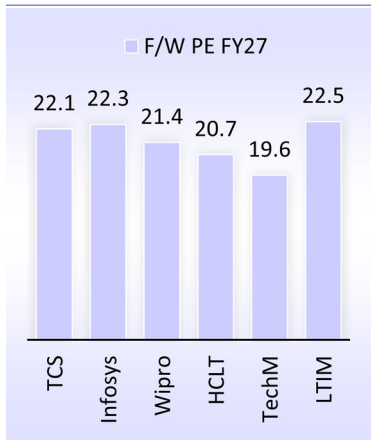


Large-caps trade at almost same valuations on our FY27 estimates



Nifty IT P/E remains at elevated premium to Nifty P/E despite the recent corrections; its current premium of 37% is still higher than last 5 year average (which includes COVID highs)



Recovery stuck in second gear

We have argued earlier that discretionary spending could see a revival in select pockets like US Banking, Healthcare, and Hi-Tech, driven by three key factors: 1) the beginning of a rate cut cycle, 2) a business-friendly administration, and 3) the start of pre-GenAI spending.

Six months on, the landscape has shifted. The probability of US rate cuts has diminished, and heightened geopolitical/tariff risks are weighing on short-term stability for US and European enterprises. Sentiment has turned cautious from January to March, with enterprises adopting a "wait-and-watch" approach. While GenAI adoption is progressing, it is not yet moving the needle for IT services revenues. The focus has yet to shift away from capex, and clients are still not prioritizing services spending. This evolving backdrop makes forecasting discretionary spending in FY26 uncertain, and meaningful improvement over FY25 is no longer a given.

In this environment, we prioritize correct positioning over predictability, favoring bottom-up transformation and margin-driven stories over top-down discretionary names. We reposition our ratings to reflect this: we downgrade Infosys to Neutral and Wipro to Sell, while we upgrade TechM to BUY. LTIMindtree and TCS remain preferred picks for their risk-reward balance, whereas HCL's all-weather portfolio makes it relatively resilient. We also trim our growth estimates and reduce target multiples by 15%. Among midcaps, we retain our preference for growth-oriented mid-tier names, Coforge and Persistent, and see the recent correction as an opportunity to buy. We downgrade LTTS to Neutral due to valuation discomfort.

Discretionary recovery slower than expected

- Recent comments from EPAM, Globant, and Endava (Exhibit 4) have dampened hopes for a swift recovery in discretionary spending during 1HCY25. This contrasts with our earlier expectations ([3QFY25 preview: Setting the stage for a CY25 revival](#)), when channel checks indicated a revival in short-cycle deals.
- While higher-for-longer interest rates remain a headwind, the bigger concern is rising uncertainty. Clients are likely adopting a wait-and-watch approach as the new US administration's stance on tariffs, along with lingering geopolitical tensions, adds to the volatility and could take time to stabilize.
- While not yet apparent in earnings downgrades (Exhibits 5 to 12), we keep an eye out on earnings estimates for major US sectors.

Positioning, not predicting: We rejig our ratings to reflect uncertainty

- The short-term volatility is likely to delay discretionary spending recovery, prompting us to temper our expectations for a meaningful FY26 rebound, particularly for large-caps.
- We believe getting our positioning right may reap more rewards than predicting when clients resume spending.
- Our preference is for bottom-up transformation/margin recovery stocks, rather than names contingent on a top-down discretionary revival.
- Market expectations of 5-6% CC growth for Infosys could be at risk, and we see TCS coming in lower at ~3.5%. Wipro and Infosys (our EPS estimates are ~7-10% below consensus for Infosys/Wipro) face correction risk, leading us to downgrade our rating to Hold for Infosys and Sell for Wipro.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- While LTIM's new CEO navigates a tough macro, recent corrections in TCS and LTIM improve their risk-reward. HCL's "all-weather" portfolio remains attractive, and we retain BUY.
- We continue to like mid-tier growth names like Coforge and Persistent, which continue to deliver commendable 20%+ earnings growth, with the recent correction offering a good entry point.

Upgrade TechM to BUY

- We initially stayed on the sidelines due to concerns over the street's 15% FY27 EBIT margin estimates, persistent weakness in communications, and the need to assess TechM's BFSI strategy.
- **Key changes:** Street margin expectations are now more reasonable at 14% and the company's BFSI performance has been impressive in the last few quarters with niche offerings. We believe TechM's transformation remains relatively decoupled from discretionary spends (**detailed upgrade thesis on page 7**).
- Transformation under new leadership has only just begun, and sustained margin improvements appear achievable despite near-term headwinds, in our opinion.
- With mid-tier IT peers already operating at 14-15% margins, TechM has the potential to exceed these levels, supporting a longer runway for 15-20%+ EPS CAGR beyond FY27.
- **Key catalysts ahead:** Continued efforts to improve deal quality, right-sizing the workforce, reducing the avg. resource cost, recovery in telecom vertical and sustained TCV growth will be key markers to track in the next 12 months.
- **Key risks:** TechM's reliance on communications and manufacturing is a risk: the communication segment has bottomed out and a sharp recovery looks unlikely, and TechM's automotive ER&D exposure (albeit for US OEMs) is a key risk to growth in FY26E.

Large-cap valuations: Something's got to give

- Almost all six large-cap IT services players today trade at the same valuations – we went back in history to see the last time this happened (Exhibits 22 to 26); TechM and HCL are certainly in uncharted territory, but Infosys and Wipro have not been able to sustain valuation parity in the past.
- We think this valuation setup favors TCS the most. While the growth has been poor over the past 2-3 years, the stock has corrected by 20% over the past six months, and has underperformed most large-cap IT names. As growth becomes uncertain across the board though, we believe TCS could be in business and margin expansion could lead to better or at-par earnings growth to other peers.
- Nifty IT P/E remains at elevated premium to Nifty P/E despite the recent corrections (Exhibit 27); its current premium of 37% is still higher than last 5 year average (which includes COVID highs).

Downgrade Infosys, Wipro on slower-than-expected discretionary revival

- Infosys (up 4% in last one year) and Wipro (up 8% in last one year) have outperformed TCS (down 13%) and Nifty IT (up 1%) during this period, as markets have priced in a recovery in discretionary spends in CY25.
- As this report argues, a conducive business climate in the US and rate cuts have been key assumptions, which look uncertain at least for the short term.
- **We believe there are risks to street's growth estimates**, and accordingly, we downgrade Infosys to Neutral and Wipro to Sell.
- We would revisit our ratings if FY26 guidance surprises us.

