

Scenario 2: Gradual deflation, cyclical recovery dominates

- Enterprise complexity, legacy estates, and governance constraints could slow adoption, back-ending productivity gains. In this scenario, near-term growth is more dependent on cyclical recovery, partially offset by AI deflation.
- **Is there evidence of this cyclical recovery?** Notably, aggregate **revenue and EBIT growth bottomed out ~two quarters ago**, with **meaningful improvement in 3QFY26** across large, mid, and small-cap companies (Exhibit 4-6).

Long-term debate: “IT is dead because this time is different?”

- **The concern:** AI tools enable enterprises to internally generate code, reducing reliance on third-party vendors and upending pay per seat software.
- **Historical context:** The IT services industry originally scaled due to the challenges of maintaining large volumes of self-built, non-standardized, and security-vulnerable code. Over time, enterprises shifted toward packaged software + vendor-led customization to address these concerns. As shown in Exhibit 2, self-built software currently accounts for **14% of total software spend, down from 35-40% in the 90s**.
- In our view, in-house code generation does not inherently guarantee better architecture, security, or uptime management. **Vendor ecosystems continue to play a critical role in:**
 - Systems integration
 - Cybersecurity and governance
 - Performance optimization
 - Downtime mitigation/SLA management
- In the long term, answers to whether the industry goes extinct, thrives, or just survives won't come by easily. In the short term, we stick to forecasting earnings growth for the next two years, which, as shown earlier, seems to be improving.
- For the medium term, getting to AI should be a revenue-accretive opportunity, and we believe IT services vendors have a role to play. We keep our estimates unchanged as of now, as we look for more evidence to factor in the current narrative.

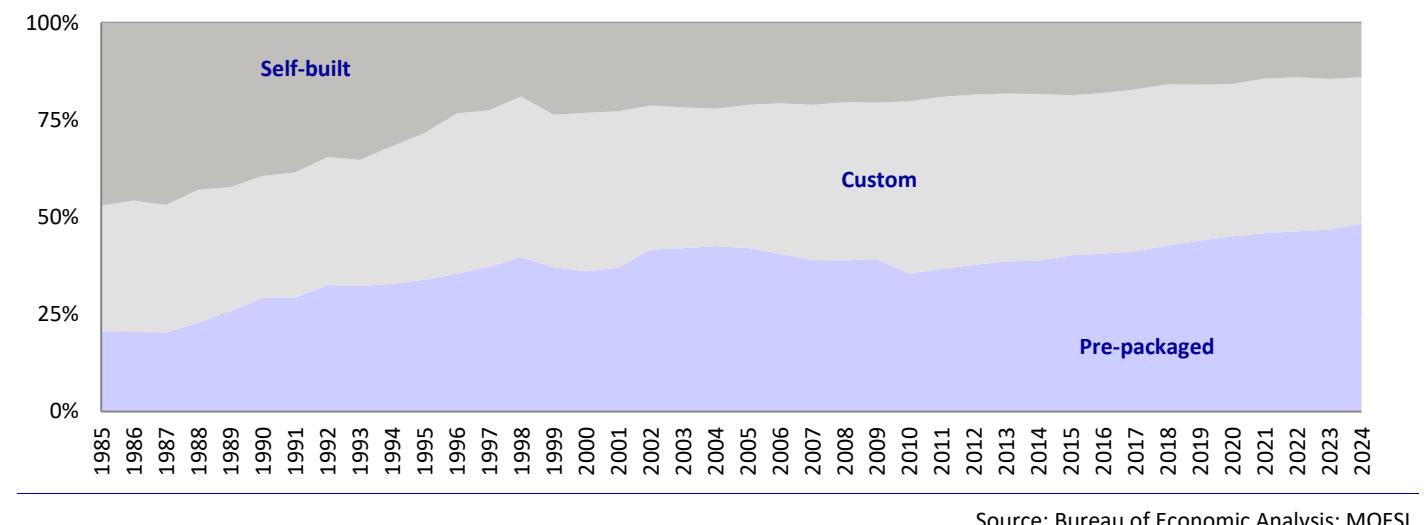
Exhibit 1: Reverse DCF suggests current prices imply ~6.5% 10-year FCF CAGR vs. higher FCF growth of 40% in GFC and ~12–13% in recent cycles

	TCS	INFY	HCLT	WIPRO	TECHM
WACC	10%	10%	10%	10%	10%
Terminal growth	3%	3%	3%	3%	3%
FCF CAGR implied (INR)	7.0%	6.0%	6.5%	2.5%	11.5%
FCF CAGR (FY23-26)	4.6%	10.5%	9.1%	9.9%	7.8%
FCF CAGR (FY16-19)	16.1%	12.9%	7.5%	10.0%	18.1%
FCF CAGR(FY06-08)	19.6%	46.6%	54.0%	NA	NA

Source: BBG, MOFSL; Note: Assuming INR depreciation of 2.5%.

