IT Services

Seasonality weighs in Q3; AI-transformation shows confidence

Summary

The Indian IT-service sector is expected to see a seasonally soft quarter, with furloughs and an unchanged macro environment weighing on near-term growth. Client decision-making remains cautious, particularly for discretionary spending, resulting in muted sequential performance across most of the tech companies. Deal execution continues to provide support, and mid-tier firms are likely to outperform Tier-1 peers due to better agility and stronger exposure to cost-optimization deals. Market focus is gradually shifting toward medium-term signals, as enterprises scale AI-initiatives from pilots to enterprise-wide deployments. AI-led transformation and infrastructure modernization continue to drive deal pipelines and are increasingly becoming central to client technology strategies. Margins to remain stable backed by currency movements & operational efficiencies, offsetting wage and seasonal pressures. While the near term remains subdued, the medium- to long-term outlook for the sector remains positive.

Key Highlights:

- **Revenue Outlook:** We expect aggregate Tier-1 revenue growth of ~1% QoQ and ~2.5% YoY in USD terms for Q3FY26. Growth should be led by LTIMindtree (+2.1% QoQ), HCL Tech (+1.8%) and Wipro (+1%), while TCS (+0.2%), Infosys (+0.4%) & Tech Mahindra (+0.4%) trail due to seasonality and furloughs. Mid-tier revenues expected to grow ~0.7% QoQ on average with Coforge (+2.6%) outperforming while Zensar underperforming.
- **Margin Outlook:** Margins expected to remain largely range-bound, aided by INR depreciation and stable utilization but capped by wage hikes, pricing pressure and continued investments in GenAI capabilities. Infosys margins are likely to be broadly stable around the 20–22% band, while HCLTech could see modest expansion driven by execution benefits. TCS margins may see marginal pressure due to wage revisions and seasonality. Among mid-tiers, margin trends are expected to be mixed, with operational efficiencies supporting Zensar and LTTS, while BSOFT and Coforge show contraction in margins on QoQ basis in Q3FY26.

India IT Sector: Valuation and Rating

Companies	Rating	CMP (Rs)	TP (Rs)	*Upside (%)*	Mkt Cap (Rs bn)	P/E (x) FY26E	P/E (x) FY27E
TCS	**BUY**	3,256	3,733	*15%*	11,780	22	22
Infosys	**BUY**	1,612	1,714	*6%*	6,698	23	22
HCL Tech.	**BUY**	1,616	1,725	*7%*	4,386	24	22
Wipro	**HOLD**	266	286	*8%*	2,785	21	21
Tech Mah.	**BUY**	1,602	1,710	*7%*	1,569	25	21
LTIMindtree	**BUY**	5,983	6,470	*8%*	1,774	34	29
Cyient Ltd	**HOLD**	1,141	1,211	*6%*	127	20	17
Zensar Tech.	**HOLD**	702	894	*27%*	160	23	20
Birlasoft	**HOLD**	421	414	*-2%*	117	26	21
Newgen	**HOLD**	822	1,091	*33%*	117	34	27
Coforge	**BUY**	1,657	2,030	*23%*	555	39	31
Sonata Soft.	**HOLD**	352	435	*24%*	99	22	17
LTTS	**BUY**	4,410	4,774	*8%*	456	34	29
BLSIN	**BUY**	313	445	*42%*	129	18	16

Source: IDBI Capital, Company

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Exhibit: Estimates (Rs mn)