Valuations and changes in estimates

- We tweak our growth estimates for FY26 (Exhibit 1). More importantly, we ascribe 10-15% lower multiples to all companies under our coverage to account for short-term uncertainty.
- We prefer HCLT, TechM and TCS in large-caps and continue to like Coforge and Persistent in mid-tier names. Coforge is the only company in our coverage with consistent earnings upgrades – the recent mega deal announcement reinforcing our view. We see the recent correction as an opportunity to buy. We downgrade LTTS to Neutral due to valuation discomfort.

Exhibit 1: Valuations and changes in estimates

	CMP (INR)	TP (INR)	Upside/Downside	Earlier Target Multiple	Revised Target Multiple	Earlier YoY cc Gr. (%)		Revised YoY cc Gr. (%)		Earlier EBIT Margin (%)		Revised EBIT Margin (%)		Earlier EPS (INR)		Revised EPS (INR)		EPS Change (%)	
						FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
TCS	3,575	4,050	13%	30	25	6.2	7.6	3.5	6.7	25.5	26.0	25.7	26.0	152	166	150	162	-1.0	-2.6
Infosys	1,662	1,650	-1%	28	22	7.3	8.3	5.0	7.4	20.9	21.5	21.4	21.5	70	78	69	74	-1.9	-4.0
Wipro	278	240	-14%	22	18	4.1	5.9	2.9	4.2	16.7	16.8	17.0	17.2	12	13	12	13	0.4	-0.4
HCLT	1,568	1,800	15%	28	23	6.6	8.0	5.3	7.3	18.6	18.8	18.5	18.6	70	78	69	76	-1.3	-2.6
TechM	1,479	1,950	32%	25	25	4.4	7.3	3.5	7.4	12.4	13.6	12.2	14.0	63	74	62	75	-1.8	1.8
LTIM	4,654	6,250	34%	31	30	9.1	11.5	8.2	10.1	15.1	15.9	15.0	15.9	182	213	178	207	-2.2	-2.7
MPHL	2,278	2,550	12%	28	23	9.6	10.0	8.5	8.9	15.6	15.8	15.6	15.8	102	113	101	111	-1.1	-2.1
LTTS	4,643	5,100	10%	31	30	18.8	13.7	17.0	12.1	15.0	15.5	15.0	15.5	150	174	148	169	-1.5	-2.8
PSYS	5,240	6,250	19%	55	45	18.5	19.1	18.5	19.1	15.1	15.4	15.1	15.4	114	138	114	138	0.0	0.0
COFORGE	7,632	11,200	47%	43	38	26.1	18.3	30.1	19.6	13.3	14.0	13.3	14.0	227	282	235	295	3.3	4.4
CYL*	1,244	1,175	-11%	18	18	4.2	7.6	4.2	6.1	14.6	14.6	14.1	14.2	64	67	62	64	-3.4	-4.1
ZENT	682	770	13%	23	21	9.1	10.4	9.1	10.4	14.1	14.5	14.1	14.5	32	37	32	37	0.0	0.0

Source: MOFSL; Note: * DET business' USD revenue growth

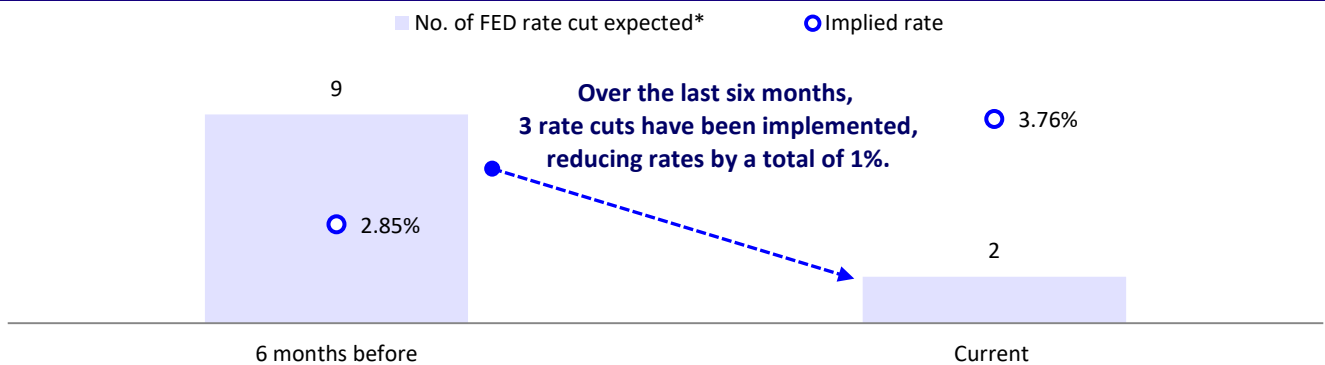
Exhibit 2: Changes in stock ratings

Coverage Companies	Earlier Rating	Current Rating
TCS	Buy	Buy
Infosys	Buy	Neutral
Wipro	Neutral	Sell
HCLT	Buy	Buy
TechM	Neutral	Buy
LTIM	Buy	Buy
MPHL	Neutral	Neutral
LTTS	Buy	Neutral
PSYS	Buy	Buy
COFORGE	Buy	Buy
CYL	Sell	Sell
ZENT	Neutral	Neutral

A slow and uncertain start to CY25 revival

- Recent comments from EPAM, Globant, and Endava have dampened hopes for a swift recovery in discretionary spending during 1HCY25.
- This contrasts with our earlier expectations ([3QFY25 preview: Setting the stage for a CY25 revival](#)), when channel checks indicated a revival in short-cycle deals.
- While higher-for-longer interest rates remain a headwind, **the bigger concern is rising uncertainty. Markets are adopting a wait-and-watch approach as the new US administration's stance on tariffs, along with lingering geopolitical tensions, adds to the volatility and could take time to stabilize.**
- While not yet apparent in earnings downgrades, we keep an eye out on earnings estimates for major US sectors (Exhibits 5 to 12), which could see downward revisions if uncertainty persists.

Exhibit 3: US Fed rate cut probability has declined amid an uncertain inflationary environment in US economy



Source: Bloomberg, MOFSL; note: *No. of rate cuts by 28th Oct'25. Each meeting expected to have rate cut of 25bp.

- Before six months (6th Sep'24): 100% probability of nine cuts and 95% probability of a 10th cuts. **Almost 10 cuts by Oct'25, bringing down the implied rate from 5.03% to 2.85%.**
- As of 6th Mar'25 (two rate cuts have already happened): 100% probability of two cuts and 27% probability of a third cut by Oct'25 (total two cuts of 25bp each by Oct'25), bringing down the implied rate from 4.32% to 3.76%.

