

Q2FY2025 Results Preview

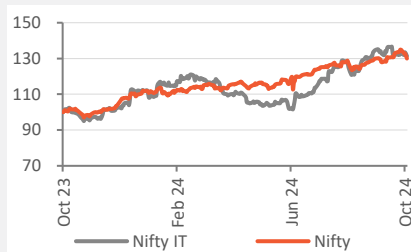
Sector: IT

Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
TCS	4,272	Buy	5,230
Infosys	1,934	Buy	2,050
HCL Tech	1,777	Buy	2,000
Wipro	531	Reduce	470
Tech Mahindra	1,618	Buy	1,810
LTIM	6,253	Buy	7,500
L&T Tech	5,144	Buy	6,500
Coforge	7,208	Buy	8,480
Persistent Systems	5,226	Buy	6,200
Birlasoft Limited	567	Buy	780
Mastek Limited	2,629	Buy	3,150
Intellect Design	868	Hold	1,050
NIITMITS	476	Buy	550

Price chart



Summary

- ♦ We expect revenue growth of 0.1-3.2% q-o-q for Tier-1 IT service companies and revenue growth of 1.4-3.9% q-o-q for Tier-2 IT companies in constant currency (CC) terms.
- ♦ EBIT margin for most Tier1 companies are expected to see expansion of ~20-80 bps aided by cost control, operational efficiencies and absence of visa costs.
- ♦ Deal wins to be moderate across companies in Q2FY25 on absence of mega-deals, and would largely be of cost take-out nature.
- ♦ Management commentaries on recovery in discretionary spending to be crucial to provide further acceleration. We maintain Positive stance on the sector and advise selective investment in the preferred picks.

We expect Tier-1 IT service companies to report decent numbers in Q2FY25, led by a recovery in the BFSI vertical and deal ramps. We expect q-o-q constant currency (CC) revenue growth of 0.1-3.2% for Tier-1 and 1.4- 3.9% q-o-q revenue growth in CC terms for Tier-2 IT companies. Among Tier-1 IT companies, Infosys is expected to lead with revenue growth of 3.2% q-o-q in CC terms, while Persistent among Tier-2 companies is expected to report a strong sequential revenue growth of 3.9% in CC terms. Most Tier 1 IT service companies under our coverage are likely to report an improving EBIT margin trend aided by cost control, operational efficiencies and absence of visa costs. Deal wins are likely to be moderate across companies considering the absence of mega-deal wins during the quarter. We expect a decent uptick in revenue for most covered IT companies for Q2FY25 while management commentaries on recovery in discretionary spending could provide further acceleration. We maintain Positive stance on the sector and advise selective investment in the preferred picks.

Steady revenue growth: Tier-1 IT service companies under coverage are expected to report decent CC revenue growth of 0.1-3.2% q-o-q owing to revival in BFSI vertical and cost take out deal ramp up. Reported revenue growth is expected to be aided by cross-currency tailwinds of 20-100 bps. Infosys is likely to lead among Tier-1 companies, with 3.2% q-o-q CC revenue growth followed by LTIM with 2.6% q-o-q CC growth. TCS, HCL Tech and Tech Mahindra are expected to report a 1%/0.6% and 0.5% q-o-q CC revenue growth while Wipro is expected to report flat growth within their guided range. Tier-2 IT service companies are expected to report revenue growth of 1.4-3.9% q-o-q in CC terms. Persistent is expected to lead with 3.9% q-o-q growth in CC, while LTTS, Coforge and Mastek are expected to report revenue growth of 3.5%/3.3% and 3.8% in CC. Birlasoft is expected to report growth of 1.4% q-o-q in CC terms.

EBIT margin recovery for Tier-1: Most Tier-1 IT service companies under our coverage are likely to report an improving EBIT margin trend aided by cost control, operational efficiencies and absence of visa costs. TCS, Infosys, HCLTech, Tech Mahindra and LTIM are expected to see margin expansion of ~20-80 bps. Among Tier-2 companies, EBIT margin for Coforge and NIITMITS are expected to see ~110 /50 bps q-o-q decline largely due to wage hikes. LTTS is expected to see EBIT margins rise by ~60 bps aided by revenue growth and operational efficiencies. EBIT margins for Birlasoft is expected to decline ~130 bps q-o-q while for Persistent it is expected to be flattish.

Deal activity and guidance: Deal win activity to be moderate across companies considering the absence of mega-deal wins during the quarter. Deal wins are expected to be more of a cost take-out nature. We expect most companies to stick to their revenue and margin guidance except for Infosys which may be expected to up the guidance on the back of a better H1FY25.