Company		Dec-25	Sept-25	Dec -24	*QoQ (%)*	*YoY (%)*	Comments
TCS	Revenue (US$ mn)	7,481	7,466	7,539	*0.2*	*-0.8*	▪ We forecast QoQ revenue to improve by 0.2%/1.2% in USD/INR terms due to seasonality. ▪ We expect EBIT margin to contract by 8 bps QoQ reflecting the impact of two months of wage hikes. ▪ **Would watch for:** 1) TCV of deal wins specially in AI and digital transformations; 2) Commentary on AI infrastructure investment ; 3) Employee restructuring 4) Deal pipeline conversion trend; 5) trends in Generative AI; 6) Outlook on US and Europe macro environment.
	Revenue (Rs mn)	6,65,809	6,57,990	6,39,730	*1.2*	*4.1*	
	EBIT (Rs mn)	1,67,118	1,65,650	1,56,560	*0.9*	*6.7*	
	EBIT margin (%)	*25.10%*	*25.18%*	*24.47%*	*-8 bps*	*63 bps*	
	Net profit (Rs mn)	1,31,164	1,29,040	1,23,790	*1.6*	*6.0*	
	EPS (Rs)	36.25	35.65	34.20	*61 bps*	*206 bps*	
Infosys	Revenue (US$ mn)	5,096	5,076	4,939	*0.4*	*3.2*	▪ We forecast revenue to stay flat at 0.4% in USD terms. ▪ We expect EBIT margin to stay flat due to potential cost savings although some wage cost pressure is expected. ▪ **Would watch for:** 1) Project maximus outlook 2) Trend in discretionary spends; 3) Traction in BFSI and strategic deals 4) margin outlook; and 5) Outlook on conversion of pipeline and project run offs 8) hiring & utilisation outlook 9) any tweak in FY26E guidance.
	Revenue (Rs mn)	4,53,544	4,44,900	4,17,640	*1.9*	*8.6*	
	EBIT (Rs mn)	95,244	93,530	89,120	*1.8*	*6.9*	
	EBIT margin (%)	*21.00%*	*21.02%*	*21.34%*	*-2 bps*	*-34 bps*	
	Net profit (Rs mn)	73,928	73,650	68,060	*0.4*	*8.6*	
	EPS (Rs)	17.84	17.77	16.44	*7 bps*	*140 bps*	
Wipro	Revenue (US$ mn)	2,630	2,604	2,629	*1.0*	*0.0*	▪ We forecast revenue to grow by 1% QoQ mainly due to acquisition of Harman. ▪ We expect EBIT margin to contract by 17bps QoQ. ▪ **Would watch for:** 1) Commentary on the large deal wins specially AI deals and its connect with revenue growth; 2) Commentary across verticals - especially BFSI, Cloud, digital transformation and Manufacturing business unit; 3) Execution on deal ramp-ups.
	Revenue (Rs mn)	2,34,070	2,26,973	2,23,188	*3.1*	*4.9*	
	EBIT (Rs mn)	38,622	37,829	38,966	*2.1*	*-0.9*	
	EBIT margin (%)	*16.50%*	*16.67%*	*17.46%*	*-17 bps*	*-96 bps*	
	Net profit (Rs mn)	32,255	32,462	33,538	*-0.6*	*-3.8*	
	EPS (Rs)	3.1	3.1	3.2	*-2 bps*	*-12 bps*	

