IT Sector

03 October 2025

Muted demand to delay recovery

2QFY26 RESULT PREVIEW

Industry	IT & ITES

Sector Rating (Prices as of 1 October 2025)

Company	CMP (Rs)	TP (Rs)	Rating
TCS	2,914	3,864	BUY
Infosys	1,446	1,644	HOLD
Wipro	241	225	HOLD
HCL Tech	1,390	1,592	HOLD
Tech M	1,416	1,112	SELL
Sonata Software	348	423	HOLD
R Systems	411	507	BUY

Source: Systematix Institutional Research

We expect IT services companies within our coverage to deliver modest 2QFY26 performance, constrained by macro uncertainty and heightened regulatory pressures. The demand environment remains largely unchanged since 1Q, as clients continue to exercise caution on discretionary spending. Key developments during the quarter included TCS layoffs, a steep USD 100,000 fee hike in H1-B visa and 25% outsourcing tax proposed by President Trump. These events intensified concerns surrounding staffing models, costs, and demand visibility. We expect deal activities to be largely centered around cost optimization/takeout initiatives. Global enterprises may stay on the sidelines, adopting a wait-and-watch approach toward the potential impact of tariffs on their cost structures and supply chains. 2QFY26 sequential revenue growth may remain subdued, with Tier-1 companies likely to report only 0.6%–1.8% growth in USD terms. While the BFSI vertical would continue to drive growth, manufacturing and retail may reel under pressure from tariffs and muted budgets. Deal wins have been robust, but conversion to revenue may lag, pushing recovery into 2H. Margins are likely to stay flat, with currency gains and cost optimization offsetting ramp-up costs. Though valuations are reasonable, structural demand outlook remains uncertain. We remain watchful and maintain our bottom-up stance on the IT sector, favouring TCS within Tier-1 peers and R Systems in the small cap space.

How we expect 2Q growth to pan out

Tier-1 IT players are expected to post 0.6%–1.8% QoQ USD revenue growth. INFY (+1.6%) is slated to lead on acquisitions and deal ramp-ups, TCS (+1.3%) on large deals and currency benefits despite flattish India business and HCLT (+1.8%) on BFSI/hi-tech resilience, with margin gains. TECHM (+1.2%) could benefit from cost optimization and currency, while Wipro (+0.6%) may record muted growth with flat margins, despite contribution from Harman (WPRO recently acquired its digital transformation solutions business). Among midcaps, SSOF (+2.3% in International IT services; -14.6% consolidated) faces seasonal product weakness but margin gains, while RSYS (+6% IT services; +6.7% consolidated in INR) stands out on large deal ramp-ups while likely facing ~50bps margin pressure.

Key aspects to watch out for in 2Q

a) Commentaries on discretionary spending, b) margin levers and revenue guidance for FY26, c) impact of tariffs, d) impact of H1-B visa cost, e) hiring plans, and f) progress in AI initiatives and new deals. Near-term prospects remain muted but medium to long term outlook looks favorable, as enterprises prioritize digital transformational programs and accelerate the adoption of generative AI.

Valuation & Outlook

We expect prolonged uncertainty to cap FY26E growth and push recovery to FY27E. NIFTY IT index is down ~20% YTD on President Trump's reciprocal tariffs, with Tier-1 valuations now looking reasonable, albeit demand visibility remains weak. NIFTY IT index trades at 24x LTM PE—17% below its 5-year average and in line with its 10-year average. We remain positive on TCS (21x 1-year forward PE), given its strong order book, resilient margins, and robust return ratios. We also prefer Blackstone-backed RSYS as a differentiated digital engineering play with synergies from the Novigo acquisition. We have retained our target prices for TCS, INFY, WPRO, HCLT, TECHM, SSOF, and RSYS.

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2QFY26 Earnings Overview

- **TCS:** We estimate 1.3% QoQ growth in TCS' revenue in USD terms, backed by deal ramp-ups, partially offset by flattish growth in India business, given the ramp-down in BSNL deal. We expect a resilient TCV (total contract value), supported by the EUR 550mn Tryg deal. In the last quarter, growth was primarily driven by the UK, Asia Pacific, Continental Europe, and MEA (Middle East Asia) markets, with the US and India markets recording muted growth - a trend we believe the company could replicate. We estimate flattish margins during the quarter, factoring in a month's impact of wage hikes and limited operating leverage, offset by the benefit 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 (1%) factors in potential stretched weakness. Our estimate of 1.6% QoQ revenue growth in USD terms reflects ramp-up of recent deal wins, seasonally better 1H, and an inorganic boost from recent acquisitions. We expect 38bps QoQ growth in EBIT margin, mainly from currency tailwinds, absence of wage hikes, and operational efficiency from *Project Maximus*.