Exhibit 4: Recent global IT peers' management commentary suggests cautious discretionary spending outlook

Company	Quarter	Comments on Discretionary spending
ENDAVA	2QFY25	❖ The demand outlook is in flux: while the shift toward AI-led transformation creates opportunities, lengthy decision cycles and the need for extensive validation leave recovery murky.
GLOBALANT	4QFY24	❖ Despite a transformational, AI-driven vision and a robust pipeline, management acknowledges that regional volatility and prolonged booking cycles could dampen near-term demand momentum.
EPAM	4QFY24	❖ Clients are "modestly expanding their discretionary spend," but this recovery is tempered by cost sensitivity, geopolitical uncertainty, and talent market challenges. The outlook is cautious and not a robust rebound.

Source: Company, MOFSL

Exhibit 5: SPX Earnings revision

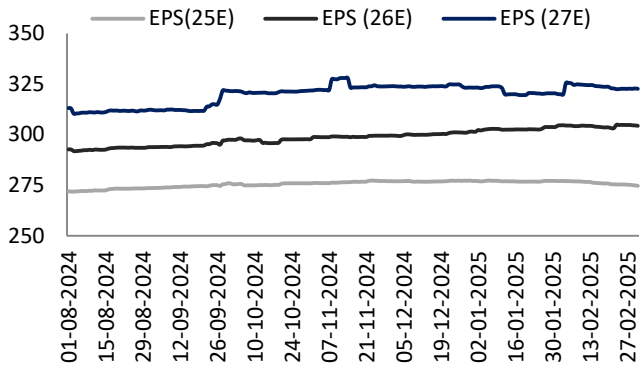


Exhibit 6: DJIA Earnings revision

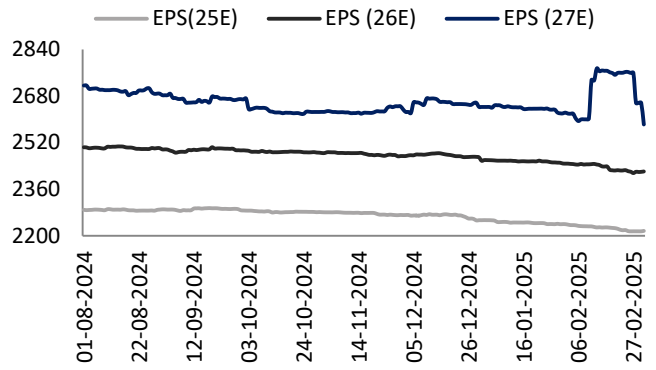


Exhibit 7: Nasdaq Earnings revision

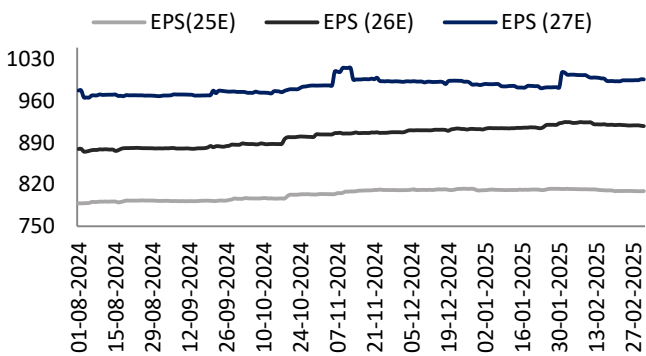


Exhibit 8: SPX Healthcare Index Earnings revision

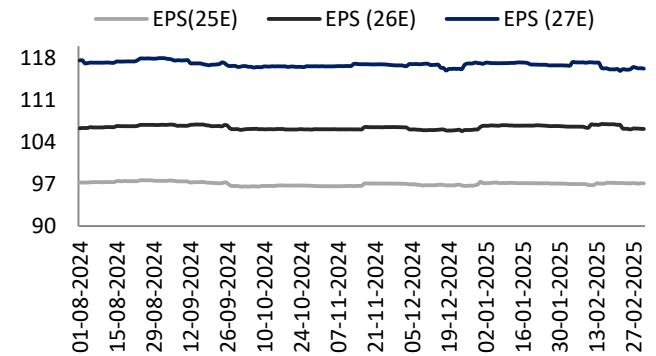


Exhibit 9: SPX Financials Index Earnings revision

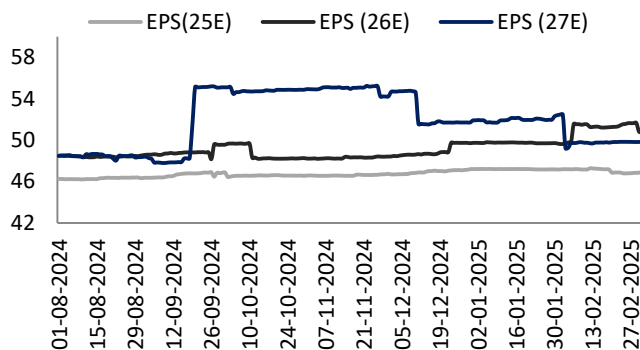


Exhibit 10: SPX Communications Index Earnings revision

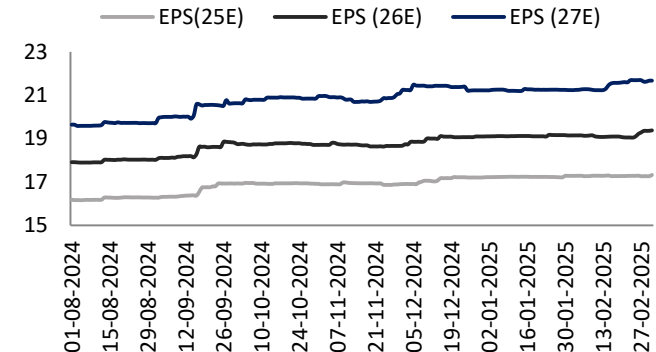


Exhibit 11: SPX Energy Index Earnings revision

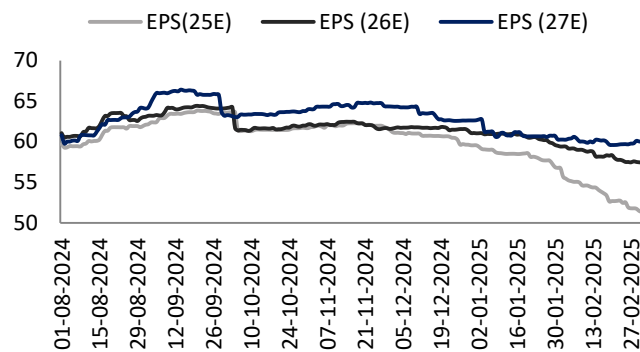
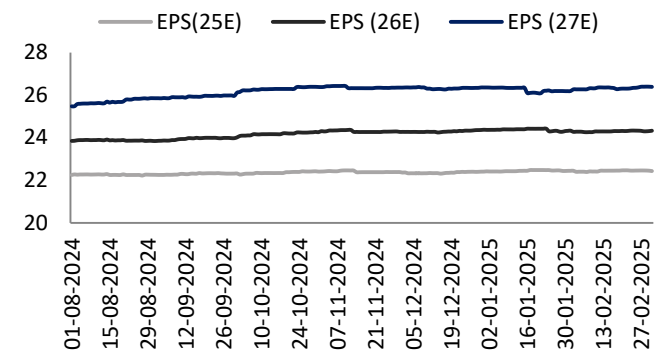