Company		Dec-25	Sept-25	Dec -24	QoQ (%)	YoY (%)	Comments
HCLT	Revenue (US$ mn)	3,710	3,644	3,533	*1.8*	*5.0*	■ We forecast revenue growth of 1.8% QoQ supported by Products and Platform business. ■ We expect EBIT margin to improve by 62bps because of cost optimization and execution improvements. ■ **Would watch for:** 1) Outlook on product business 2) Commentary on deal pipeline, especially large deals, pricing 3) hiring trend 4) Margin outlook; 5) ER&D outlook and its drivers 6) Impact of AI deals on IT services deals.
	Revenue (Rs mn)	3,30,190	3,19,420	2,98,900	*3.4*	*10.5*	
	EBIT (Rs mn)	59,434	55,500	58,210	*7.1*	*2.1*	
	EBIT margin (%)	*18.00%*	*17.38%*	*19.47%*	*62 bps*	*-147 bps*	
	Net profit (Rs mn)	48,373	42,350	45,910	*14.2*	*5.4*	
	EPS (Rs)	17.8	15.6	16.9	*223 bps*	*93 bps*	
TechM	Revenue (US$ mn)	1,592	1,586	1,568	*0.4*	*1.5*	■ We forecast moderate revenue growth of 0.4% QoQ in USD terms on the back of communications and retail vertical. ■ We expect EBIT margin to expand by 16 bps QoQ driven by cost efficiencies and execution advantage. ■ **Would watch for:** 1) Large deal wins; 2) update on AI deals 3) Commentary on demand of telecom clients and digital transformation budget, 4) Panning out margin programs; 5) visibility in geography.
	Revenue (Rs mn)	1,41,688	1,39,949	1,32,856	*1.2*	*6.6*	
	EBIT (Rs mn)	17,428	16,993	13,502	*2.6*	*29.1*	
	EBIT margin (%)	*12.30%*	*12.14%*	*10.16%*	*16 bps*	*214 bps*	
	Net profit (Rs mn)	13,319	11,945	12,909	*11.5*	*3.2*	
	EPS (Rs)	13.6	13.5	11.1	*10 bps*	*250 bps*	
LTIMindtree	Revenue (US$ mn)	1,205	1,180	1,139	*2.1*	*5.8*	■ We forecast 2.1% revenue growth in USD terms as less headwinds and more tailwinds such as currency are expected in this quarter. ■ We expect EBIT margin to expand by 24 bps on QoQ basis. Deal wins amount to be around ~USD 1.4-1.5 bn. 1000-1200 freshers employee are added this quarter. ■ **Would watch for:** 1) Order book & large deal trend; 2) Commentary on deal pipeline & its conversion, new logo addition, pricing; 3) Outlook on BFSI & discretionary spend revival 4) Outlook on ability to achieve 17-18% margins in long-term margin trajectory.
	Revenue (Rs mn)	1,07,245	1,03,943	96,609	*3.2*	*11.0*	
	EBIT (Rs mn)	17,266	16,481	13,289	*4.8*	*29.9*	
	EBIT margin (%)	*16.10%*	*15.86%*	*13.76%*	*24 bps*	*234 bps*	
	Net profit (Rs mn)	14,478	13,812	10,867	*4.8*	*33.2*	
	EPS (Rs)	48.9	46.7	36.7	*215 bps*	*1215 bps*	

