

The Nifty IT index delivered ~8.6% returns in the last one week and ~5% outperformance over broader indices on the back of portfolio shift after the election outcome, hope of interest rate cut by the Fed particularly after the rate cut announcement by Bank of Canada and ECB (although partly dented by strong job data on Friday), and relative valuation. As highlighted in our quarterly review note ([link](#)), start of the interest rate-cut cycle would act as a signaling trigger for clients gaining confidence on inflation trajectory and macro stability, which may drive demand recovery and an uptick in discretionary spending, in our view. Uncertainty around the inflation trajectory weighed on client decision-making and revival in discretionary spending, with a full-fledged demand recovery now expected only in CY25/FY26. We expect IT stocks' earnings downgrade to bottom out in H1FY25, if current expectations on the interest rate-cut materialize. Prices of our coverage IT services stocks moved up 6-13% in the last 1 week. Anticipation of growth recovery in CY25, steady cash generation, and higher payout would support valuation. However, after the sharp up-move last week and near-term demand uncertainties, stocks may take a breather. We prefer large-caps over mid-caps, considering relative valuation. Our preferred pick is INFO, HCLT, and WPRO in large-caps. Among mid-caps, we favor CYL, BSOFT, Zomato, FSOL, and MPHL.

### Demand environment remains challenging; near-term material change unlikely

There is no material change in demand in the last few months and the overall environment remains challenging on account of continued macro uncertainties. Near-term growth is likely to reflect the ramp-up in signed large deals, whereas discretionary spending is still weak. This is also reflected in the CY24/FY25 revenue growth guidance given by Indian/global IT services companies that have fallen short of expectations. Revenue growth continues to be impacted by a challenging macro environment, slower decision-making, and softness in verticals like BFSI, retail, Hi-Tech, and communications. Amid the challenging demand environment, players are witnessing increased mix of cost take-outs and vendor consolidation deals that usually have longer tenure, thus leading to slower revenue conversion.

### Macro uncertainties continue with mixed economic data from the US

ECB and Bank of Canada lowered their key policy rate by a quarter-point, taking a step towards front-running the Fed. Though central banks are mandated to take rate decisions based on local conditions, there are worldwide spillovers from such decisions, particularly currency moves that make them cautious about diverging too much from other major central banks. The labor market and the US economy both appear to be slowing, but the surprisingly strong job data on Friday will probably push the Fed to wait for more data (to assess), to gain confidence on the slowdown in activity and inflation before taking a rate cut decision. The CME's FedWatch tool, based on futures prices, puts ~51% odds on at least one rate cut by the Fed's September meeting versus about ~55% a week ago.

### Indian IT companies – Ratings and Target Prices

Company	CMP (Rs/sh)	Mkt Cap (USD bn)	Target (Rs/sh)	Rating	P/E (x)		EV/EBITDA (x)	
					FY25E	FY26E	FY25E	FY26EE
TCS	3,894	168.9	3,950	REDUCE	27.5	25.2	19.1	17.4
INFO	1,534	76.3	1,750	BUY	24.7	21.9	15.3	13.4
HCLT	1,432	46.6	1,600	ADD	23.0	20.5	14.2	12.7
WPRO	485	30.4	500	ADD	20.4	18.3	12.1	10.7
TECHM	1,378	16.1	1,350	ADD	27.9	19.3	15.3	11.2
LTIM	4,977	17.7	5,000	REDUCE	29.5	24.7	22.8	20.5
MPHL	2,472	5.6	2,550	ADD	27.9	24.3	16.7	14.8
COFORGE	5,431	4.3	5,200	REDUCE	36.1	29.1	19.9	16.6
PSYS	3,850	7.1	3,700	REDUCE	45.0	35.6	28.6	22.9
LTTS	4,800	6.1	4,750	REDUCE	35.9	30.0	23.3	19.3
CYL	1,925	2.6	2,600	BUY	25.5	21.0	14.5	12.3
BSOFT	678	2.2	760	ADD	28.4	23.6	17.9	14.7
FSOL	197	1.6	220	ADD	22.5	17.8	12.6	10.2
ROUTE	1,494	1.1	1,700	ADD	23.6	19.5	14.3	11.9
ZOMATO	184	19.5	230	BUY	109.0	53.5	124.5	49.4

Source: Company, Emkay Research

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Index / Stock	CMP (Rs)	Return (%)		
		5D	1M	3M
Nifty 50	23,290	3%	4%	4%
Nifty IT	35,170	9%	5%	-5%
TCS	3,894	6%	-2%	-5%
INFO	1,534	9%	7%	-5%
WPRO	485	11%	4%	-6%
HCLT	1,432	8%	8%	-13%
TECHM	1,378	12%	7%	7%
LTIM	4,977	6%	6%	-3%
MPHL	2,472	8%	8%	-1%
PSYS	3,850	13%	15%	-8%
COFORGE	5,431	9%	23%	-13%
LTTS	4,800	7%	7%	-9%
CYL	1,925	11%	7%	-3%
BSOFT	678	12%	11%	-12%
FSOL	197	7%	3%	0%
ROUTE	1,494	1%	3%	-6%
ZOMATO	184	3%	-4%	15%

	Avg. 1 yr forward P/E (FY17-20)	FY25 P/E	Premium
TCS	20.8	25.2	21.0%
INFO	16.9	21.9	29.8%
HCLT	12.9	20.5	59.4%
WPRO	14.8	18.3	23.5%
TECHM	13.5	19.3	43.4%
LTIM	18.0	24.7	37.6%
MPHL	14.6	24.3	66.9%
COFORGE	14.8	29.1	97.2%
PSYS	15.4	35.6	132.0%
LTTS	18.9	30.0	58.2%
CYL	15.4	21.0	36.1%
BSOFT	9.2	23.6	157.5%
FSOL	9.5	17.8	88.4%

Source: Bloomberg, Emkay Research

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