro, while the lower end (0%) factors in potential stretched weakness. Our estimate of 2.5% QoQ revenue growth in USD terms reflects ramp-up of recent deal wins and an inorganic boost from its latest acquisitions (Missing link & MRE Consulting). We expect largely stable EBIT margin QoQ, as operational efficiency from Project Maximus likely offsets the impact of wage hikes.

HCLT: We expect HCLT to report 0.9% QoQ revenue growth in USD terms, primarily due to currency tailwinds, partially offset by seasonal weakness in its IT services business. The estimated 51bps QoQ fall in EBIT Margin corresponds the seasonality in IT services.

WPRO: We expect 1.4% QoQ decline in WPRO's USD revenue during 1QFY26, as we expect the pressure on new deal wins to impact the company's revenue growth during the quarter. EBIT margin may remain flat as currency tailwinds provide some relief. However, the headwind from revenue decline could offset these benefits, likely limiting profitability during the quarter.

TECHM: TECHM is expected to post 0.5% QoQ USD revenue growth during the quarter. TCV numbers could continue to hover at USD 500-600mn, with EBIT Margin likely up 41bps QoQ on currency tailwind and cost optimization initiatives.

SSOF: The company's IT services segment is projected to witness sequential growth of 1.4% in USD terms, while overall consolidated revenue could rise 4.2%. Stabilization in the ramp-down of TMT clients during 4Q should support this recovery, with improvement expected from 1Q. Consolidated EBITDA Margin is estimated to expand by 76 bps, primarily due to the absence of wage hikes and one-off costs during the quarter.

Exhibit 1: IT companies under coverage – 1QFY26 estimates and highlights (Rs mn)

TCS	1QFY26E	4QFY25	1QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	7,541	7,465	7,505	0.5%	1.0%	TCS is expected to post 1% QoQ growth in its USD revenue, driven by favorable currency movements, partially offset by ramp down of the BSNL deal. We estimate 24% EBIT margin, down 16 bps QoQ, as talent-related investments and limited operating leverage weigh on profitability, despite currency tailwinds.
Net Revenue (INR mn)	645,508	644,790	626,130	3.1%	0.1%	
EBIT	155,183	156,010	154,420	0.5%	-0.5%	
PAT	123,023	122,240	120,400	2.2%	0.6%	
EBIT Margin	24.0%	24.2%	24.7%	-62	-16	
EPS (Rs)	34.0	33.8	33.3	2.2%	0.6%	
Infosys	1QFY26E	4QFY25	1QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	4,848	4,730	4,714	2.8%	2.5%	INFY may record 2.5% QoQ growth in its USD revenue, aided by ramp-up of recent deal wins and inorganic boost of ~30 bps from its latest acquisitions. We estimate largely stable EBIT Margin QoQ, as operational efficiency from Project Maximus offsets the impact of wage hikes.
Net Revenue (INR mn)	415,007	409,250	393,150	5.6%	1.4%	
EBIT	86,873	85,750	82,880	4.8%	1.3%	
PAT	68,411	70,330	63,680	7.4%	-2.7%	
EBIT Margin	20.9%	21.0%	21.1%	-15	-2	
EPS (Rs)	16.5	17.0	15.4	7.4%	-2.7%	
Wipro	1QFY26E	4QFY25	1QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	2,560	2,597	2,626	-2.5%	-1.4%	For WPRO, we have factored in 1.4% QoQ decline, as the faces some pressure on the deals it has won. Margins may remain flat during the quarter, as the currency tailwinds would be offset by the impact of seasonality.
Net Revenue (INR mn)	219,535	225,042	219,638	0.0%	-2.4%	
EBIT	38,331	39,087	36,069	6.3%	-1.9%	
PAT	34,195	35,696	30,032	13.9%	-4.2%	
EBIT Margin	17.5%	17.4%	16.4%	104	9	
EPS (Rs)	3.3	3.4	2.9	13.9%	-4.2%	
HCL Technologies	1QFY26E	4QFY25	1QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	3,531	3,498	3,364	5.0%	0.9%	HCL Tech may register 0.9% QoQ growth in its USD revenue, attributable to currency tailwinds and inorganic boost, partially offset by the seasonal weakness in its IT services business. The likely 51bps QoQ fall in its EBIT Margin corresponds to the seasonality in its IT Services business.
Net Revenue (INR mn)	302,233	302,460	280,570	7.7%	-0.1%	
EBIT	52,833	54,420	47,950	10.2%	-2.9%	
PAT	41,920	43,070	42,570	-1.5%	-2.7%	
EBIT Margin	17.5%	18.0%	17.1%	39	-51	
EPS (Rs)	15.6	15.9	15.7	-0.5%	-1.7%	
Tech Mahindra	1QFY26E	4QFY25	1QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	1,556	1,549	1,559	-0.2%	0.5%	TechM is estimated to post 0.5% QoQ growth in its USD revenue, driven by few deal ramp-ups and currency tailwinds, offset by softness in the hi-tech vertical and seasonal weakness in its Comviva business. EBIT Margin is expected to expand by 41bps QoQ on currency tailwinds and cost optimization initiatives.
Net Revenue (INR mn)	133,200	133,840	130,055	2.4%	-0.5%	
EBIT	14,532	14,053	11,023	31.8%	3.4%	
PAT	12,300	11,667	8,515	44.5%	5.4%	
EBIT Margin	10.9%	10.5%	8.5%	243	41	
EPS (Rs)	13.9	13.2	9.6	44.3%	5.4%	
Sonata Software	1QFY26E	4QFY25	1QFY25	YoY	QoQ	Comments
IT Services Revenue (USD mn)	82	81	83	-0.3%	1.4%	The company's IT services revenue is expected to expand by 1.4% QoQ in USD terms, while consolidated revenue could register 4.2% growth, given that the TMT client ramp down has bottomed out in 4Q and recovery is expected to begin from 1Q. EBITDA Margin is expected to expand by 76bps on a consolidated basis, mainly due to the absence wage hikes and other one-time costs during the quarter.
Consolidated Revenue (INR mn)	27,272	26,172	25,274	7.9%	4.2%	
EBITDA (Incl other income)	2,081	1,839	1,950	6.7%	13.2%	
PAT	1,158	1,075	1,056	9.6%	7.7%	
EBITDA Margin	7.6%	7.0%	7.7%	-9	60	
EPS (Rs)	4.2	3.9	3.8	9.6%	7.7%	

