



## IT Services: More questions than answers

The 4QFY26 earnings for IT services results did little to allay fears of disruption in the sector. **40% of companies missed revenue estimates (40% in line, 20% beat)**, while 66% met or beat margin estimates. Questions around structural demand drivers remained unanswered.

**On deflation, AI seems to have found its product-market fit in software engineering and coding.** Successive model releases will most likely shift the boundary of what is automatable; we believe that quantifying "deflatable" books is fraught with error, and we need a business model reset.

On the other hand, **we believe the AI implementation opportunity will surely materialize, but it may not accrue to the traditional vendors** as it did in the past, and a new, platformized, AI-native vendor template will emerge. **OpenAI's DeployCo (and Anthropic's services company as well) is the first credible blueprint for the next-gen system integrator.** We will look for vendors who can replicate this (still developing) blueprint; the next 12-18 months could be a period of notable M&A activity in this regard.

**Until clarity emerges around these questions, we continue to prefer bottom-up plays with deal and earnings visibility in IT:** TECHM in large-caps and COFORGE and KPIT in mid-tier. We also like HCLT; despite a short-term miss on growth guidance, we believe it is preparing for the next phase of growth (we are encouraged by news reports of HCLT leading a USD300m round in Sarvam, a sovereign LLM model start-up). Our observations regarding the quarter are detailed below.

## AI-led productivity gains starting to weigh on growth

- AI is increasingly deflationary, with **productivity gains being passed on to clients, compressing growth in the existing book.** This quarter, more companies began acknowledging that GenAI-led deflation is translating into commercial pressure.
- HCLT called out a 2–3% deflationary impact from GenAI on its book of business, while Infosys' FY27 guidance (below estimates) suggests this pressure will continue as productivity gains are passed on. **Exhibit 1 showcases organic YoY constant currency growth rate for the quarter.**

## DeployCo: our thoughts on OpenAI and Anthropic's foray into AI implementation

- On AI implementation, our conversations (see our note dated 4<sup>th</sup> May, 2026: [Thoughts from the disruptors](#)) lead us to believe that AI implementation is a huge opportunity, and **enterprises will need the help of managed service providers (MSPs) for this.** However, it is also most likely that these implementation gains will not go to the traditional vendors – new-age MSPs will be platform-heavy and will be agentified.
- OpenAI has launched a USD4b consulting and implementation business to help enterprises deploy AI into their day-to-day operations.** We believe OpenAI's DeployCo is the first credible blueprint of the MSP of tomorrow.
- While this was taken negatively by the market, we believe tech services are not a winner-take-all market; it generally has multiple winners but little pricing power.

**Abhishek Pathak - Research Analyst** (Abhishek.Pathak@MotilalOswal.com)

**Research analyst: Keval Bhagat** (Keval.Bhagat@MotilalOswal.com)

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- The question then is not whether DeployCo (or any other similar new-age system integrator) displaces IT services, but which company can replicate this model fastest. **M&A could be a key difference between winners and losers in the next 24-36 months.**

#### FY27 guidance resets growth expectations for the sector

- **Growth expectations for FY27e, which were at 3-5% for large caps before Q4, have now been reset to 1-3%.** Infosys' FY27 guidance of 1.5–3.5% YoY CC (below expectations at the top end) signals increasing pressure on the existing portfolio from AI-led pricing compression and competitive intensity.
- HCL Tech's soft FY27 guidance (1–4% YoY CC) reflects client-specific headwinds and **early-stage AI deflation (2–3% impact)**, with the interplay between the two a key monitorable. **Tech Mahindra** continues to execute well on margins with its ~15% EBIT margin target for FY27 largely intact and less dependent on growth.
- **Wipro's 1QFY27 guidance of -2% to 0% QoQ CC (midpoint -1%) suggests another soft quarter** despite partial contribution (1.5 months' impact in 1QFY27) from two large deals.