- **HCLT:** We expect HCLT to report 1.8% QoQ revenue growth in USD terms, primarily due to resilience in BFSI and hi-tech verticals and new deal ramp ups in its IT services business. The estimated 58bps QoQ growth in EBIT Margin corresponds with the growth in IT services.

- **WPRO:** We estimate 0.6% QoQ growth in WPRO's USD revenue during 2QFY26, mainly driven by inorganic contribution from its Harman acquisition despite some pressure on the won deals. EBIT margin may remain flat, as currency tailwinds provide some relief despite costs from deal ramp ups.

- **TECHM:** TECHM is expected to post 1.2% QoQ USD revenue growth during the quarter. TCV numbers could continue to hover at USD 500-600mn, with EBIT margin likely up 52bps QoQ on currency tailwind and cost optimization initiatives.

- **SSOF:** The company's IT services revenue is projected to grow at 2.3% QoQ in USD terms, while consolidated revenue could decline by 14.6% owing to seasonal weakness in the products segment. On the profitability front, consolidated EBITDA margin expected to expand by 156bps, driven largely by lower seasonal contribution from the structurally low-margin products business.

- **RSYS:** RSYS' IT services revenue is anticipated to rise by 6% QoQ in USD terms, while consolidated revenue is projected to increase by 6.7% QoQ in INR terms, supported by ramp-ups from large deals during the quarter. However, consolidated EBITDA margin is expected to contract by about 50bps, primarily due to higher investments in talent and the impact of ongoing large deal ramp-ups.

Exhibit 1: IT companies under coverage – 2QFY26 estimates and highlights (Rs mn)

TCS	2QFY26E	1QFY26	2QFY25	YoY	QoQ	Comments
Net Revenue (USD mn)	7,520	7,421	7,670	-2.0%	1.3%	1.3% QoQ growth estimated in USD revenue, led by growth in BFSI and hi-tech verticals, partially offset by the ramp down in BSNL deal. We estimate QoQ flattish EBIT margin at 24.4%, factoring in a month's impact of wage hike and limited operating leverage offset, by the benefit from currency tailwinds.
Net Revenue (INR mn)	6,56,496	6,34,370	6,42,590	2.2%	3.5%	
EBIT	1,60,157	1,55,140	1,54,650	3.6%	3.2%	
PAT	1,27,214	1,27,600	1,19,090	6.8%	-0.3%	
EBIT Margin	24.4%	24.5%	24.1%	33	-6	
EPS (Rs)	35.1	35.2	32.9	6.8%	-0.3%	
Infosys	**2QFY26E**	**1QFY26**	**2QFY25**	**YoY**	**QoQ**	**Comments**
Net Revenue (USD mn)	5,000	4,921	4,858	2.9%	1.6%	1.6% QoQ growth in USD revenue to be supported by ramp-up in recent deal wins and inorganic boost of ~20 bps from latest acquisitions. EBIT margin estimated to grow by 38bps QoQ, mainly due to absence of wage hikes, currency tailwinds, and operational efficiencies stemming from *Project Maximus*.
Net Revenue (INR mn)	4,36,525	4,22,790	4,09,860	6.5%	3.2%	
EBIT	92,560	88,030	86,490	7.0%	5.1%	
PAT	72,545	69,210	65,060	11.5%	4.8%	
EBIT Margin	21.2%	20.8%	21.1%	10	38	
EPS (Rs)	17.5	16.7	15.7	11.5%	4.8%	
Wipro	**2QFY26E**	**1QFY26**	**2QFY25**	**YoY**	**QoQ**	**Comments**
Net Revenue (USD mn)	2,604	2,587	2,660	-2.1%	0.6%	Factoring 0.6% QoQ growth to be driven by inorganic contribution from Harman acquisition, despite some pressure on the won deals. Margins likely to stay flat as currency tailwinds would be offset by costs towards ramping up large deals.
Net Revenue (INR mn)	2,27,836	2,21,528	2,22,620	2.3%	2.8%	
EBIT	36,911	35,724	37,149	-0.6%	3.3%	
PAT	32,036	33,304	32,088	-0.2%	-3.8%	
EBIT Margin	16.2%	16.1%	16.7%	-49	7	
EPS (Rs)	3.1	3.2	3.1	-0.2%	-3.9%	
HCL Technologies	**2QFY26E**	**1QFY26**	**2QFY25**	**YoY**	**QoQ**	**Comments**
Net Revenue (USD mn)	3,608	3,545	3,445	4.7%	1.8%	1.8% QoQ growth in USD revenue, attributed to growth in BFSI and hi-tech verticals and new deal ramp ups in IT services business. EBIT margin estimated to expand by 58bps QoQ, corresponding to the strong growth in IT Services.
Net Revenue (INR mn)	3,15,000	3,03,490	2,88,620	9.1%	3.8%	
EBIT	53,126	49,420	53,620	-0.9%	7.5%	
PAT	41,222	38,430	42,350	-2.7%	7.3%	
EBIT Margin	16.9%	16.3%	18.6%	-171	58	
EPS (Rs)	15.2	14.2	15.6	-2.7%	7.3%	
Tech Mahindra	**2QFY26E**	**1QFY26**	**2QFY25**	**YoY**	**QoQ**	**Comments**
Net Revenue (USD mn)	1,582	1,564	1,589	-0.4%	1.2%	TechM USD revenue is expected to grow by 1.2% QoQ, driven by ramp-up of few deals, offset by softness in the hi-tech vertical. EBIT margin is expected to grow by 52bps QoQ due to currency tailwinds and cost optimization initiatives.
Net Revenue (INR mn)	1,38,136	1,33,512	1,33,132	3.8%	3.5%	
EBIT	15,994	14,771	12,804	24.9%	8.3%	
PAT	13,394	11,406	12,501	7.1%	17.4%	
EBIT Margin	11.6%	11.1%	9.6%	196	52	
EPS (Rs)	15.1	12.9	14.1	7.1%	17.4%	
Sonata Software	**2QFY26E**	**1QFY26**	**2QFY25**	**YoY**	**QoQ**	**Comments**
IT Services Revenue (USD mn)	84	82	85	-1.1%	2.3%	IT services revenue projected to grow at 2.3% QoQ in USD terms, while consolidated revenue may decline by 14.6% on seasonal weakness in the products segment. On the profitability front, consolidated EBITDA margin could expand by 156bps, driven largely by lower seasonal contribution from the structurally low-margin products business.
Consolidated Revenue (INR mn)	25,308	29,652	21,698	16.6%	-14.6%	
EBITDA (Incl other income)	1,964	1,839	1,964	0.0%	6.8%	
PAT	1,122	1,093	1,065	5.4%	2.7%	
EBITDA Margin	7.8%	6.2%	9.1%	-129	156	
EPS (Rs)	4.0	3.9	3.8	5.4%	2.7%	