Source: Company, Systematix Institutional Research

Exhibit 2: Valuation table

Companies	M-cap (Rs bn)	PE (x)			M-cap to Sales (x)			EV/EBITDA (x)			RoE (%)		
		FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
TCS	12,472	25.5	22.8	20.5	4.9	4.6	4.2	17.8	15.9	14.3	51.2	51.4	49.2
Infosys	6,796	25.5	23.5	22.2	4.2	4.0	3.8	16.4	15.1	14.3	27.9	27.6	26.5
Wipro	2,839	21.7	20.6	18.8	3.2	3.2	3.0	13.7	12.9	11.3	15.9	14.4	13.8
HCL Tech	4,686	26.9	26.2	23.7	4.0	3.8	3.5	17.3	16.2	14.3	25.0	24.5	25.4
Tech M	1,465	34.4	28.4	22.5	2.8	2.7	2.4	20.0	17.3	13.7	15.5	19.0	22.9
Sonata Software	114	26.8	26.4	19.0	1.1	1.0	0.9	14.8	13.7	10.4	27.3	24.2	28.6

Source: Company, Systematix Institutional Research

Exhibit 3: Stock performance over a decade

	% price change								
	Week	Month	3 months	6 months	1 year	YTD	2 years	5 years	10 years
TCS	-1.2	1.2	3.6	-16.5	-15.0	-3.7	3.4	51.1	159.7
Infosys	2.4	5.8	13.0	-15.3	-0.6	7.5	22.0	114.8	233.7
Wipro	1.5	9.4	9.6	-8.2	1.8	2.8	36.4	142.6	161.8
HCL Tech	-0.2	6.1	21.4	-11.6	13.4	12.8	45.0	198.2	255.9
Tech M	-1.9	6.3	25.3	-1.8	13.4	18.6	44.2	184.6	256.3
Sonata Software	0.1	-0.4	27.7	-34.1	-36.6	17.8	-17.4	356.0	713.0
Nifty IT	0.6	6.0	16.9	-10.3	3.8	8.9	31.7	153.3	249.4

Source: Company, Systematix Institutional Research

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