Valuations

Management commentaries on recovery in discretionary spend crucial: The Nifty IT index has witnessed decent momentum over the past one year (up 33%), outperforming the Nifty (up 28%). We believe the momentum can gain further traction as recovery picks up fueled by the rate cut cycle in the US. Accenture Plc has increased the guidance for FY25 reflecting improvement in the macro environment. GenAI adoption is expected to pick up momentum in the next 12-18 months improving the demand for cloud services. We expect decent uptick in revenue for most covered IT companies for Q2FY25 while management commentaries on recovery in discretionary spending could provide further acceleration. We maintain Positive stance on the sector and advise selective investment in the preferred picks.

Leaders: Infosys, LTIM, Persistent, LTTS, Coforge, Mastek.

Laggards: Wipro, Intellect.

Preferred picks:

- ♦ **Large caps:** TCS, Infosys, HCLTech, LTIM and Tech Mahindra.
- ♦ **Mid-cap:** Persistent Systems, Coforge, Mastek.

Q2FY2025 result estimates

Company	Sales				OPM (%)				Net profit (Rs. cr)			
	Q2FY25E	Q2FY24	YoY (%)	QoQ (%)	Q2FY25E	Q2FY24	YoY (bps)	QoQ (bps)	Q2FY25E	Q2FY24	YoY (%)	QoQ (%)
TCS	63,889	59,692	7.0	2.0	26.9	26.4	53	30	12,362	11,342	9.0	2.7
Infosys	40,987	38,994	5.1	4.3	24.3	24.2	10	31	6,856	6,212	10.4	7.7
HCL Tech	28,581	26,672	7.2	1.9	21.5	22.3	(82)	81	4,019	3,832	4.9	-5.6
Wipro	22,253	22,543	-1.3	1.4	19.6	18.8	88	(34)	2,942	2,646	11.2	-2.0
Tech M	13,201	12,864	2.6	1.2	12.6	8.3	431	62	989	643	53.7	16.1
LTIM	9,432	8,905	5.9	3.2	18.1	18.3	(22)	53	1,228	1,162	5.7	8.3
L&T Tech (LTTS)	2,569	2,387	7.6	4.3	19.5	19.9	(42)	98	341	315	8.1	8.8
Coforge	2,531	2,276	11.2	5.4	16.8	15.3	156	(20)	239	181	31.8	4.4
Persistent	2,866	2,412	18.9	4.7	16.5	16.8	(30)	(13)	326	263	23.6	6.2
Birlasoft	1,358	1,310	3.7	2.3	13.6	15.8	(220)	(109)	141	145	-3.0	-6.3
Mastek Limited	849	766	10.9	4.5	16.0	16.1	(12)	70	74	67	10.8	3.7
Intellect Design	610	619	-1.5	0.9	21.0	19.8	117	102	88	70	24.8	18.1
NIITMTS	417	382	9.1	2.3	23.0	23.5	(54)	(58)	62	51	21.5	-1.2

Source: Company; Sharekhan Research

Valuations

Company	Reco	Price target (Rs.)	CMP (Rs)	EPS (Rs.)				P/E (x)			
				FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
TCS	Buy	5,230	4,272	115.2	128.8	140.1	157.3	37.1	33.2	30.5	27.2
Infosys	Buy	2,050	1,934	57.6	63.4	65.1	78.9	33.6	30.5	29.7	24.5
HCL Tech	Buy	2,000	1,777	54.7	57.9	61.7	68.5	32.5	30.7	28.8	26.0
Wipro	Reduce	470	531	20.7	21.2	23.0	24.8	25.7	25.1	23.1	21.4
Tech Mahindra	Buy	1,810	1,618	57.6	32.0	46.3	69.4	28.1	50.6	35.0	23.3
LTIM	Buy	7,500	6,253	148.6	154.5	176.4	213.1	42.1	40.5	35.5	29.3
L&T Tech	Buy	6,500	5,144	114.5	123.0	131.4	159.3	44.9	41.8	39.2	32.3
Coforge	Buy	8,480	7,208	111.5	129.6	155.4	197.3	64.6	55.6	46.4	36.5
Persistent Systems	Buy	6,200	5,226	63.6	75.1	89.7	114.4	82.2	69.6	58.3	45.7
Birlasoft Limited	Buy	780	567	11.9	22.3	21.5	27.9	47.6	25.5	26.4	20.3
Mastek Limited	Buy	3,150	2,629	86.6	98.2	103.3	143.0	30.4	26.8	25.5	18.4
Intellect Design	Hold	1,050	868	19.2	22.9	28.5	45.5	45.1	38.0	30.5	19.1
NIITMTS	Buy	550	476	15.5	16.1	19.5	24.8	30.6	29.6	24.4	19.2

