India

Neutral *(no change)*

IT Services

1QFY26 preview – Focus on rate of change

- The average constant currency or CC revenue may decline by 0.4% qoq for Tier-I companies. Fresh order intake remains a key focus area.
- The EBIT margin performance could be soft as well, despite delayed or staggered wage inflation.
- We focus on companies witnessing a favourable rate of change.

Macro uncertainty to persist; further rerating hinges on micro factors

Preview discussions with companies echo the thoughts shared in our 4 Jun 2025 update and include general caution, a rise in procrastination, hesitancy to take long-term decisions, and the delay in deal ramp-up. That said, the 90-day tariff pause window announced earlier and Accenture's (ACN US: Unrated) 3QFY25 earnings commentary of "clients moving from pause to focus and leapfrog" was constructive enough to lift valuations from their peak uncertainty-led bottom in Feb/Mar 2025. However, the rate of change in earnings may be the focus area going ahead, which itself hinges on the growth trajectory of net new bookings, as cost optimization, vendor consolidation-driven renewals, and productivity pass-back are key headwinds to both revenue growth and EBIT margin.

1QFY26 earnings preview

We expect Tier-I IT services companies to report an average constant currency (CC) revenue decline of 0.4% qoq in 1QFY26F, as the tariff-uncertainty-led delay in decision-making continues to impact both existing/new deal conversion & ramp-up. Reported growth in US dollar or USD terms could be higher as the average USD has appreciated by ~6% vs. the Great Britain Pound (GBP) and by 7.7% vs. the Euro. Across large-caps, Infosys (INFO IN) and LTIMindtree (LTIM IN) may post sequential growth & Wipro (WPRO IN) could report the highest sequential decline in CC terms while Persistent Systems (PSYS IN) and Coforge (COFORGE) could continue to report strong growth. Challenges in automotive and hi-tech verticals continue to weigh on ER&D companies' growth but partly offset by pockets of recovery/traction in healthcare, plant engineering and industrial products.

Travel restriction is a headwind to bookings, budget flush is tailwind

Although global capability centre or the GCC-led channel remains a key driver to new deals, we had highlighted in our 4 Jun 2025 update that travel restrictions, given multi-regional conflicts, is impacting conversion and remains a key monitorable. Conversely, potential budget flush in 2HFY26F is an upside risk, given the current procrastination and a tepid spending pattern in the first six months of CY25F.

EBITM: Headwinds outweigh tailwinds despite delay in wage inflation

Tier-I companies could report an average EBIT margin expansion of 18bp growth driven by a sequential revenue decline and despite the general delay or staggered wage inflation and/or lower variable payout, while Tier-II companies' average EBIT margin could decline by 24bp qoq. Tech Mahindra/HCL Technologies and Persistent Systems/Tata Technologies may witness the highest qoq increase/decline in their EBIT margin.

Demand trend across verticals

Accenture's 3QFY25 earnings commentary indicates that the demand trend across financial services & insurance (FSI), healthcare, energy, and mining verticals appears to be better vs. manufacturing, hi-tech and retail. Preview discussions echo a similar trend, with the automotive vertical witnessing the maximum headwinds.

Focus may shift to the rate of change as valuations have caught up

As highlighted earlier, favourable scale, flexibility in constructing large deals, agile decision-making, and a lwevel-playing field created by changing the technology landscape (AI) could help Tier-II companies to better capture the incremental mind and market share. That said, entry valuations for select names are already factoring many of these positives and hence, investors could focus on companies with a favourable rate of change.

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Figure 1: 1QFY26 results preview commentary