#### Currency supported margins this quarter, but pressures remain ahead

- Margins broadly met or beat expectations this quarter, largely aided by favorable currency movement, pyramid rationalization, SG&A efficiencies, and improving productivity. INR depreciation against the USD provided a sharp translation benefit across the board (refer to Exhibit 12). **Of the 16 companies reported so far, ten reported a QoQ improvement in EBIT margins.**
- However, FY27 may see renewed pressure as wage hikes kick in, and AI investments and large-deal ramp-ups play out. **Pricing pressures in a muted demand environment and ongoing deflationary trends could further weigh** on profitability. In addition, we believe the GenAI curve remains margin-dilutive in the near term as investments are ramping up, but monetization is yet to follow.
- If USD/INR stabilizes near current levels, incremental margin expansion could prove difficult. **We expect margins to remain largely flat over the next 18–24 months across the industry.**
- **In our view, any company that expands margins meaningfully from here will do so through workforce productivity, not revenue growth.**

#### Outlook: Valuations very cheap, but returns may be capped until clarity emerges

- **As seen in Exhibits 14–19, stocks are now inexpensive, with Tier-I valuations ~20%/31% below their 10-year/5-year averages.** TCS and Infosys are trading around -1 SD P/E levels and ~40%/26% below their 10-year averages, while HCLT and TECHM are trading closer to their 10-year averages. Until deflationary pressures ease and new AI-led implementation use cases emerge, returns are likely to remain capped.
- **We continue to prefer bottom-up plays with deal and earnings visibility in IT: TECHM in large-caps and COFORGE and KPIT in mid-tier.** We also like HCLT; despite a short-term miss on growth guidance, we believe it is preparing for the next phase of growth (we are encouraged by news reports of HCLT leading a USD300m round in Sarvam, a sovereign LLM model start-up). Our observations regarding the quarter are detailed below.

**Exhibit 1: Organic YoY CC growth for IT companies under our coverage**

	Organic YoY CC growth (%)							
	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
TCS	4.4	5.5	4.5	2.5	-3.1	-3.3	-2.7	-1.1
INFO	2.5	2.7	5.4	4.1	2.8	2.4	1.3	3.7
HCLT	4.1	5.2	3.9	1.8	2.5	3.5	3.9	2.4
WPRO	-4.9	2.3	-0.7	-1.4	-2.5	2.4	0.2	-3.9
TECHM	-1.2	1.2	1.3	0.3	-1.0	0.3	1.3	2.4
LTM	3.7	4.4	5.6	6.3	4.4	4.4	5.2	7.0
MPHL	-0.8	1.7	3.6	5.3	6.4	5.0	7.4	7.1
LTTS	5.4	6.3	8.7	6.0	4.3	2.2	-4.1	0.1
HEXT*	0.0	0.0	17.9	11.8	7.5	3.6	0.7	-0.2
PSYS	16.0	18.0	19.4	20.5	18.0	17.2	16.9	15.5
COFORGE	7.8	11.4	19.0	22.1	27.4	23.3	19.2	26.7
CYL^	-3.6	-3.3	-1.9	-3.4	0.0	-0.6	-0.7	-1.5
ZENT	3.7	3.0	7.4	6.3	3.8	3.4	1.3	-1.5
KPIT	22.9	18.4	17.4	15.0	4.9	-2.2	-5.4	-3.4
TTL	-0.2	0.5	0.3	-3.3	-5.3	-1.9	-2.5	7.2
TELX	8.4	5.1	2.0	7.2	-9.0	-8.3	-5.5	1.0