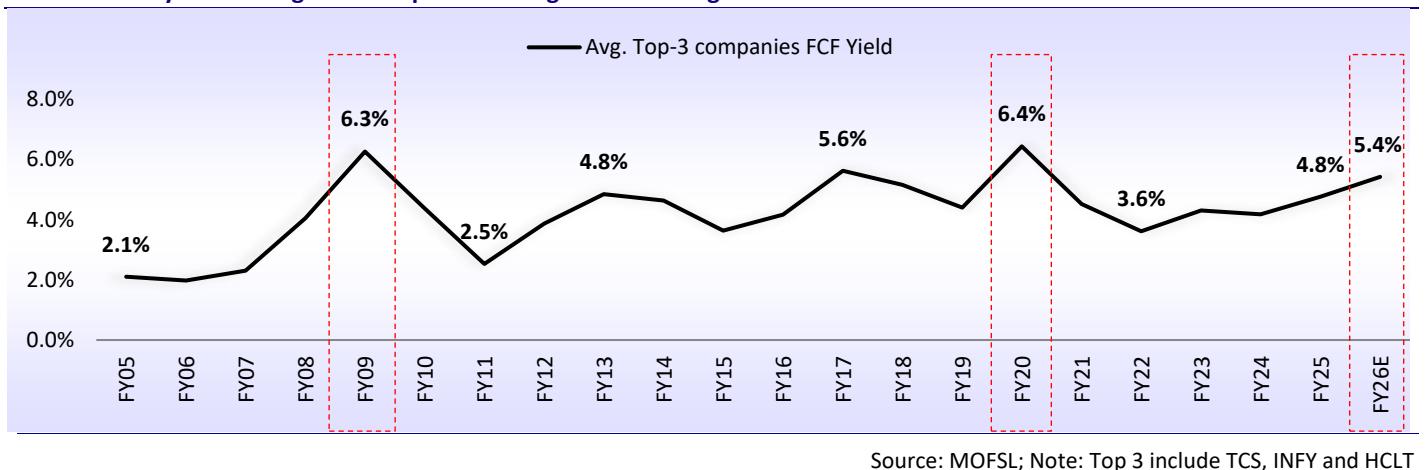
Exhibit 2: Share of US enterprises' spend on software:

US enterprises shifted from self-built to packaged software over the last three decades; self-built software now comprises ~14% of total US software spend vs. 35-40% earlier



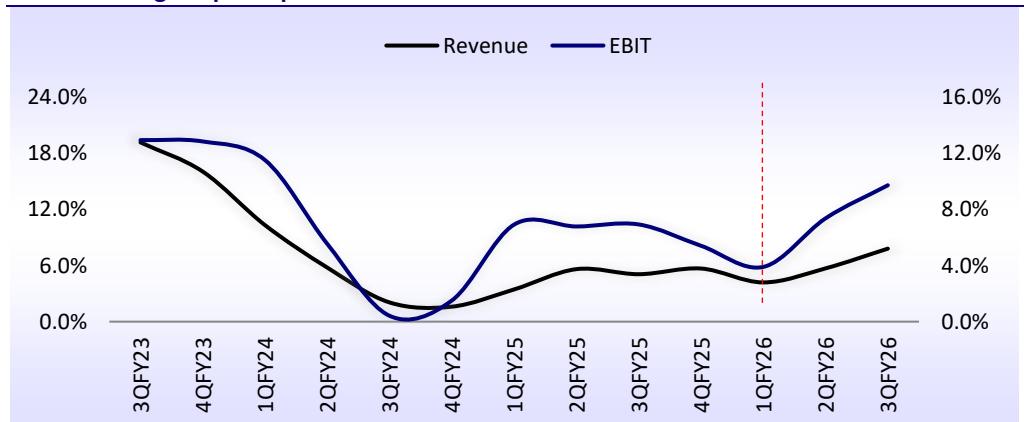
Source: Bureau of Economic Analysis; MOFSL

Exhibit 3: FCF yield moving closer to past crisis highs seen during GFC and Covid sell-offs



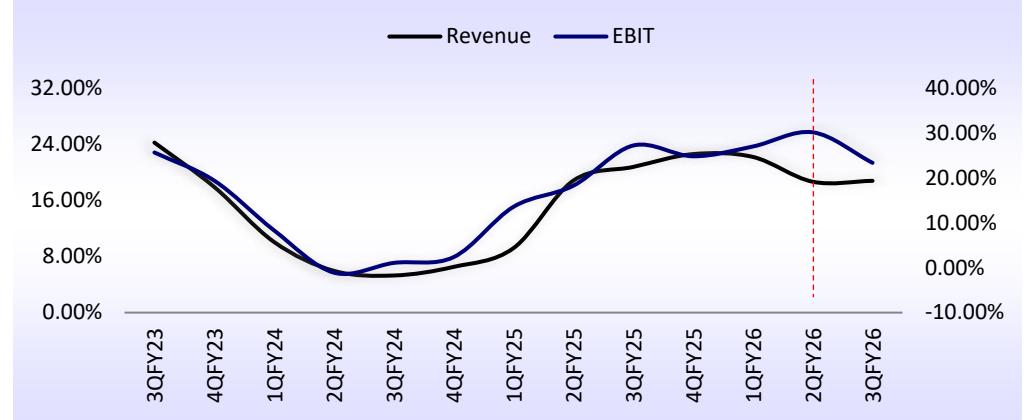
Source: MOFSL; Note: Top 3 include TCS, INFY and HCLT