Rs m	Jun-2024	Apr-2025	Jun-2025	QoQ (%)	YoY (%)	Comments
Birlasoft						
Revenue (US$ m)	159.1	152.2	150.7	(1.0)	(5.3)	Revenue decline led by challenges in FSI and healthcare portfolios, decision-making
Revenue (Rs m)	13,274.3	13,168.9	12,895.0	(2.1)	(2.9)	delay, slower deal ramp-up and insourcing. New deal wins could be higher than renewals.
EBIT (Rs m)	1,745.2	1,519.4	1,361.4	(10.4)	(22.0)	Revenue softness, deal transition cost, Indian rupee or INR appreciation, investments in
EBIT margin (%)	13.1	11.5	10.6	-98 bp	-259 bp	domain capabilities, and absence of one-off tailwinds (like in 4QFY25) to weigh on the EBIT margin.
Profit (Rs)	1,502.1	1,220.1	1,110.6	(9.0)	(26.1)	Key monitorable: new deal wins, traction in top 20 accounts, annuity mix, and capital
EPS (Rs)	5.3	4.3	3.9	(9.0)	(26.1)	allocation.
Coforge						
Revenue (US$ m)	291	404	440	9.0	50.9	Ramp-up of large deals in transportation, executable order book, and inorganic
Revenue (Rs m)	24,008	34,099	37,624	10.3	56.7	contribution to aid sequential CC revenue growth.
EBIT (Rs m)	3,272	4,494	5,079	13.0	55.2	The EBIT margin expansion could be modest despite growth leverage.
Profit (Rs)	1,332	2,612	3,174	21.5	138.3	Key monitorable: FY26F guidance, order intake, executable order book over the next 12
EPS (Rs)	4.0	7.8	9.5	21.5	138.3	months and the spending trend in FSI and travel verticals.
Cyient - DET business						
Revenue (US$ m)	170	170	167	(1.5)	(1.3)	CC revenue to decline led by challenges in sustainability and aerospace segments but
Revenue (Rs m)	14,144	14,719	14,333	(2.6)	1.3	partly offset by the communications segment.
EBIT (Rs m)	1,903	1,914	1,849	(3.4)	(2.8)	Revenue weakness to impact the EBIT margin but partly offset by operating efficiency.
EBIT margin (%)	13.5	13.0	12.9	-10 bp	-55 bp	
Profit (Rs)	1,414	1,630	1,461	(10.4)	3.3	Key monitorable: Outlook on aerospace, transportation & communication verticals and
EPS (Rs)	12.86	14.81	13.~~27~~3	(10.4)	3.3	DLM, bookings, margin levers and capital allocation.
HCL Technologies						
Revenue (US$ m)	3,364	3,498	3,550	1.5	5.5	CC revenue to decline by 0.8% qoq as the traction in FSI, hi-tech and telecom verticals
Revenue (Rs m)	2,80,570	3,02,460	3,03,832	0.5	8.3	could be offset by subdued demand in the discretionary portfolio, automotive vertical and Europe geography.
EBIT (Rs m)	47,960	54,420	52,446	(3.6)	9.4	Revenue weakness and INR appreciation to impact the EBIT margin.
EBIT margin (%)	17.1	18.0	17.3	-73 bp	17 bp	
Profit (Rs)	42,580	43,070	41,791	(3.0)	(1.9)	Key monitorable: FY26F guidance revision, outlook on IT services, ER&D & products
EPS (Rs)	15.7	15.9	15.4	(2.8)	(1.7)	business deal wins, and key vertical commentary.
Infosys						
Revenue (US$ m)	4,714	4,730	4,890	3.4	3.7	CC revenue growth of ~1.6% qoq could be aided by a favourable base (qoq), traction in
Revenue (Rs m)	3,93,150	4,09,250	4,18,462	2.3	6.4	the FSI vertical and inorganic contribution.
EBIT (Rs m)	82,880	85,750	88,714	3.5	7.0	The EBIT margin to benefit from operating leverage but partly offset by INR appreciation.
