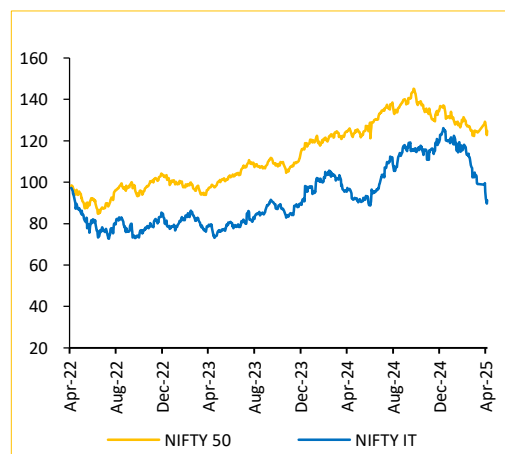
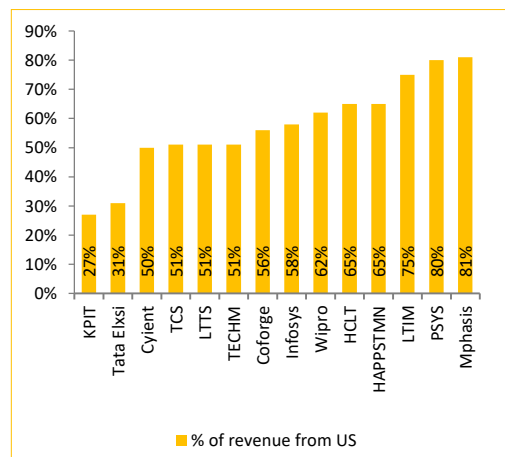


Recommendation			
Company (Ticker)	CMP (INR)	TP (INR)	Rated
Allied Digital (ALDS)	181	264	BUY
Coforge (COFORGE)	6,465	11,260	BUY
Cyient (CYL)	1,153	1,660	BUY
Datamatics Global (DATA)	569	610	HOLD
Happiest Minds (HAPPSTMN)	549	750	BUY
HCL Tech (HCLT)	1,403	1,807	BUY
IndiaMart InterMesh (INMART)	1,996	2,286	HOLD
Infosys (INFO)	1,429	1,850	BUY
KPIT Tech. (KPIT)	1,114	1,707	BUY
L&T Tech. (LTTS)	4,102	5,525	BUY
LTi Mindtree (LTIM)	4,173	5,445	BUY
Mphasis (MPHL)	2,170	2,625	BUY
Persistent Systems (PSYS)	4,594	5,660	HOLD
Tata Cons. Services (TCS)	3,293	4,236	BUY
Tata Elxsi (TELX)	4,872	4,900	HOLD
Tech Mahindra (TECHM)	1,315	1,865	BUY
Wipro (WPRO)	247	296	HOLD

*CMP as on April 8, 2025



Muted Q4FY25 Expected; Read our Base Case & Bear Case

India's IT sector is expected to face subdued performance in Q4FY25, with cautious near-term guidance expected by managements due to clients reassessing their businesses and reducing discretionary IT spends. As a result, revenue growth for IT and ER&D service providers may drop by 2-3% in FY26. This shift stems from concerns over potential retaliatory tariffs under Trump, which could lead to a global slowdown or even a recession, especially in the US. While US tariffs don't directly affect services, they may still hurt India's software exporters by impacting key client sectors. With a heavy reliance on US and European clients, this poses significant risks for India's IT industry. Global firms like Accenture raised their FY25 revenue guidance to 5-7% from 4-7%. However, uncertainty persists for FY26E as clients prioritize cost efficiency and large-scale transformations, limiting discretionary spending. Considering this, we have developed two distinct cases—Base and Bear—each addressing two different scenarios as outlined below:

BASE CASE (US Slowdown + Continuous Deal Momentum + Range bound USD/INR):

In the coming weeks and months, countries affected by tariffs may have the opportunity to negotiate more favorable terms with the US. As the US heads into an economic slowdown, this could have a soft impact on the clients of US-based IT companies. However, these are early stages of what could be a prolonged tariff dispute, and the outcomes will largely depend on the specific agreements that individual countries manage to secure with the US. While large-scale transformation deals continue to gain momentum, there may still be pockets of discretionary spending. The USD/INR is expected to fluctuate within a range.