Exhibit 12: SPX Utilities Index Earnings revision



Source: Bloomberg, MOFSL

Source: Bloomberg, MOFSL

Positioning, not predicting: We rejig our ratings to reflect uncertainty

- The short-term volatility is likely to delay discretionary spending recovery, prompting us to temper our expectations for a meaningful FY26 rebound, particularly for large-caps.
- **We believe getting our positioning right may reap more rewards than predicting when clients resume spending.**
- **Our preference is for bottom-up transformation/margin recovery stocks, rather than names contingent on a top-down discretionary revival.**
- Market expectations of 5-6% CC growth for Infosys could be at risk, and we see TCS coming in lower at ~3.5%. Wipro faces the highest correction risk, leading us to downgrade our rating to Sell.
- While LTIM's new CEO navigates a tough macro, recent corrections in TCS and LTIM improve their risk-reward. HCL's "all-weather" portfolio remains attractive, and we retain BUY.
- We continue to like mid-tier growth names like Coforge and Persistent, which continue to deliver commendable 20%+ earnings growth, with the recent correction offering a good entry point.

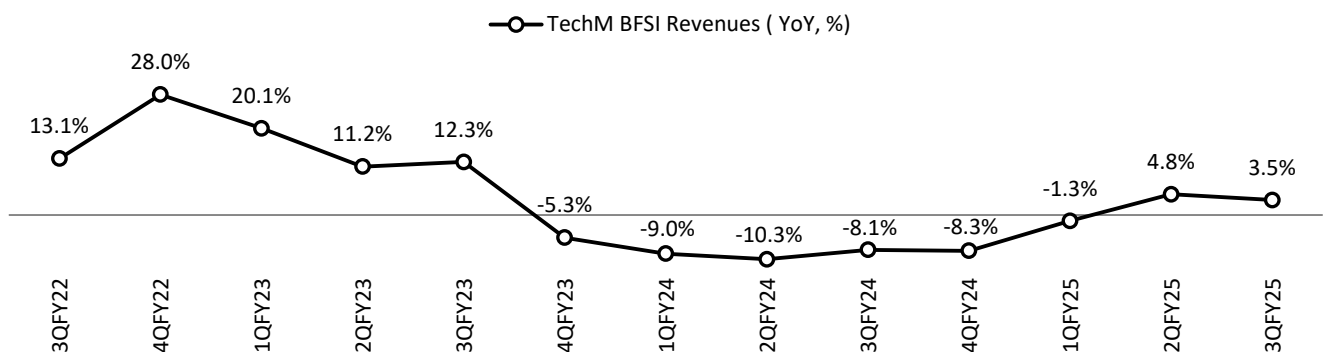
Exhibit 13: Changes in stock ratings

Coverage Companies	Earlier Rating	Current Rating
TCS	Buy	Buy
Infosys	Buy	Neutral
Wipro	Neutral	Sell
HCLT	Buy	Buy
TechM	Neutral	Buy
LTIM	Buy	Buy
MPHL	Neutral	Neutral
LTTS	Buy	Neutral
PSYS	Buy	Buy
COFORGE	Buy	Buy
CYL	Sell	Sell
ZENT	Neutral	Neutral

TECHM: We are still at day one

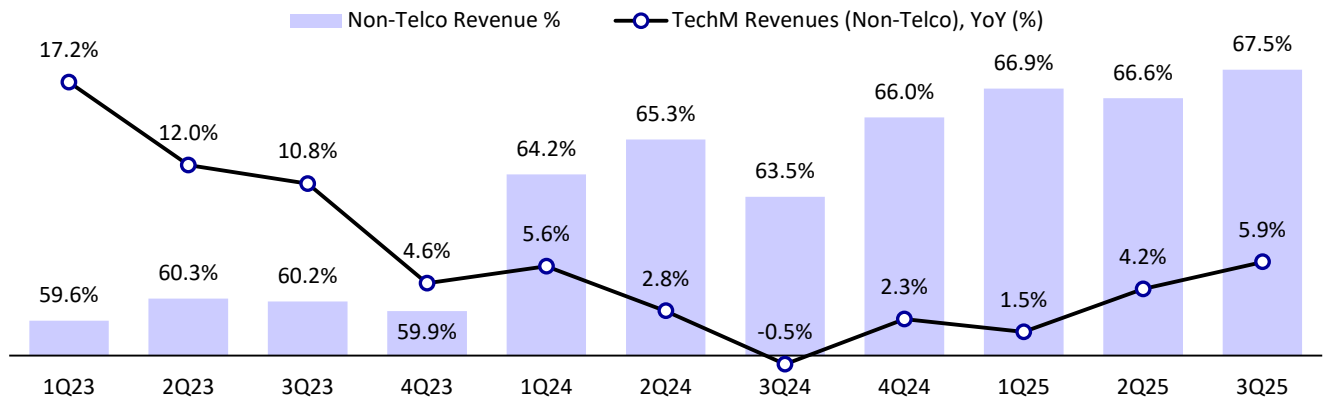
- We initially remained on the sidelines regarding Tech Mahindra due to three key factors. First, we were cautious about the street’s aggressive estimates of 15% EBIT margins by FY27, which seemed optimistic despite the management’s best efforts.
- Second, we were also worried about the persistent weakness in the communications vertical. The management’s strategy to focus on the BFSI vertical was encouraging, but only a nascent recovery and fierce competition in the vertical made us wary.
- Since then, margin expectations have eased to a more realistic 14% (we are lower still at 13.7%).
- While the communication segment continues to struggle, we believe a decline in revenue in FY26 is now unlikely. **TechM’s BFSI performance has been impressive in the last few quarters (Exhibit 14) as it has managed to create a space for itself through niche offerings in areas such as Temenos.**
- **We believe TechM’s transformation remains relatively decoupled from discretionary spends.**
- We also believe TechM’s transformation has only just begun (we are three quarters into the new management’s three-year plan), and despite near-term headwinds such as wage hikes, TechM’s upward margin trajectory can be sustained.
- Further, given that several mid-tier IT services companies (which are significantly smaller than Tech Mahindra) already operate at EBIT margins of 14-15%, we believe Tech Mahindra has the potential to exceed these levels over time.
- **This, combined with visible signs of growth recovery, supports the case for a sustained earnings CAGR of 15-20% beyond FY27.**
- **Key catalysts ahead:** Continued efforts to improve deal quality, right-sizing the workforce & reducing the avg. resource cost, recovery in the telecom vertical and sustained TCV growth will be key markers to track in the next 12 months.
- Additionally, keeping an eye on the recovery of the telecom vertical, which has been a drag on performance, will be essential.