EBIT margin (%)	21.1	21.0	21.2	25 bp	12 bp	As a reminder, 4QFY25 EBIT margin had a one-off tailwind from reversals and lower variable payout.
Profit (Rs)	63,680	70,330	68,871	(2.1)	8.2	Key monitorable: FY26F guidance revision, outlook on ramp-up of large deals, especially
EPS (Rs)	15	17	17	(2.1)	8.1	ACV, vertical-wise commentary, and the outlook on client budgets.
LTIMindtree						
Revenue (US$ m)	1,096	1,131	1,150	1.7	4.9	Revenue growth to be aided by deal ramp-up and bottoming out of large customer-
Revenue (Rs m)	91,426	97,717	98,415	0.7	7.6	specific challenges but partly offset by softness in manufacturing. The US$450m deal could aid 1QFY26F deal TCV signing.
EBIT (Rs m)	13,709	13,454	14,024	4.2	2.3	Operating leverage and cost optimization to aid margin expansion but partly offset by
EBIT margin (%)	15.0	13.8	14.3	48 bp	-74 bp	INR appreciation.
Profit (Rs)	11,338	11,285	11,772	4.3	3.8	Key monitorable: Outlook on FSI, hi-tech and manufacturing verticals, capital allocation
EPS (Rs)	38.2	38.0	39.7	4.3	3.8	and strategy outlook.
L&T Technology Services						
Revenue (US$ m)	295	345	338	(2.1)	14.5	Revenue weakness led by automotive within the mobility vertical, hi-tech, and SWC
Revenue (Rs m)	24,619	29,824	28,925	(3.0)	17.5	seasonality qoq offset by the traction in plant engineering, and industrial products. Deal wins could be like in 4QFY25, led by the oil and gas sector.
EBIT (Rs m)	3,836	3,939	3,837	(2.6)	0.0	
EBIT margin (%)	15.6	13.2	13.3	6 bp	-232 bp	The mix shift towards services and efficiency could help sustain the margins.
Profit (Rs)	3,136	3,111	3,026	(2.7)	(3.5)	Key monitorable: FY26F guidance, the outlook on transportation, industrial & plant
EPS (Rs)	29.6	29.3	28.5	(2.7)	(3.6)	engineering verticals, deal win, and DSO trajectory.
Mphasis						
Revenue (US$ m)	410	430	440	2.2	7.3	Large deal ramp-up, and the traction in BFS and TMT verticals to aid quarterly growth.
Revenue (Rs m)	34,225	37,100	37,701	1.6	10.2	
EBIT (Rs m)	5,135	5,672	5,806	2.4	13.1	Operating leverage to help sustain the EBIT margin, partly offset by INR appreciation.
EBIT margin (%)	15.0	15.3	15.4	11 bp	40 bp	
Profit (Rs)	4,045	4,465	4,574	2.4	13.1	Key monitorable: ACV/TCV mix, BFS and logistics verticals' outlook, and client-specific
EPS (Rs)	21	23	24	2.4	12.8	challenges, if any.
Persistent Systems						
Revenue (US$ m)	328	375	393	4.7	19.7	Momentum in the FSI vertical and deal ramp-up led uptick in the hi-tech vertical could
Revenue (Rs m)	27,372	32,421	33,611	3.7	22.8	drive sequential growth, partly offset by moderation in the healthcare vertical due to offshoring of revenue.
EBIT (Rs m)	3,840	5,053	5,364	6.2	39.7	Growth leverage and offshoring in a healthcare account to aid the EBIT margin
EBIT margin (%)	14.0	15.6	16.0	38 bp	193 bp	expansion.
Profit (Rs)	3,064	3,958	4,298	8.6	40.3	Key monitorable: Outlook on services BUs and margin, TCV and ACV deal wins, and
EPS (Rs)	9.9	25.4	27.6	8.6	177.3	capital allocation.
Sonata Software						