Exhibit 4: Large-cap companies' revenue and EBIT YoY Growth trends



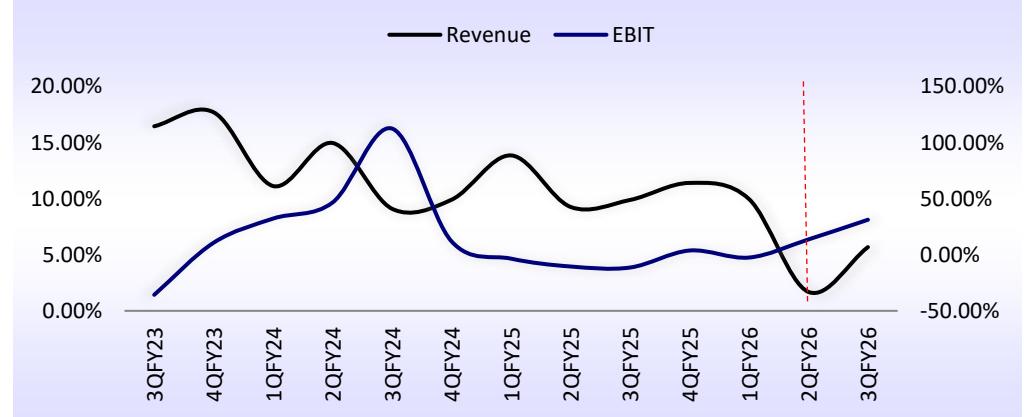
Source: MOFSL; Note: Large caps include TCS, INFY, WPRO, HCLT, TECHM and LTIM

Exhibit 5: Mid-cap companies' revenue and EBIT YoY growth trends



Source: MOFSL; Note: Mid-caps include HEXT, MPHIL, COFORGE and PSYS

Exhibit 6: Small-cap companies' revenue and EBIT YoY growth trends



Source: MOFSL; Note: Small-caps include ZENT, MAST, SSFT and BSOFT

Scenario Analysis

Scenario 1: Front-loaded deflation (12-18 months)

- If deflation materializes rapidly, revenue growth could decelerate sharply across FY27-FY28E, driving EPS cuts of 10% across our large-cap coverage. On these bearish estimates, large-caps would trade at ~18x for both FY27E/FY28E P/E (see exhibits for scenario analysis).

Scenario 2: Gradual deflation, cyclical recovery dominates

- Enterprise complexity, legacy estates, and governance constraints could slow adoption, back-ending productivity gains. In this scenario, near-term growth is more dependent on cyclical recovery, partially offset by AI deflation.

Scenario Analysis: TCS

INRm, except mentioned	Scenario 1			Scenario 2		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Growth YoY CC(%)	-2.5%	0.0%	0.0%	-2.5%	4.0%	4.0%
EBIT	6,59,091	6,73,789	6,87,890	6,59,091	7,00,700	7,44,015
EBIT Margin (%)	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EPS(INR)	147.3	146.5	150.2	147.3	152.1	161.8
Growth(%)	9.8%	-0.5%	2.5%	9.8%	3.2%	6.3%
Implied P/E	18.3	18.4	17.9	18.3	17.7	16.6
Pre-covid era lowest P/E (2010-2019)- 12M fwd				15.80		
Disc./Premium to Pre-covid era lowest P/E (2010-2019)			13%			5%

Scenario Analysis: Infosys

INRm, except mentioned	Scenario 1			Scenario 2		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Growth YoY CC(%)	2.9%	0.0%	0.0%	2.9%	4.0%	4.0%
EBIT	3,73,804	3,82,412	3,91,808	3,73,804	3,97,656	4,23,737
EBIT Margin (%)	21.1%	21.1%	21.1%	21.1%	21.1%	21.1%
EPS(INR)	70.7	72.3	74.5	70.7	74.9	80.0
Growth(%)	10.6%	2.3%	3.0%	10.6%	6.0%	6.8%
Implied P/E	19.4	18.9	18.4	19.4	18.3	17.1
Pre-covid era lowest P/E (2010-2019)- 12M fwd				13.20		
Disc./Premium to Pre-covid era lowest P/E (2010-2019)			39%			30%

Scenario Analysis: HCLT

INRm, except mentioned	Scenario 1			Scenario 2		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Growth YoY CC(%)	4.1%	0.0%	0.0%	4.1%	4.0%	4.0%
EBIT	2,25,040	2,30,500	2,35,603	2,25,040	2,39,698	2,54,806
EBIT Margin (%)	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%
EPS(INR)	68.1	69.7	71.7	68.1	72.2	77.0
Growth(%)	6.7%	2.3%	2.9%	6.7%	6.0%	6.6%
Implied P/E	21.4	20.9	20.3	21.4	20.1	18.9
Pre-covid era lowest P/E (2010-2019)- 12M fwd				11.30		
Disc./Premium to Pre-covid era lowest P/E (2010-2019)			80%			67%

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