Exhibit 14: TechM plans to establish BFSI vertical as a long- term growth area with niche offerings



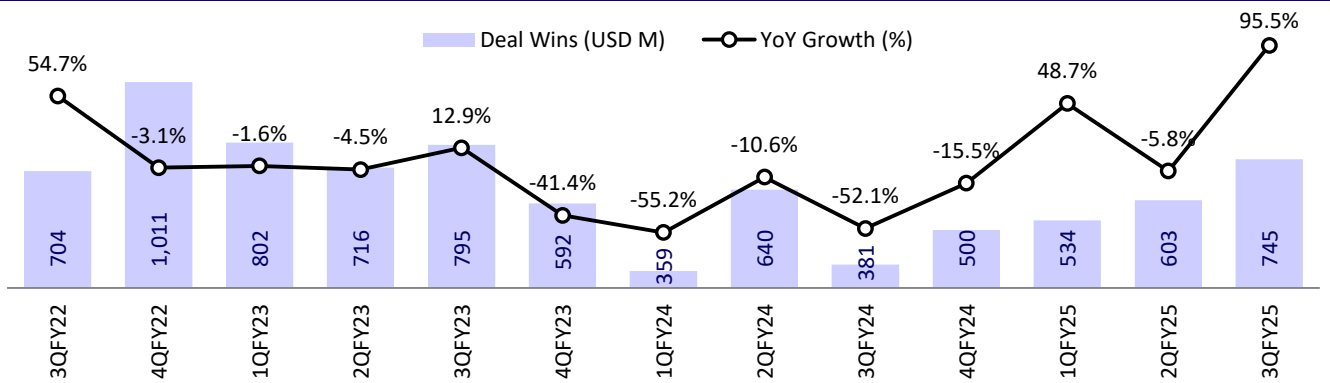
Source: MOFSL, Company

Exhibit 15: TechM (Ex-Telco) revenues have risen in FY25, driven by strategic diversification into other verticals



Source: MOFSL, Company

Exhibit 16: TechM has been registering healthy deal wins, with traction in USD25+mn and 100+mn deals



Source: MOFSL, Company

Margins: How high can they go?

- TechM's path to higher margins relies on operational efficiency, a better talent pyramid, and better pricing strategies.
- In the near term, margin expansion may not be linear over the next couple of quarters—wage hikes and a seasonally weak 1Q could cause some bumps. Still, we believe the overall margin trajectory could be sustained.
- **The real question is:** What happens after hitting 15%? For a company of TechM's scale, 15% EBIT margins seem conservative (exhibit 17), especially when the cost structure of mid-tier IT/ER&D firms allows at least 14-16% margins. There is room for further gains.
- TechM is increasing fresher intake (Exhibit 19) but is not replicating the TCS/Infosys playbook in taking the pyramid all the way down. This strategy could help it stand out, especially as Engineering & Digital Enterprise Applications grow, making experienced talent more valuable and leading to higher realizations and improved profit margins. But closing the gap with peers will not be immediate—it could take 2-3 years, in our view.

Key risks to our thesis

- TechM's reliance on communications and manufacturing is a risk: the communication segment has bottomed out and a sharp recovery looks unlikely, and TechM's automotive ER&D exposure (albeit for US OEMs) is a key risk to growth in FY26E.

- Further, we believe TechM’s utilization levels are slightly uncomfortable at 86%. We believe the current demand environment allows for TechM to operate around 86-88% utilization levels, as demand is predictable and slow, but any spike in demand could lead to higher sub-con costs or margin pressures, putting the earnings growth at risk.

Exhibit 17: TechM’s margin potential is higher than mid-tier IT peers' EBIT margin levels of 14-15%, suggesting margin expansion beyond FY27

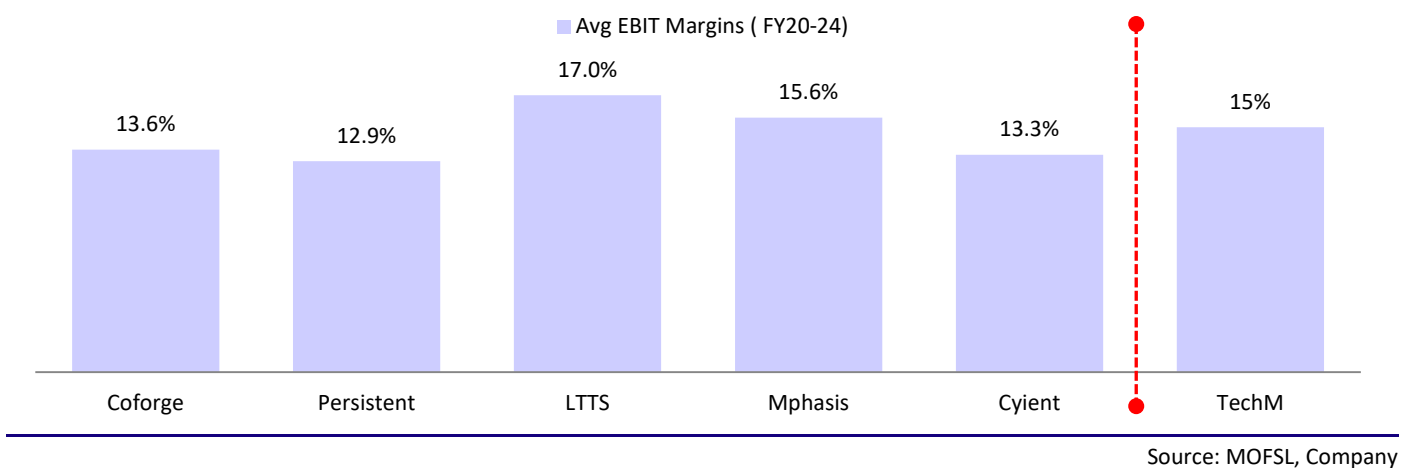


Exhibit 18: Pyramid correction to help TechM achieve target margin of ~15% by FY27