Company		Dec-25	Sept-25	Dec -24	*QoQ (%)*	*YoY (%)*	Comments
CYIENT	Revenue (US$ mn)	205	204	228	*0.7*	*-10.1*	■ We expect revenue to grow by a meagre 0.7 % in USD terms. Energy verticals already faced furloughs in Q2, which was partially offset by the growth in Aerospace. ■ We expect margin to hover in the similar range (+1bps QoQ). ■ **Would watch for:** 1) Outlook on verticals like Aerospace and Communications, Transportation and ENU; 2) Commentary on global demand; 3) Outlook on EBIT margin; 4) Guidance on IT spend in key verticals 7) Order book trend.
	Revenue (Rs mn)	18,245	17,810	19,260	*2.4*	*-5.3*	
	EBIT (Rs mn)	1,715	1,673	2,196	*2.5*	*-21.9*	
	EBIT margin (%)	*9.40%*	*9.39%*	*11.40%*	*1 bps*	*-200 bps*	
	Net profit (Rs mn)	1,332	1,275	1,280	*4.5*	*4.1*	
	EPS (Rs)	11.99	11.56	11.65	*43 bps*	*34 bps*	
Zensar	Revenue (US$ mn)	160	163	157	*-1.7*	*2.0*	■ We expect revenue to decrease by 1.7% QoQ due to seasonality and furloughs in this quarter. ■ We expect margin to grow by 39bps QoQ on back of operating efficiency, currency appreciation and absorption of ESOP cost in previous quarter. PAT margin is expected to improve because of higher other income. ■ **Would watch for:** 1) Comments on expected turnaround in the company; 2) Outlook on the BFSI, manufacturing, Hi tech & retail given the global challenges; 3) Deal pipeline 4) Large deal wins 5) New logo addition and client mining trend 6) Outlook on EBIT margin 9) Deal decision making, pipeline conversion.
	Revenue (Rs mn)	14,258	14,213	14,272	*0.3*	*-0.1*	
	EBIT (Rs mn)	2,010	1,948	2,076	*3.2*	*-3.2*	
	EBIT margin (%)	*14.10%*	*13.71%*	*14.55%*	*39 bps*	*-45 bps*	
	Net profit (Rs mn)	1,818	1,822	1,598	*-0.2*	*13.8*	
	EPS (Rs)	8.0	7.9	7.0	*10 bps*	*100 bps*	
Birlasoft	Revenue (US$ mn)	153	151	161	*1.0*	*-5.3*	■ We forecast revenue to slightly grow by 1% QoQ in USD terms as BFSI vertical softens this quarter. ■ EBIT margin likely to contract by 143bps as the one-off benefit in last quarter fades away. Deal wins expected to be more than Q2FY26. ■ **Would watch for:** 1) Outlook on improvement in Deal pipeline & Order book trend 2) Transformational deal wins 3)Outlook on EBIT margin; 4) Outlook on BFSI, manufacturing & hitech; 5) trend in ERP, AI & Gen AI and infra-services.
	Revenue (Rs mn)	13,573	13,289	13,627	*2.1*	*-0.4*	
	EBIT (Rs mn)	1,778	1,931	1,422	*-7.9*	*25.0*	
	EBIT margin (%)	*13.10%*	*14.53%*	*10.44%*	*-143 bps*	*266 bps*	
	Net profit (Rs mn)	1,069	1,161	1,169	*-7.9*	*-8.6*	
	EPS (Rs)	3.8	4.1	4.2	*-25 bps*	*-35 bps*	

Company		Dec-25	Sept-25	Dec -24	*QoQ (%)*	*YoY (%)*	Comments
Newgen	Revenue (Rs mn)	3,845	4,008	3,811	*-4.1*	*0.9*	▪ We forecast flat revenue growth of 0.9% in INR terms (YoY). Low deal wins, low license revenue is expected although annuity segment is expected to perform well. ▪ EBIT margin likely to stay flat on QoQ basis on the back of incremental cost cycle and labour court provisions. Deal wins are expected to be low in this quarter. ▪ **Would watch for:** 1) New large logo additions; 2) Management guidance on margins; 3) outlook on the mature market penetration 4) License revenue trends 5) SAAS trends 6) Geo wise growth trends 7) FY26E outlook & deal wins trajectory.
	EBIT (Rs mn)	894	933	997	*-4.2*	*-10.4*	
	EBIT margin (%)	*23.24%*	*23.28%*	*26.16%*	*-4 bps*	*-292 bps*	
	Net profit (Rs mn)	796	817	890	*-2.6*	*-10.6*	
	EPS (Rs)	5.6	5.8	6.4	*-18 bps*	*-78 bps*	
Coforge	Revenue (US$ mn)	474	462	397	*2.6*	*19.4*	▪ We forecast 2.6% revenue growth in USD terms driven by deal ramp ups ▪ We expect EBIT margin to contract materially on QoQ basis due to wage hikes and forex losses ▪ **Would watch for:** 1) Revenue & margin trajectory 2) outlook on BFSI vertical; 3) Outlook on top clients; 4) Deal pipeline conversion; 5) Large deal wins 6) Outlook on order book.
	Revenue (Rs mn)	42,186	39,857	33,182	*5.8*	*27.1*	
	EBIT (Rs mn)	5,442	5,563	3,922	*-2.2*	*38.8*	
	EBIT margin (%)	*12.90%*	*13.96%*	*11.82%*	*-106 bps*	*108 bps*	
	Net profit (Rs mn)	3,459	3,757	2,155	*-7.9*	*60.5*	
	EPS (Rs)	10.3	11.2	6.5	*-86 bps*	*384 bps*	
Sonata Software	Revenue (US$ mn)	82	82	87	*0.2*	*-5.5*	▪ We forecast International IT Services revenue to grow by 0.2% QoQ in USD terms. ▪ We forecast EBIT margin to expand by 10bps QoQ on the basis of hike in employee remuneration. Deal wins are expected to be in line with QoQ trend. ▪ **Would watch for:** 1) Large deal wins; 2) Utilization rates 3) new logo addition and client mining trend 4) Commentary on market demand in US, Europe 5) deal pipeline delay 6) outlook on Onsite & offsite mix.
	Revenue (Rs mn)	21,200	21,193	28,428	*0.0*	*-25.4*	
	EBIT (Rs mn)	1,749	1,727	1,636	*1.3*	*6.9*	
	EBIT margin (%)	*8.25%*	*8.15%*	*5.75%*	*10 bps*	*250 bps*	
	Net profit (Rs mn)	1,208	1,202	1,050	*0.5*	*15.1*	
	EPS (Rs)	4.3	4.3	3.8	*1 bps*	*51 bps*	