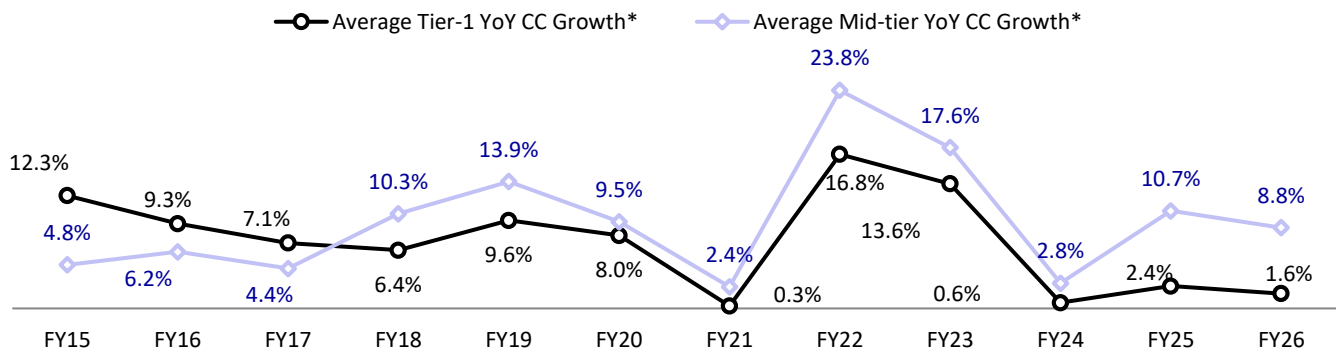
Source: MOFSL; Note: \*HEXT follows CY. ^Figures are for DET business.

**Exhibit 2: EBIT margin for companies under our coverage**

	EBIT Margin (%)							
	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26
TCS	24.7	24.1	24.5	24.2	24.5	25.2	25.2	25.3
INFO	21.1	21.1	21.3	21.0	20.8	21.0	21.2	21.0
HCLT	17.1	18.6	19.5	18.0	16.3	17.4	18.6	16.5
WPRO	16.4	16.7	17.5	17.4	16.1	16.7	16.5	17.2
TECHM	8.5	9.6	10.2	10.5	11.1	12.1	13.1	13.8
LTM	15.0	15.5	13.8	13.8	14.3	15.9	16.1	15.1
MPHL	15.0	15.4	15.3	15.3	15.3	15.3	15.2	15.4
LTTS	15.6	15.1	15.9	13.3	13.3	13.4	14.8	15.2
HEXT*	12.3	13.3	13.1	14.2	15.1	14.7	12.3	13.3
PSYS	14.0	14.0	14.9	15.6	15.5	16.3	16.7	16.3
COFORGE	15.0	11.7	11.9	13.5	12.8	14.0	14.2	16.6
CYL6	11.3	14.2	13.5	12.6	12.0	12.1	12.4	12.3
ZENT	13.3	13.1	13.8	13.9	13.5	13.7	16.0	14.7
KPIT	17.3	16.7	17.2	17.3	17.0	16.4	15.6	15.9
TTL	15.9	15.9	15.5	15.7	13.6	13.4	11.5	13.1
TELX	24.3	25.1	23.5	20.1	18.2	18.5	20.9	22.3

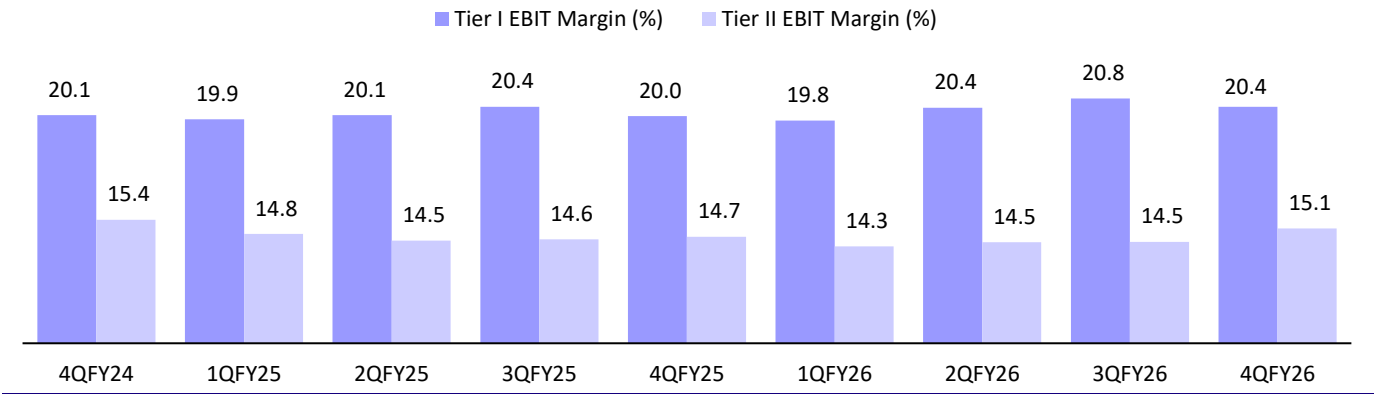
Source: MOFSL; Note: \*HEXT follows CY. ^Figures are for DET business.