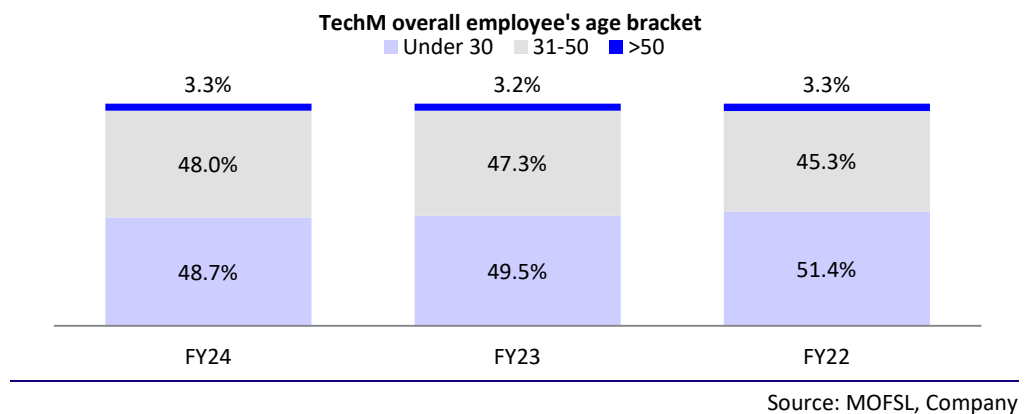


Exhibit 19: TechM has been right-sizing the pyramid by hiring more freshers

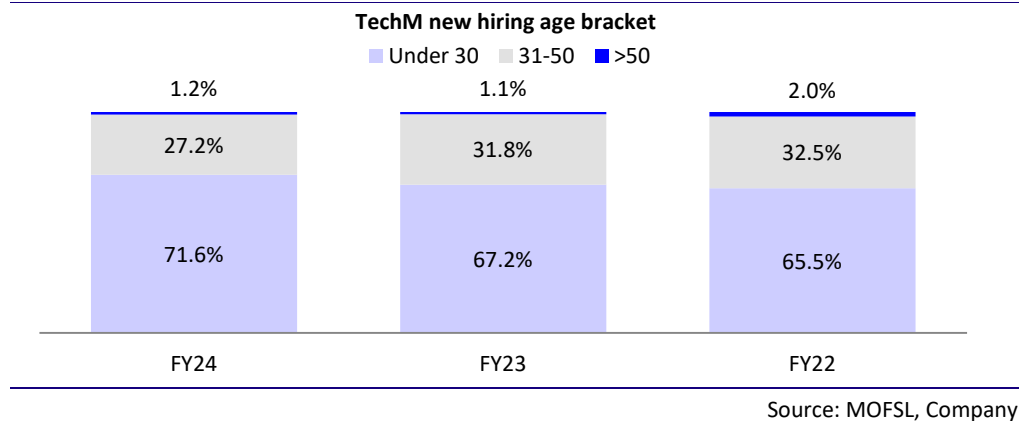
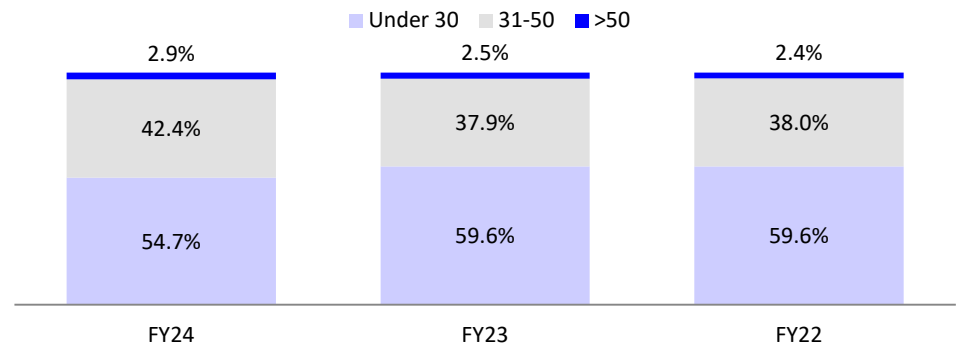
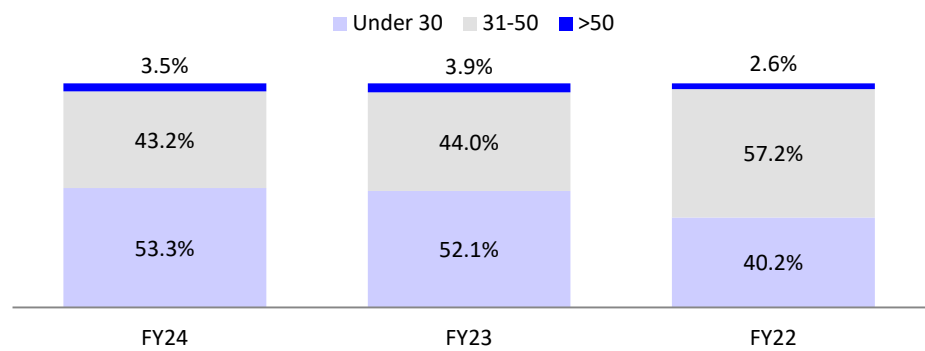