R Systems	3QCY25E	2QCY25	3QCY24	YoY	QoQ	Comments
IT Services Revenue (USD mn)	50	47	47	5.4%	6.0%	RSYS' IT services revenue is projected to grow 6% QoQ in USD terms, while consolidated revenue is expected to grow 6.7% QoQ in INR terms owing to large deal ramp ups during the quarter. Consolidated EBITDA margins are expected to decline by 50bps, driven by investments in talent along with large deal ramp ups.
Consolidated Revenue (INR mn)	4,930	4,620	4,441	11.0%	6.7%	
EBITDA (Incl other income)	826	797	796	3.8%	3.6%	
PAT	432	759	398	8.6%	-43.0%	
EBITDA Margin	16.8%	17.3%	17.9%	-117	-50	
EPS (Rs)	3.7	6.4	3.4	8.6%	-43.0%	

Source: Company, Systematix Institutional Research

Exhibit 2: Valuations of companies under coverage

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	10,628	21.7	19.9	17.7	4.2	4.0	3.7	15.1	13.8	12.2	51.2	50.8	49.4
Infosys	5,989	22.4	20.9	19.1	3.7	3.5	3.2	14.3	13.3	12.3	27.9	27.4	27.0
Wipro	2,534	19.3	18.7	17.8	2.8	2.8	2.7	12.0	11.2	9.9	15.9	14.2	13.1
HCL Tech	3,773	21.7	22.8	20.8	3.2	3.0	2.8	13.8	13.5	12.1	25.0	23.1	24.2
Tech M	1,253	29.5	22.9	18.8	2.4	2.3	2.1	17.0	13.6	11.2	15.5	19.8	23.1
Sonata Software	97	22.8	23.9	21.0	1.0	0.9	0.8	12.6	12.9	11.3	27.3	22.8	23.1
R Systems	49	37.1	23.7	21.9	2.8	2.5	2.0	16.1	15.2	11.3	21.3	28.3	23.7

*Source: Company, Systematix Institutional Research *Note - RSYS numbers to be read as CY24/CY25E/CY26E*

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	-1.5	-6.4	-15.0	-17.9	-32.0	-17.9	-17.1	15.5	120.4
Infosys	-2.6	-3.6	-10.0	-5.3	-24.1	-5.3	0.8	42.1	146.5
Wipro	-0.4	-3.7	-8.9	-8.2	-11.8	-8.2	18.9	54.0	114.4
HCL Tech	-2.4	-5.4	-19.1	-9.2	-23.5	-9.2	12.2	70.9	224.2
Tech M	-2.0	-5.9	-15.3	1.5	-12.9	1.5	16.4	72.2	151.5
Sonata Software	-5.4	-1.6	-15.0	-0.1	-45.1	-0.1	-33.0	198.7	508.5
R Systems	-4.0	-10.7	-10.4	25.2	-12.5	25.2	-18.8	266.9	489.9
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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