**Exhibit 3: We expect the Tier-2 pack to continue to outpace Tier-1 peers**



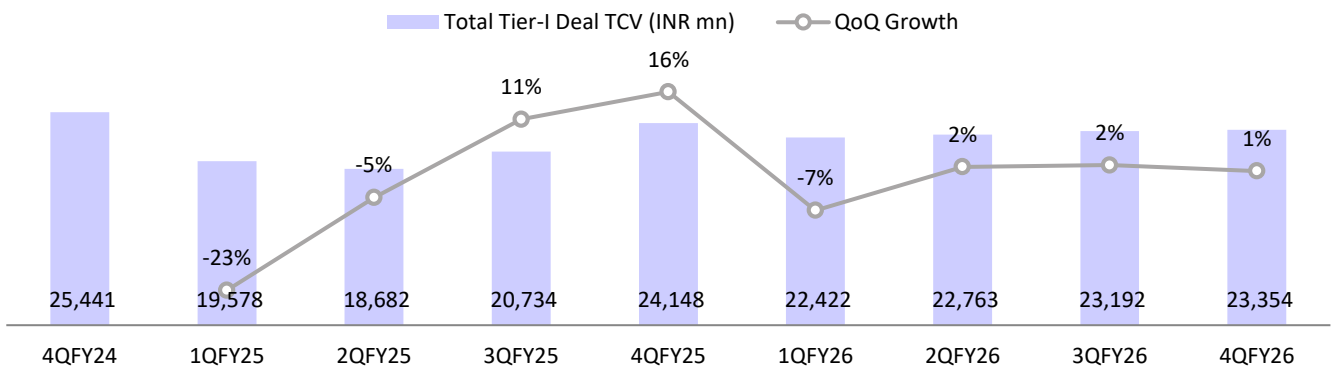
Source: Company, MOFSL; Note: \*Tier-1 companies include TCS, Infosys, HCLT, LTIM, Wipro and TECHM; Mid-tier companies includes COFORGE, PSYS, MPHL, and LTTS.