BEAR CASE (US led Recession + Services under tariff negotiations + USD Depreciation):

If trade negotiations with other countries fail to yield favorable outcomes, a global recession could follow, severely impacting businesses and their IT spending. In an event that India's services sector is hit with additional tariffs under BTA negotiations, IT services companies could face significant challenges, potentially leading to negative top-line growth rates. USD aggressively depreciating against INR breaching the threshold level of 85 INR/ USD.

We may change our sector view to 'Cautious' if the likelihood of Bear Case playing out increases significantly.

View on our Coverage Companies: Revenue of Tier-I companies in our coverage are expected to grow between -0.1% to 1.5% QoQ in CC while Tier-II companies are projected to grow in the range of 0% to 4.5% QoQ in CC. We have updated our forecasts, adjusted PE multiples, and revised target prices following Q3FY25, incorporating the impact of tariffs as outlined in the table. We expect companies like HCLT, LTIM, and TECHM, with higher exposure to verticals such as Manufacturing, Retail, and Logistics, to be unfavourably impacted by the US tariffs. Margin expansion is expected to be moderate across most companies. Employee attrition in the IT sector has bottomed out, enhancing operational efficiency. However, hiring plans may face delays as companies assess demand environment. Firms continue to focus on improving the employee pyramid, optimizing subcontracting costs, increasing utilization, and implementing efficiency measures to drive margin growth. While the current scenario have caused short-term challenges, the significant correction in Indian IT stocks provides opportunities for companies that are now trading at decent valuations as a long term bet. We prefer Infosys, HCL Tech & LTIMindtree in Tier-I and Coforge & LTTS among Tier-II companies.

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Tier-I Companies (INR Mn)	Revenue		EBIT		EBIT Margin (%)		PAT		Key Assumptions
	Q4FY25E	YoY (%)	Q4FY25E	YoY (%)	Q4FY25E	YoY (bps)	Q4FY25E	YoY (%)	
TCS	6,50,544	6.2	1,61,242	1.3	24.7	(130)	1,26,895	2.1	We expect revenue growth of 6.2% YoY despite unwinding of furloughs and BSNL deal tapering down. EBIT margin is expected to decrease by 130bps YoY due to operating deleverage. PAT is projected to increase by 2.1% YoY. Focus will be on demand environment & TCV, with recent tariff setbacks as key factors to monitor in near-mid term.
Infosys	4,18,979	10.5	83,404	9.4	20.0	(10)	65,858	(17.4)	We expect revenue growth of 10.5% YoY despite seasonal softness. Key verticals, such as Manufacturing and Retail, may encounter challenges in the mid-term due to tariffs negatively impacting topline growth. EBIT margin in expected to decline marginally by 10bps due to wage hikes & lack of topline growth in Q4. PAT to decline by 17.4% to INR65.8Bn.
HCL Tech	3,03,183	6.4	55,683	10.8	18.4	80	43,532	9.2	We expect revenue to grow by 6.4% YoY despite seasonal weakness. EBIT margin to expand by 80 bps YoY while decline sequentially amid senior management wage hike impact and low growth in software segment. PAT to increase by 9.2% YoY to INR43.5Bn. Key verticals like Manufacturing & Retail may face challenges in the mid-term due to tariffs negatively impacting topline growth.
Tech Mahindra	1,34,905	4.8	12,911	35.5	9.6	220	11,083	67.7	We expect revenue growth of 4.8% YoY owing to mixed vertical performance. However, Manufacturing vertical may face some headwinds in the mid-term. EBIT margins to expand 220bps YoY due to operating leverage. PAT is projected to grow by 67.7% YoY to INR11.0Bn.
Wipro	2,25,188	1.4	38,066	7.2	16.9	90	30,463	6.7	We expect flattish revenue growth of 1.4% YoY owing to seasonal weakness in consulting business. EBIT margin is expected to grow moderately by 90bps YoY due to weak topline growth offsetting margin improvement levers. PAT is expected to grow in line with operating margin at 6.7% YoY.
LTI Mindtree	98,139	10.4	15,011	14.7	15.3	60	12,110	10.1	We expect revenue to grow by 10.4% YoY owing to deal ramp-ups, reversal of furloughs and continued growth momentum in BFS vertical. However, Manufacturing and Retail verticals may see some softness for few quarters. EBIT margin to remain flattish as absorbing wage hike impact may take a bit longer. PAT to increase by 10.1% YoY to INR12.1Bn.