Company		Dec-25	Sept-25	Dec -24	QoQ (%)	YoY (%)	Comments
L&T Technology Services	Revenue (US$ mn)	341	337	312	*1.2*	*9.3*	▪ We forecast 1.2 % revenue growth in USD term on QoQ basis as company is more focused on optimisation of existing businesses. ▪ We expect EBIT margin to grow by 34 bps and might lag in next quarter but overall Q3 is expected to be flat on both revenue and margin end. ▪ **Would watch for:** 1) Revenue & margin trajectory; 2) Future plans about existing businesses 3) Outlook on BFSI and Mobility verticals; 4) Outlook on top clients; 5) Commentary on Deal pipeline conversion and large deal wins.
	Revenue (Rs mn)	30,349	29,795	30,428	*1.9*	*-0.3*	
	EBIT (Rs mn)	4,158	3,982	4,156	*4.4*	*0.0*	
	EBIT margin (%)	*13.70%*	*13.36%*	*13.66%*	*34 bps*	*4 bps*	
	Net profit (Rs mn)	3,217	3,287	3,224	*-2.1*	*-0.2*	
	EPS (Rs)	30.4	31.0	30.5	*-64 bps*	*-14 bps*	
BLS International	Revenue (Rs mn)	7,102	7,366	5,128	*-3.6*	*38.5*	▪ We forecast revenue to decline by 3.6% QoQ in USD terms due to seasonality impact. ▪ We forecast EBIT margin to contract by 46bps QoQ. Revenue from new deal wins in China will start to contribute in revenue from further quarters. ▪ **Would watch for:** 1) New contract wins; 2) Outlook on digital service margins 3) new country addition 4) Outlook on Indian Gov contracts 6) Outlook on tour and travel industry.
	EBIT (Rs mn)	2,019	2,128	1,581	*-5.1*	*27.7*	
	EBIT margin (%)	*28.43%*	*28.89%*	*30.83%*	*-46 bps*	*-240 bps*	
	Net profit (Rs mn)	1,719	1,857	1,279	*-7.4*	*34.4*	
	EPS (Rs)	3.94	4.26	2.93	*-32 bps*	*101 bps*	

Source: IDBI Capital Research; Note: data for EBIT Margin YOY and QOQ is in bps.