**Exhibit 4: Margin contracted for tier-1, while tier-2 margin expanded 60bp QoQ**



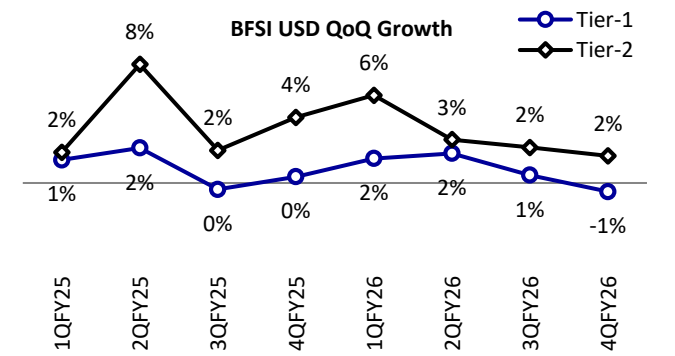
Source: Company, MOFSL

**Exhibit 5: Deal wins intact, conversion still lagging amid increasing focus on productivity-led savings**



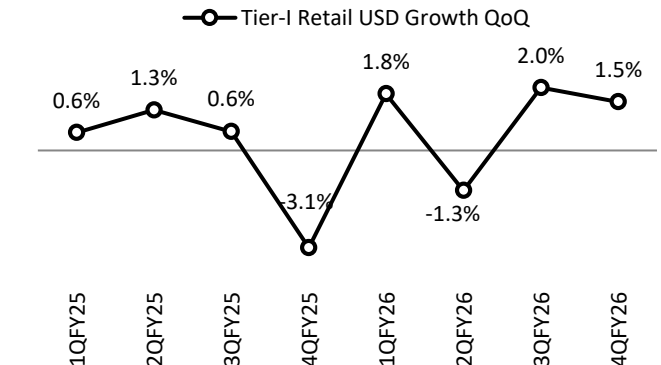
Source: Company, MOFSL

**Exhibit 6: BFSI growth weak for Tier-1 in 4Q**



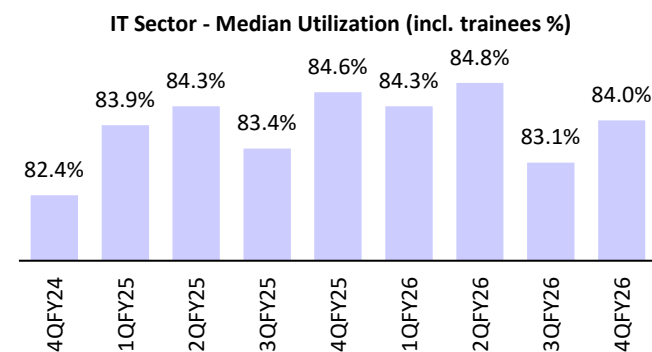
Source: Company, MOFSL

**Exhibit 7: Retail growth holds up for Tier-1 companies**



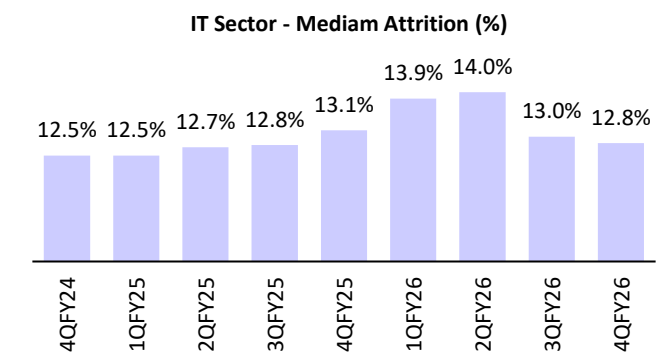
Source: Company, MOFSL

**Exhibit 8: Median utilization (%) improved 90bp QoQ**



Figures excl. LTTs from 2QFY24; MPHL (Offshore); Source: Company, MOFSL

**Exhibit 9: Median attrition declined 20bp in 4Q**



Figures exclude KPIT & MPHL; Source: Company, MOFSL

**Exhibit 10: Revenue and margin estimate misses and beats for our coverage companies**

Companies	Revenue	Margin
TCS	In-Line	In-Line
INFO	Miss	Miss
HCLT	Miss	Miss
WPRO	Miss	Beat
TECHM	In-Line	Beat
LTM	Miss	In-Line
MPHL	In-Line	Beat
HEXT	In-Line	Beat
COFORGE	Beat	Beat
PSYS	In-Line	Miss
ZENT	In-Line	Beat
CYL*	Miss	Miss
KPIT	Beat	In-Line
TATA TECH	Beat	Miss
TELX	Miss	Beat