Source: Company; Sharekhan Research

Q2FY2025E: USD revenue and EBIT estimates

Company	Revenue (USD mn)						EBIT Margin (%)				
	Q2FY25E	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	CC QoQ (%)	Q2FY25E	Q2FY24	YoY (bps)	Q1FY25	QoQ (bps)
TCS	7,633	7,210	5.9	7,505	1.7	1.0	24.9	24.3	65	24.7	25
Infosys	4,897	4,718	3.8	4,714	3.9	3.2	21.3	21.2	9	21.1	23
HCL Tech	3,415	3,225	5.9	3,364	1.5	0.6	17.9	18.5	-64	17.1	77
Wipro	2,653	2,713	-2.2	2,626	1.0	0.1	16.4	16.1	25	16.5	-11
Tech M	1,577	1,555	1.4	1,559	1.2	0.5	9.0	4.7	433	8.5	57
LTIM	1,127	1,076	4.8	1,096	2.8	2.6	15.5	16.0	-48	15.0	51
L&T Tech (LTTS)	307	288	6.5	295	4.0	3.5	16.2	17.1	-85	15.6	64
Coforge	302	278	8.7	291	3.8	3.3	12.5	11.9	64	13.6	-112
Persistent	342	292	17.4	328	4.3	3.9	13.9	13.7	18	14.0	-13
Birlasoft Limited	162	158	2.5	159	2.0	1.4	11.8	14.2	-234	13.1	-131
Mastek Limited	101	93	9.6	97	4.3	3.8	12.6	13.3	-79	12.8	-23
Intellect Design	73	75	-2.8	73	0.5	-	15.0	14.4	61	13.9	105
NIITMTS	50	46	7.7	49	2.0	-	19.7	19.1	59	20.1	-46

Source: Company; Sharekhan Research

Q2FY2025 IT earnings preview

Company wise key expectations

Company	Comment
TCS	TCS is expected to report revenue growth of 1% in CC terms with ~70 bps cross currency tailwinds leading to 1.7% reported growth. Revenue to be aided by BSNL deal ramp-up. EBIT margin is likely to expand by ~25 bps q-o-q after wage hike impact taken in Q1.
Infosys	Infosys is expected to report revenue growth of 3.2% in CC terms q-o-q with ~70bps cross-currency tailwinds, leading to a 3.9% q-o-q reported growth aided by recovery in BFSI. EBIT margin is expected to improve by ~25 bps q-o-q owing to operational efficiencies.
HCL Technologies	HCL Tech is expected to report revenue growth of 0.6% in CC terms q-o-q with ~90 bps cross-currency tailwinds, leading to 1.5% q-o-q reported growth aided by recovery in BFSI but offset by State Street divestiture impact. EBIT margin is expected to expand by ~80 bps q-o-q owing to operational efficiencies.
Wipro	Wipro is expected to report revenue growth of 0.1% in revenue in CC terms, within its guided range of -1% to 1%. EBIT margin is expected to be flat.
Tech Mahindra	TechM is expected to report soft revenue growth of 0.5% in CC terms q-o-q with ~70bps cross-currency tailwinds, leading to 1.2% q-o-q reported growth EBIT margin is expected to improve by ~60 bps q-o-q owing to operational efficiencies.
LTIM	LTIM is expected to report sequential revenue growth of 2.6% in CC terms with growth led by BFS. Wage hike to be taken in Q3. EBIT margins are likely to improve by ~50 bps q-o-q aided by the absence of visa costs and operational efficiencies.
L&T Tech	LTTS is expected to report sequential revenue growth of 3.5% in CC terms. EBIT margin is expected to expand by 60bps q-o-q aided by revenue growth and operational efficiencies
Coforge	Coforge is expected to report strong sequential revenue growth of 4% in CC terms driven by deal ramp ups and recovery in BFSI. EBIT margin is likely to decline by ~110 bps q-o-q largely due to wage hike.
Persistent Systems	Persistent is expected to report strong sequential revenue growth at 3.9% in CC terms led by broad-based growth across its verticals. EBIT margin is expected to be flat.
Birlasoft	Birlasoft is expected to report sequential revenue growth of 1.4% in CC terms. EBIT margin is expected to contract ~130 bps q-o-q.
Mastek Limited	Mastek is expected to report sequential revenue growth of 3.8% in CC terms, while EBITDA margin is expected to improve by ~80 bps q-o-q, aided by operational efficiencies and operating leverage.
Intellect Design	Intellect Design is expected to report sequential revenue growth of 0.5%, EBITDA margin is expected to improve by ~100 bps q-o-q on operational efficiencies.
NIITMTS	NIITMTS is expected to report sequential revenue growth of 2%. q-o-q EBITDA margin is expected to decline ~50 bps largely due to wage hike.

Source: Sharekhan Research

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