Tier-II Companies (INR Mn)	Revenue		EBIT		EBIT Margin (%)		PAT		Key Assumptions
	Q4FY25E	YoY (%)	Q4FY25E	YoY (%)	Q4FY25E	YoY (bps)	Q4FY25E	YoY (%)	
Coforge	34,198	45.0	4,217	23.8	12.3	(110)	3,022	35.0	We expect revenue growth of 45.0% YoY led by strong order book and synergy benefits of recent acquisitions. EBIT margins are expected to decrease by 110bps owing to higher ESOP costs. PAT to increase by 35.0% YoY to INR3.0Bn.
Persistent Systems	31,558	21.9	4,580	22.3	14.5	-	3,697	17.2	We expect revenue to grow by 21.9% YoY owing to decent growth anticipated across key verticals. However, FY26 guidance will be crucial, as 80% of revenue comes from the US, which is currently experiencing an economic slowdown. EBIT margins are expected to remain flatish as lower earnout credit anticipated. PAT is projected to increase by 17.2% YoY.
Mphasis	36,607	7.6	5,705	12.3	15.5	60	4,483	14.0	We expect revenue to grow by 7.6% YoY led by strong conversion of TCV to revenue. However, FY26 guidance will be crucial, as 80% of revenue comes from the US, which is currently experiencing an economic slowdown. EBIT margins are expected to remain stable at 15.5% which is within comfortable bands. PAT to increase by 14.0% to INR4.4Bn.
LTTS	30,101	18.6	4,486	4.8	14.9	(200)	3,602	5.5	We expect revenue growth of 18.6% YoY owing to Intelliswift acquisition, positive growth momentum in Sustainability and Hi-tech verticals. EBIT margins are expected to decrease by 200 bps due to Intelliswift integration. PAT to increase by 5.5% YoY.
Tata Elxsi	9,535	5.3	2,288	(2.1)	24.0	(180)	1,952	(0.9)	We expect revenue to grow by 5.3% YoY owing to continued ramp-up of deals. Transportation vertical may stay muted for the near term. Media & Healthcare are expected to contribute more from H2FY26E. EBIT margins is expected to decrease by 180 bps owing to wage hike impact and operational deleverage. PAT is projected to de-grow by 0.9% YoY.
Cyient	19,170	3.0	2,322	(13.4)	12.1	(230)	1,736	(8.3)	We expect revenue to marginally grow by 3% YoY owing to weakness in Travel vertical. EBIT margins are expected to decrease by 230bps due to potential foreign exchange challenges. PAT to grow by -8.3% YoY.
KPIT Tech	15,105	14.6	2,417	9.8	16.0	(70)	1,881	14.4	We expect revenue to grow by 14.6% YoY but flatish sequentially and EBIT margins is expected to decrease by 70 bps being consistent with annual guidance. PAT is projected to de-grow by 0.9% YoY. Having secured major contracts with an American OEM and a leading Asian carmaker, the execution of these deals are to be closely monitored.
Happiest Minds	5,689	36.3	825	20.7	14.5	(190)	719	(0.1)	We expect revenue to grow by 36.3% YoY led by positive seasonality in Arrtha banking platform. EBIT margins are expected to remain decrease by 190bps owing to investments in GBS unit, new sales team, verticalization. PAT to increase by 14.0% to INR4.4Bn.

New Age Tech Companies (INR Mn)	Revenue		EBIT		EBIT Margin (%)		PAT		Key Assumptions
	Q4FY25E	YoY (%)	Q4FY25E	YoY (%)	Q4FY25E	YoY (bps)	Q4FY25E	YoY (%)	
Indiamart Intermesh	3,685	17.1	1,210	59.8	32.8	880	1,150	15.1	We expect revenue growth of 17.1% owing to increase in contribution from Gold and Platinum customers. EBIT margins are expected to come to 32.8% driven by cost savings from reduced subscriber acquisition costs & better operating leverage. PAT is projected to grow by 15.1% YoY.
Datamatics Global Services	4,776	15.7	540	(3.4)	11.3	(220)	528	0.5	We expect revenue to grow by 15.7% YoY owing to strong growth expected in Digital operations segment. EBIT margins is expected to decrease by 220 bps being consistent with annual guidance. PAT is projected to grow by 0.5% YoY.
Allied Digital Services	2,277	28.8	253	24.3	11.1	(40)	179	27.0	We expect revenue to grow by 28.8% YoY owing to execution of order wins. EBIT margins is expected to marginally decrease by 40 bps being in-line annual guidance. PAT is projected to grow by 27.0% YoY. Focus to remain on commentary for new deal wins and US demand environment.

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HOLD	The security is expected to show upside or downside returns by 14% to -5% over the next 12 months
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Sector View

POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be stable over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

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