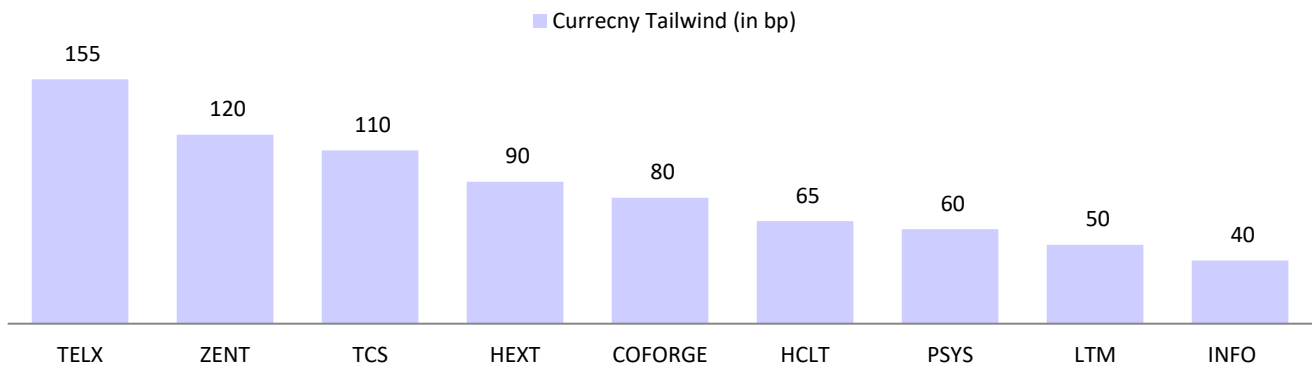
Source: MOFSL; Note: \*DET Business

**Exhibit 11: IT companies' revenue and margin guidance**

Companies	Revenue Guidance	Margin Guidance
TCS	-	❖ Aspirational band of 26–28%
INFO	FY27 CC growth at 1.5%-3.5%	❖ EBIT Margin guidance maintained at 20-22%
HCLT	FY27 revenue growth guidance: 1–4% YoY CC at the company level Services revenue growth guided at 1.5–4.5% YoY CC.	❖ EBIT Margin guidance maintained at 17.5-18.5%
WPRO	1QFY27 revenue guidance is in the range of -2% to 0% QoQ in CC terms (midpoint -1.0% vs expectations of -0.5%)	❖ -
TECHM	-	❖ Reiterated its FY27 margin target of ~15%
LTM	Management aims to double revenue over the next five years, implying ~15% CAGR	❖ -
LTTS	LTTS aims to deliver 13-15% CAGR over the next five years.	❖ EBIT Margin guidance maintained at 16-17% over the medium term under the five-year Lakshya 31 Plan.
MPHL	High single-digit to low double-digit revenue growth in CC terms	❖ EBIT margin band of 14.75–15.75% maintained
HEXT	reiterated its CY26 baseline revenue growth floor of 7.6% YoY USD	❖ EBIT margin guidance of 13–14% in CY26
COFORGE	It India government's business was a pass-through in nature, and it has decided to exit this business. On a full-year basis, this would have a hit of 2-3%; the majority of the impact will flow through in 1QFY27	❖ EBITDA margins of 20.5-21.0% (consolidated), EBIT margins of 16.5-17.0% (standalone, ex-Encora) and ~15.5% on a consolidated basis – the ~150bp gap being entirely attributable to ~USD40m/year of Encora-related amortization.
PSYS	USD2b revenue goal by FY27. This would imply ~15% YoY growth in FY27	❖ Management reiterated the margin aspiration range of 16-17%
ZENT	-	❖ EBITDA margin guidance of mid-teens is maintained.
CYL	-	❖ EBIT margin guidance of ~15% by 4QFY27
KPIT	Solutions and products now contribute ~15% of revenue (~USD110m), management targets this mix to scale meaningfully to ~60% over the next three years.	❖ EBITDA margin guided at 20.5–21.2% for FY27
TATA TECH	Management guided for double-digit organic CC revenue growth in FY27	❖ Management targets exiting FY27 with an EBITDA run rate exceeding 18%
TELX	Management revised FY27 growth outlook from double-digit to high-single-digit	❖ Management targets ~27% exit margin in FY27