Revenue - IT services (US$ m)	82.7	81.3	80.9	(0.5)	(2.2)	Revenue softness led by decision-making delay, and a slower-than-expected recovery in large customer revenue. Domestic business gross contribution could be flat qoq.
Revenue (Rs m)	25,274.3	26,172.0	26,499.5	1.3	4.8	
EBIT (Rs m)	1,428.9	1,496.3	1,392.6	(6.9)	(2.5)	Revenue weakness to impact the EBIT margin partly offset by operating efficiency.
EBIT margin (%)	5.7	5.7	5.3	-46 bp	-40 bp	
Profit (Rs)	1,056.3	1,075.3	1,067.5	(0.7)	1.1	Key monitorable: The outlook on technology and FSI verticals, IT services margin
EPS (Rs)	3.8	3.9	3.8	(0.7)	1.1	trajectory and the gross profit trend in domestic business.
Tata Consultancy Services						
Revenue (US$ m)	7,505	7,465	7,590	1.7	1.1	CC revenue decline to be led by Bharat Sanchar Nigam or BSNL while developed
Revenue (Rs m)	6,26,130	6,44,790	6,49,594	0.7	3.7	markets could report a modest sequential growth.
EBIT (Rs m)	1,54,420	1,56,010	1,58,501	1.6	2.6	Revenue softness and business reinvestments, including strengthening of the
EBIT margin (%)	24.7	24.2	24.4	20 bp	-26 bp	partnership ecosystem, and INR appreciation qoq are key margin headwinds.
Profit (Rs)	1,20,400	1,22,240	1,24,164	1.6	3.1	Key monitorable: Conversion from the deal pipeline, FSI, retail & manufacturing verticals,
EPS (Rs)	33.3	33.8	34.3	1.6	3.1	and large deal ramp-up outlook.
Tata Elxsi						
Revenue (US$ m)	111.1	104.9	104.4	(0.4)	(6.0)	Revenue softness led by a high single-digit decline in the media & communications
Revenue (Rs m)	9,264.6	9,083.4	8,936.1	(1.6)	(3.5)	vertical and softness in the transportation vertical but partly offset by a better performance in healthcare.
EBIT (Rs m)	2,252.1	1,829.7	1,789.0	(2.2)	(20.6)	Lower utilization, negative operating leverage and S&M investments to impact the EBIT
EBIT margin (%)	24.3	20.1	20.0	-12 bp	-429 bp	margin but partly offset by INR depreciation.
Profit (Rs)	1,840.8	1,724.2	1,554.8	(9.8)	(15.5)	Key monitorable: Demand trends across segments, and build-up of adjacencies in focus
EPS (Rs)	29.6	27.7	25.0	(9.8)	(15.6)	verticals.
Tata Technologies						
Services revenue (US$ m)	152.1	148.3	141.5	(4.6)	(6.9)	Revenue weakness driven by high single-digit decline in services (weakness in
Revenue (Rs m)	12,690	12,857	12,113	(5.8)	(4.5)	automotive; aerospace good) and a modest decline in the technology solutions business.
EBIT (Rs m)	2,014	2,023	1,741	(13.9)	(13.5)	Revenue weakness to impact the EBIT margin qoq.
EBIT margin (%)	15.9	15.7	14.4	-136 bp	-149 bp	
Profit (Rs)	1,620	1,889	1,668	(11.7)	2.9	Key monitorable: Demand trend across segments, deal momentum.
EPS (Rs)	4.0	4.7	4.1	(11.7)	2.9	
Tech Mahindra						
Revenue (US$ m)	1,559	1,549	1,560	0.7	0.1	Softness in telecom, hi-tech, and automotive within the manufacturing vertical to drive
Revenue (Rs m)	1,30,055	1,33,840	1,33,530	(0.2)	2.7	quarterly CC revenue decline of 0.9%.
EBIT (Rs m)	11,023	14,053	14,889	5.9	35.1	Cost rationalization to aid the EBIT margin expansion partly offset by revenue weakness and INR appreciation.
EBIT margin (%)	8.5	10.5	11.2	65 bp	267 bp	
Profit (Rs)	8,514	11,952	11,976	0.2	40.7	Key monitorable: FY26F revenue and margin outlook, organization restructuring update,
EPS (Rs)	10	13	13	0.2	37.8	outlook on communication & enterprise business, DSO trend & capital allocation.
Wipro						
IT Services revenue (US$ m)	2,626	2,597	2,565	(1.2)	(2.3)	Expect CC revenue to decline at the mid-point of its revenue guidance (-1.5 to -3.5%) led by the soft demand environment and account-specific challenges.
Revenue (Rs m)	2,19,638	2,25,042	2,19,879	(2.3)	0.1	
EBIT (Rs m)	36,275	38,863	38,479	(1.0)	6.1	Cost optimization to help sustain the EBIT margin, despite revenue weakness, but partly
EBIT margin (%)	16.5	17.3	17.5	23 bp	98 bp	offset by INR appreciation.
Profit (Rs)	30,032	35,696	34,836	(2.4)	16.0	Key monitorable: 2QFY26F revenue growth guidance, large deal-win trajectory and
EPS (Rs)	2.9	3.4	3.3	(2.4)	15.5	vertical-wise outlook.

SOURCE: COMPANY REPORTS, INCRED RESEARCH

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Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.