Exhibit 20: INFO has greater base at bottom of pyramid



Source: MOFSL, Company

Exhibit 21: Wipro's bottom of pyramid became better

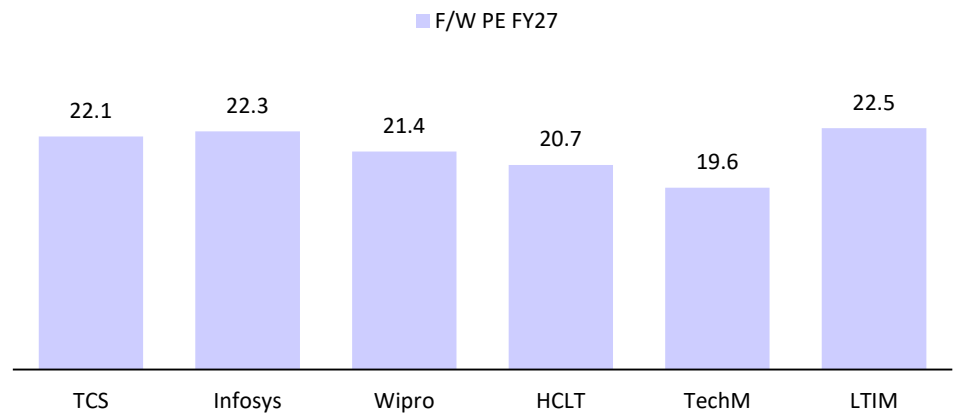


Source: MOFSL, Company

Large-cap valuations: Uncharted territory

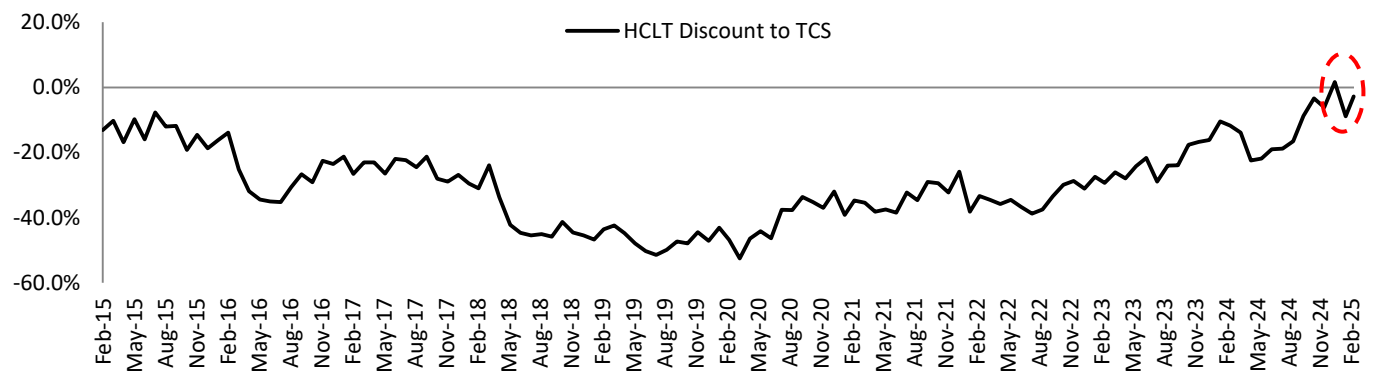
- Almost all six large-cap IT services players today trade at the same valuations – we went back in history to see the last time this happened (Exhibits 22 to 26); TechM and HCL are certainly in uncharted territory, but Infosys and Wipro have not been able to sustain valuation parity in the past.
- We think this valuation setup favors TCS the most. While the growth has been poor over the past 2-3 years, the stock has corrected by 20% over the past six months, and has underperformed most large-cap IT names. As growth becomes uncertain across the board though, we believe TCS could be in business and margin expansion could lead to better or at-par earnings growth to other peers.
- Nifty IT P/E remains at elevated premium to Nifty P/E despite the recent corrections (Exhibit 27); its current premium of 37% is still higher than last 5 year average (which includes COVID highs).

Exhibit 22: Large-caps trade at almost same valuations on our FY27 estimates



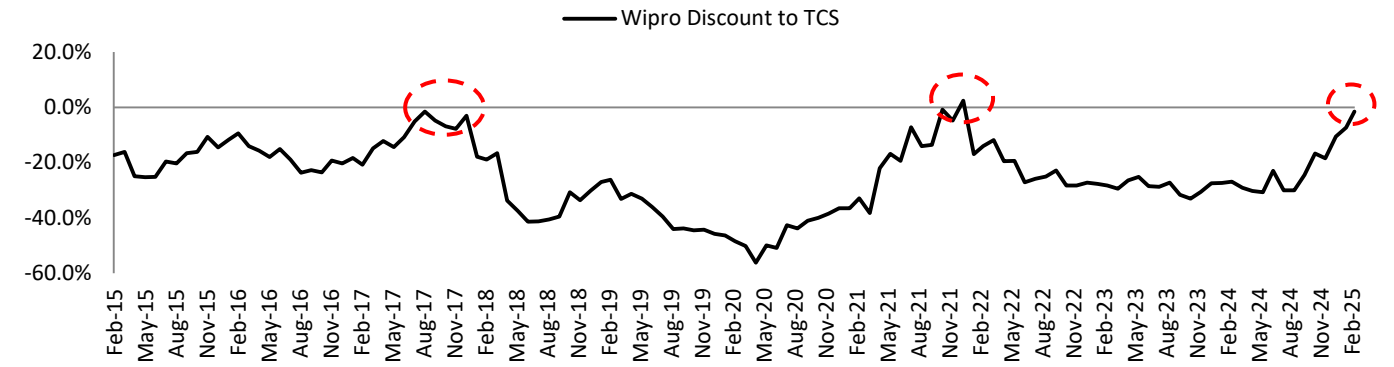
Source: MOFSL estimates

Exhibit 23: HCLT's P/E has historically traded at a discount to TCS, but today, the gap has nearly disappeared.



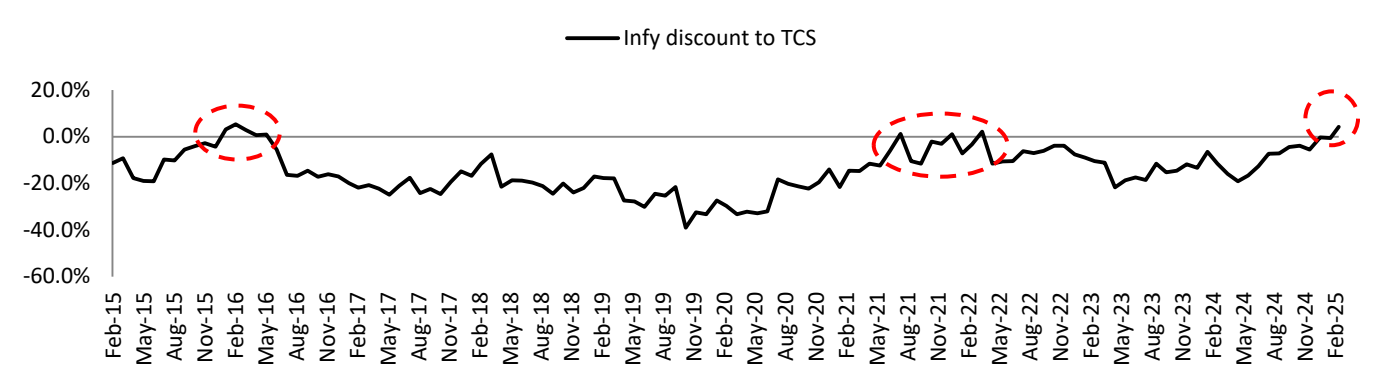
Source: Bloomberg, MOFSL

Exhibit 24: Wipro traded at same valuations as TCS but could not sustain, today it is reiterating same trajectory