Source: Company, MOFSL

**Exhibit 12: INR depreciation against the USD provided a margin benefit across the board**



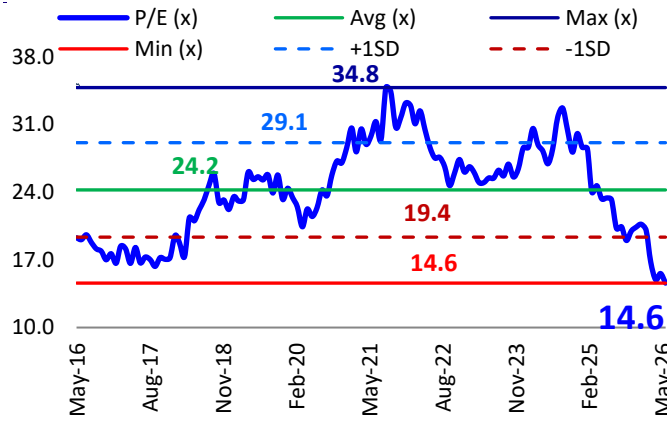
Source: MOFSL

**Exhibit 13: Our earnings cuts for FY27E/FY28E vs. the preview numbers**

Companies	FY27E	FY28E
TCS	-1.0%	-0.8%
INFO	-2.6%	-4.3%
HCLT	-2.5%	-4.2%
WPRO	-1.1%	-1.4%
TECHM	0.7%	1.0%
LTM	-3.1%	-3.2%
MPHL	0.6%	1.0%
Hexaware*	1.0%	2.1%
COFORGE	3.6%	4.4%
PSYS	-3.6%	-5.3%
ZENT	-2.5%	-2.0%
CYL	-2.7%	-1.8%
KPIT	-5.0%	-2.1%
TATA TECH	1.5%	1.3%
TELX	-0.3%	-1.1%