Exhibit: Stock price performance

Change (%)	1-mnth	3-mnth	6-mnth	1-yr
SENSEX	-0.8%	3.8%	2.3%	9.1%
TCS	0.5%	9.5%	-3.7%	-20.5%
INFO	-0.2%	10.5%	-0.2%	-16.8%
WPRO	2.2%	9.1%	0.2%	-9.8%
HCLT	-4.0%	12.8%	-2.8%	-17.2%
TECHM	2.0%	11.3%	0.1%	-5.0%
LTIM	-4.9%	13.5%	12.5%	4.4%
CYL	-2.4%	-3.2%	-11.8%	-34.7%
ZENT	-5.9%	-7.7%	-17.0%	-9.0%
BSOFT	-2.6%	18.5%	-1.6%	-22.7%
NEWGEN	-6.5%	-6.9%	-25.6%	-50.0%
COFORGE	-16.2%	-1.7%	-12.2%	-14.0%
SONATA SOFTWARE	-2.7%	-0.3%	-18.3%	-43.5%
LTTS	3.1%	0.0%	-1.5%	-11.7%
BLSIN	-5.98%	-10.97%	-17.09	-37.38%

Source: Bloomberg

Exhibit: Cross-currency movement trend

Currency	Details	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
USD/INR	Average	83.0	83.4	83.8	84.4	86.6	85.6	87.3	89.1
	QoQ	*(0.36%)*	*0.48%*	*0.48%*	*0.72%*	*2.61%*	*(1.15%)*	*1.99%*	*2.06%*
	Closing	83.4	83.4	83.8	85.4	85.7	85.8	88.8	89.9
	QoQ	*0.24%*	*0.00%*	*0.48%*	*1.91%*	*0.35%*	*0.12%*	*3.48%*	*1.24%*
GBP/USD	Average	1.27	1.26	1.30	1.28	1.26	1.34	1.35	1.33
	QoQ	*2.42%*	*(0.79%)*	*3.17%*	*(1.54%)*	*(1.56%)*	*6.35%*	*0.75%*	*(1.48%)*
	Closing	1.26	1.26	1.34	1.25	1.29	1.37	1.34	1.35
	QoQ	*(0.83%)*	*0.15%*	*5.76%*	*(6.42%)*	*3.25%*	*6.32%*	*(2.10%)*	*(0.02%)*
EUR/USD	Average	1.09	1.08	1.10	1.07	1.05	1.14	1.17	1.16
	QoQ	*0.93%*	*(0.92%)*	*1.85%*	*(2.73%)*	*(1.87%)*	*8.57%*	*2.63%*	*(0.50%)*
	Closing	1.08	1.07	1.11	1.04	1.08	1.18	1.17	1.17
	QoQ	*(4.99%)*	*(0.74%)*	*3.93%*	*(7.01%)*	*4.48%*	*8.97%*	*(0.45%)*	*0.14%*
AUD/USD	Average	0.65	0.66	0.66	0.67	0.65	0.63	0.64	0.66
	QoQ	*0.91%*	*0.29%*	*1.63%*	*(2.71%)*	*(3.76%)*	*2.15%*	*2.10%*	*0.37%*
	Closing	0.65	0.67	0.69	0.62	0.62	0.66	0.66	0.67
	QoQ	*(4.24%)*	*2.24%*	*3.69%*	*(10.50%)*	*0.95%*	*5.36%*	*0.50%*	*0.92%*

Source: Bloomberg

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   2.1. The current fee limit is Rs 1,51,000/- per annum per family of client for all research services of the RA.

   2.2. The fee limit does not include statutory charges.

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9. The SEBI registration, Enlistment with RAASB, and NISM certification do not guarantee the performance of the RA or assure any returns to the client.
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    (RA to provide details as per 'Grievance Redressal / Escalation Matrix')

    Step 2: If the resolution is unsatisfactory, the client can also lodge grievances through SEBI's SCORES platform at www.scores.sebi.gov.in

    Step 3: The client may also consider the Online Dispute Resolution (ODR) through the Smart ODR portal at https://smartodr.in
11. Clients are required to keep contact details, including email id and mobile number/s updated with the RA at all times.
12. The RA shall never ask for the client's login credentials and OTPs for the client's Trading Account Demat Account and Bank Account. Never share such information with anyone including RA.