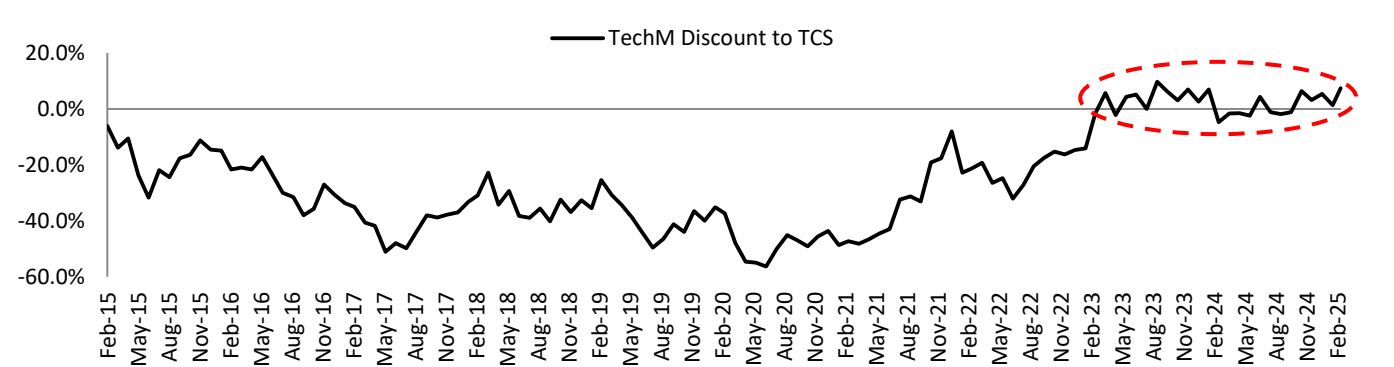
Source: Bloomberg, MOFSL

Exhibit 25: Infosys' P/E traded at a premium to TCS in early 2016, fluctuated through 2021, and is now repeating the same pattern in early CY25.



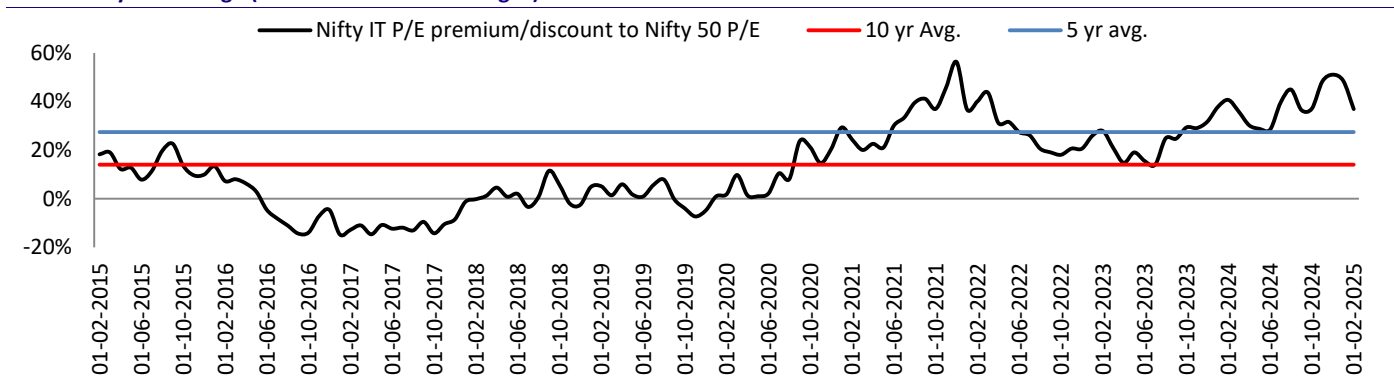
Source: Bloomberg, MOFSL

Exhibit 26: TechM P/E discount to TCS has eroded since FY24 and it trades at premium valuation to TCS



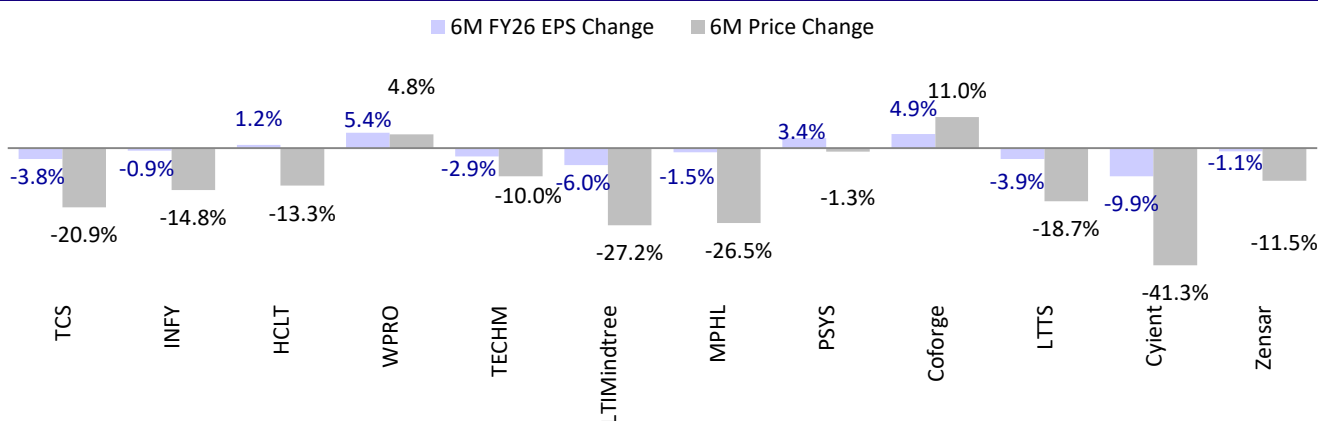
Source: Bloomberg, MOFSL

Exhibit 27: Nifty IT P/E remains at elevated premium to Nifty P/E despite the recent corrections; its current premium of 37% is still higher than last 5 year average (which includes COVID highs)



Source: Bloomberg, MOFSL

Exhibit 28: Large-cap and mid-tier IT firms have seen FY26E earnings downgrades in consensus estimates over the past six months, causing price corrections



Source: Bloomberg, MOFSL

Valuations and change in estimates

- We tweak our growth estimates for FY26 (Exhibit 1). More importantly, we ascribe 10-15% lower multiples to all companies under our coverage to account for short-term uncertainty.
- We prefer HCLT, TechM and TCS in large-caps and continue to like Coforge and Persistent in mid-tier names. Coforge is the only company in our coverage with consistent earnings upgrades – the recent mega deal announcement reinforcing our view. We see the recent correction as an opportunity to buy. We downgrade LTTTS to Neutral due to valuation discomfort.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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