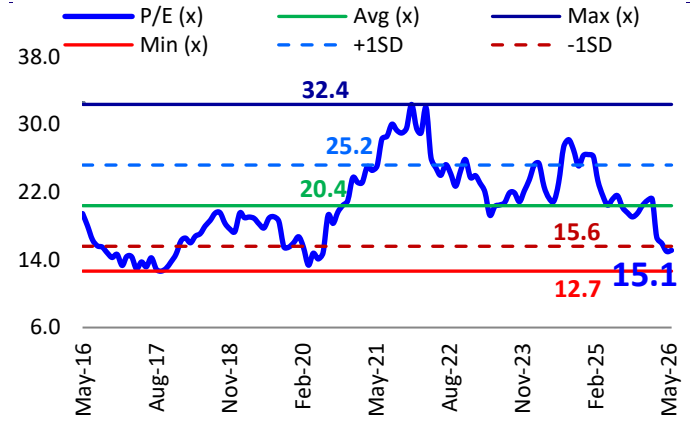
Source: MOFSL; Note: \*DET Business

**Exhibit 14: TCS 10-year P/E band chart**



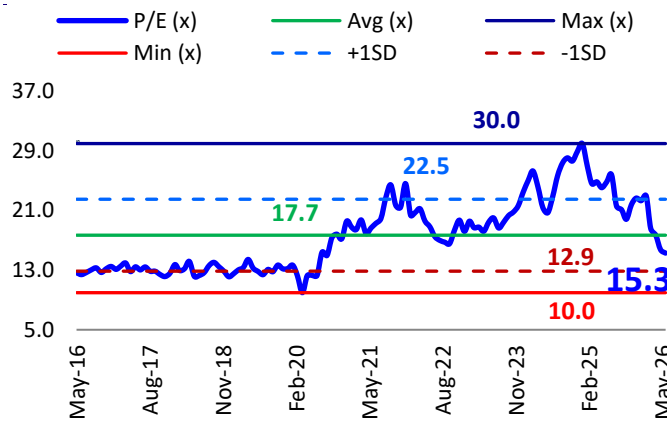
Source: Bloomberg, MOFSL

**Exhibit 15: INFY 10-year P/E band chart**



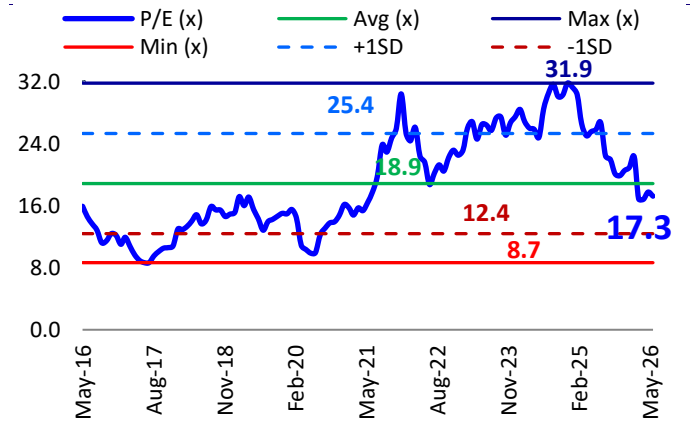
Source: Bloomberg, MOFSL

**Exhibit 16: HCLT 10-year P/E band chart**



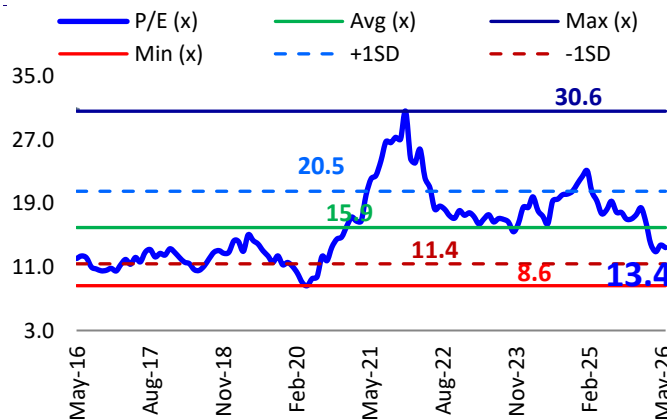
Source: Bloomberg, MOFSL

**Exhibit 17: TECHM 10-year P/E band chart**



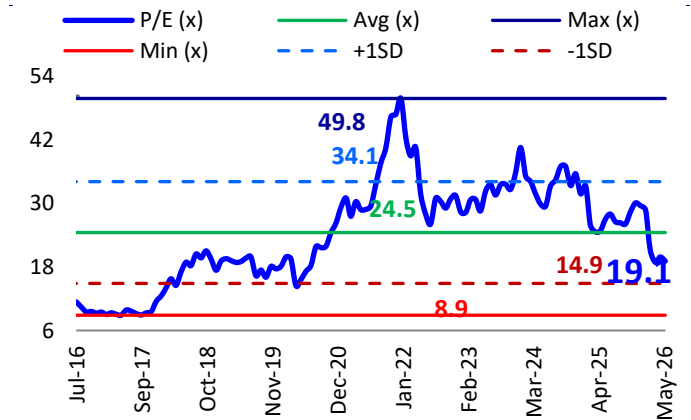
Source: Bloomberg, MOFSL

**Exhibit 18: WPRO 10-year P/E band chart**



Source: Bloomberg, MOFSL

**Exhibit 19: LTM 10-year P/E band chart**



Source: Bloomberg, MOFSL

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Nainesh Rajani

Email: [nainesh.rajani@motilaloswal.com](mailto:nainesh.rajani@motilaloswal.com)

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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal,

Email Id: na@motilaloswal.com, Contact No.:022-40548085.

**Grievance Redressal Cell:**

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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